

The Association Agreement between Central America and the European Union:

**What is it? What could be the
impact on poverty reduction and
sustainable development in
Central America?**



Discussion Document

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Abbreviations

AA	Association Agreement
CC-SICA	Consultative Council for the Central American Integration System
CAP	Common Agricultural Policy
CFP	Common Fisheries Policy
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DR-CAFTA	Free Trade Agreement between Central America, the Dominican Republic and the United States
EESC	European Economic and Social Committee
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GNP	Gross National Product
GSP	Generalised System of Preferences
IIDE	Institute for International and Development Economics
ILO	International Labour Organisation
IPR	Intellectual Property Rights
MDG	Millennium Development Goals
OECD	Organisation for Economic Cooperation and Development
PPP	Plan Pueblo-Panama
PRAAC	Regional Programme for the Reconstruction of Central America
PRS	Poverty Reduction Strategy
SIE	Sustainability Impact Evaluation
SIEPA	Central American System for Electrical Interconnection
TCSI	Central American Services and Investments Agreement
US	United States
WTO	World Trade Organisation

Introduction

The announcement in Vienna in 2006 of the initiation of negotiations for an Association Agreement (AA) between Central America¹ and the European Union marked the start of a new phase in bilateral relations between the two regions. The AA negotiations began in Costa Rica in October 2007 and are due to be finalized by mid-2009. The AA is described as a comprehensive agreement that incorporates Political Dialogue, Cooperation and Trade. However, civil society in Central America has expressed grave concern about the priority that is being given to the trade aspects of the AA and the potential impact of trade related agreements on poverty reduction and sustainable development in the region.

Four of the five countries involved in the AA negotiations have high levels of poverty and inequality. While Costa Rica boasts the best economic and social indicators of the five countries, Honduras and Nicaragua have the highest levels of poverty in the region and are ranked among the poorest countries in Latin America. Poverty levels are highest in rural areas, where the majority of the population lives. In this context, free trade agreements that do not take serious account of the huge differences that exist between Central America and the EU in terms of economic and social development could have serious consequences for the poor and

vulnerable sectors of Central America, and adversely affect poverty reduction efforts and sustainable development in the region.

This document provides a general overview of the main components of the Association Agreement and its potential impact on the poor population in Central America with the aim of increasing awareness and knowledge among civil society organizations on both sides of the Atlantic of the AA, thereby contributing to current discussions on the issue.

The first section of the document gives a brief overview of the relations between Central America and the European Union from the 1980s to the initiation of the negotiations of the AA. The second section outlines the general characteristics and principles of the AA and the main characteristics of the three chapters of the agreement: Political Dialogue, Cooperation and Trade. The third section provides a general analysis of the potential impact in Central America of the trade components of the AA while the fourth looks at the European Union's development cooperation strategies for the 2007-2013 period, including the Regional Strategy and the Country Strategies. Finally, the fifth section provides some conclusions stemming from the analysis of the potential impact of the AA on poverty reduction efforts and sustainable development in the region.

¹ The countries participating in the AA negotiations are Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Panama is participating as an observer as it has yet to become a full member of Central American economic integration process.

1. Background to the Association Agreement (AA): relations between the European Union and Central America from the 1980s to date

During the 1980s and the early 1990s, relations between the European Union and Central America were based on political dialogue and cooperation aimed at resolving the armed conflicts, establishing peace and building democracy in the region. The Ministerial Meeting in San José, Costa Rica, in 1984 marked the beginning of these relations and initiated what is known today as the Ministerial Conferences of the San José Dialogue. In this context, the first Cooperation Agreement between the then European Economic Community and the signatory countries to the General Treaty for Central American Economic Integration (Honduras, Nicaragua, Guatemala, El Salvador, Costa Rica and Panama), was signed in 1985. The fundamental objective of this agreement was the restoration and preservation of peace in the region. It included support in the areas of economic, trade and development cooperation. Economic and trade cooperation was managed within the Generalised System of Preferences (GSP)² and the development cooperation placed particular emphasis on rural development projects, food-security, and health. Support to the regional integration process was also an important component of the agreement.

The second Framework Cooperation Agreement was signed in San Salvador in 1993, during the San Jose Dialogue Ministerial Conference. This Agreement saw the incorporation for the first time of the “democratic clause”, which stipulated that all of the articles of the Agreement were based on respect for human rights and democratic principles. However, the absence of mechanisms for the practical implementation of the clause meant that it lacked any real substance.

Nevertheless, the agreement broadened the areas of cooperation to include activities aimed at strengthening democracy and the promotion of human rights. Support for the regional integration process was also continued through a variety of actions of regional scope. However, the agreement did not become effective until 1999, following the destruction caused by Hurricane Mitch at the end of 1998, and in this context the Regional Programme for the Reconstruction of Central America (PRRAC) became one of the main instruments for implementing the cooperation component, while the Stockholm process provided the political tool.

The multi-annual regional programme for the period 2002-2006 was the next stage of cooperation. This programme gave priority to regional integration with the first objective being to strengthen the regional integration process through support for the implementation of common policies and the consolidation of the regional institutions for integration, and the second to strengthen the role of civil society in the process. The third area of priority was the reduction of the region’s environmental vulnerability. With a total budget of 75 million Euro, 60% was allocated to the first objective and 10% to the second.³ The increased focus on the process of regional integration was a result of agreements reached during the 1990s to give a new direction to cooperation programmes in line with the new context in the region following the signing of the peace accords.⁴

² The GSP is a system of tariff preferences granted unilaterally by the European Union to products entering Europe from Central America, the Caribbean, Africa and other countries. Under the system, many products from these countries enter the EU tariff-free while reduced tariffs are applied to other products. The preferences granted have to be renewed regularly. The number of products that benefit from the system has increased over the years and in 2005 the GSP Plus was approved, covering more than 7,000 products. Central America is currently a beneficiary of the GSP Plus.

³ European Commission (2002), Central America Regional Strategy Paper 2002-2006

⁴ The Florence Declaration of 1996 stated that the priority focus of cooperation would be regional integration, the consolidation of the Rule of Law, modernisation of state and public administration, social policies, and trade.

This new direction was strengthened during the XVII Ministerial Conference in 2002 with an agreement to establish the conditions necessary (i.e. deepening the regional integration process) for the negotiation of an Association Agreement between the two regions. In preparation for this, a new Political Dialogue and Cooperation Agreement was signed in Rome in 2003. In the six global objectives of this Agreement, important issues for Central America, such as poverty reduction and the promotion of equitable and

sustainable development based on respect for human rights, were almost completely absent while great emphasis was placed on strengthening economic and trade relations between the two regions and promoting Central American economic integration. This agreement has not yet become effective and in effect forms the basis for the negotiation of the AA. Once signed, the AA will replace the 2003 Political Dialogue and Cooperation Agreement.

2. Nature and scope of the Association Agreement

2.1 General characteristics and principles of the AA

The Association Agreement contains three chapters that will govern relations between the two regions: Political Dialogue, Cooperation and Trade. An important characteristic is that the negotiations are being carried out region to region and not with each Central American country individually. According to the European Union, this contributes to strengthening regional integration in Central America. At present, the countries actively participating in the negotiations are Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Panama is participating as an observer as it has yet to become a full member of the Central American economic integration process.

According to official EU documents, the AA will be rooted in the principles and objectives set out in the 2003 Political Dialogue and Cooperation Agreement. This agreement contains three fundamental principles. The first refers to respect for democratic principles and fundamental human rights enshrined in the Universal Declaration of Human Rights, as well as the principle of the rule of law. It is affirmed that these principles form the basis for the internal and international policies of both parties and constitute an essential component of the AA. This is the well known “democratic clause”. As highlighted by many Central American civil society organisations, the inclusion of the Universal Declaration of Human

Rights and the principle of the rule of law makes the clause more comprehensive than in the 1993 Framework Cooperation Agreement. However, the absence of explicit references to make it binding or concrete mechanisms to ensure its effective implementation, monitoring and evaluation, means that it is still in-operational.

The second principle refers to the commitment from both parties to promoting sustainable development and achieving the Millennium Development Goals (MDG), while the third relates to good governance and the fight against corruption. The mandate for negotiations of the AA incorporates these principles and affirms that the AA should “reaffirm the commitment to improving social cohesion (...) in order to promote equitable and sustainable economic growth (...) reduce poverty, social exclusion and all forms of discrimination (...)”.⁵ As will be discussed later in this document, the commitment to strengthening social cohesion has been questioned by civil society due to the strong emphasis that is being placed on economic development, trade and economic integration above other dimensions of regional integration, as well as the inclusion of trade related issues and commitments which do not reflect a genuine recognition of the huge differences that exist between the two regions. Therefore, there are fears that the real impact of the AA will actually be the further erosion of social cohesion in the region.

⁵ Comisión Europea (2006), Recomendaciones de la Comisión Europea al Consejo, Memorando Explicatorio, Borrador del mandato de la UE para las negociaciones de un Acuerdo de Asociación con América Central, pág. 11

2.2 Political Dialogue

The objective of the political dialogue chapter is to strengthen political cooperation in all bilateral and international areas of mutual interest. The regional priority areas include regional integration, poverty reduction and social cohesion, sustainable development, security and regional stability, conflict prevention and resolution, human rights, democracy, good governance, migration, the fight against corruption, money laundering, organised crime, terrorism, illegal drug-trafficking and light fire-arms. International priorities include strengthening political dialogue and cooperation around the foreign and security policies of both regions and achieving greater coordination of political positions in relevant international forum.

It is important to note that the mandate for negotiations includes three standard and obligatory clauses: the fight against terrorism; to counteract the proliferation of weapons of mass destruction; and the ratification of the Statutes of the International Penal Court, which have only been ratified by Honduras and Costa Rica to date. However, the Central American countries, especially Nicaragua, have rejected the latter clause and the likelihood is that an agreement will be reached which stipulates that crimes against humanity should not go unpunished without actually referring to the International Penal Court.

Given the scale of migration from the Central American region and the seriousness of the issue, in their preliminary counter-proposal to the EU's mandate for negotiations, the Central American governments proposed that migration be dealt with in the negotiations from a human rights perspective as opposed to a predominantly legal perspective, and that it be dealt with in both the political dialogue and cooperation components of the agreement.

Participants in the political dialogue include heads of State and government, ministers, civil servants, and diplomats. Parliamentary dialogue with the participation of representatives from the European Parliament and Central American parliaments is also envisaged. Central American

civil society has highlighted the importance of including mechanisms for civil society participation in the dialogue in order to promote links between processes of political and social dialogue.

2.3 Cooperation

The Cooperation chapter of the AA is also based on the 2003 Political Dialogue and Cooperation Agreement. In contrast to the overall objective of this agreement (outlined in section 1), the objectives relating specifically to the cooperation component include issues such as human rights, good governance, regional integration, the reduction of poverty and inequality, and sustainable development. However, the objectives are not rooted in a human rights approach to development where the human being occupies centre stage. Rather, they prioritize economic growth as an objective in itself, for which political and social stability is essential, and will be achieved through strengthening democracy, respect for human rights and good governance. Poverty reduction will be a gradual result of economic growth and is more explicitly linked to increased access to social services. In general terms, the focus is strengthening regional economic integration, which is seen as a way of increasing economic growth and reducing poverty.

Of the 45 articles contained in the 2003 Dialogue and Cooperation Agreement, many (more than 20) directly or indirectly refer to trade and investment or focus on the establishment of the conditions necessary to facilitate a better trade and investment climate. Approximately ten articles refer to cooperation in the different economic sectors of the region, many of which are of interest to European investment, such as the mining, tourism, energy, and telecommunications sectors, amongst others. There are also articles on human rights, democracy and good governance, education and training, the environment and biodiversity, natural disasters, culture, health, social cooperation, civil society participation, gender, and indigenous and ethnic groups, amongst others.

Nevertheless, it is clear that the priority area is the promotion of trade and investment. The above is confirmed in the mandate for negotiations, which highlights nine specific areas. Four of them refer to cooperation relating to economic integration and trade, including assistance for the facilitation of trade, the implementation of a customs union, and fiscal matters. A second particularly important area is cooperation on justice, freedom and security (covering the strengthening of institutions working in these areas, data protection, migration, combating money laundering, illegal drugs, organised crime and terrorism). Other areas of cooperation include support for the effective implementation of the main International Labour Organization (ILO) norms and regulations, and strengthening economic, social and environmental policies. Finally, “cooperation for knowledge” (in the areas of education, science and technology) and cooperation in the audiovisual and cultural realms are highlighted as other areas.

2.4 Trade

It is important to note that the components relating to trade outlined in the mandate for negotiations for the AA are firmly rooted in the EU’s global strategy to strengthen its competitive position in the global market, described in the European Commission document “A Global Europe: Competing in the World, a Contribution to the European Union’s Growth and Employment Strategy”. This strategy contains internal measures to increase competitiveness, which are complemented by an ambitious external agenda with three main objectives: increase access to external markets for European exports through the elimination of tariff and non-tariff barriers; increase access to natural resources which are essential for European production, including energy, metals and primary materials; and increase access of European businesses to services markets.

Accordingly, the third chapter of the AA refers to the gradual and reciprocal liberalisation of trade in goods and services, on the principles of non-discrimination and national treatment. The EU is seeking parity with DR-CAFTA⁶, which means that concessions granted to the United States under this agreement, must also be granted to the EU. DR-CAFTA covers a wide range of areas, including agriculture, investment, services, Intellectual Property Rights (IPR) and the environment.

In terms of trade exchange, the mandate for negotiations proposes the elimination of customs duties and import tariffs over a maximum period of 10 years, with a longer period for the elimination of tariffs on sensitive products or a commitment for their partial liberalisation. In addition, it states that the Generalised System of Preferences Plus (GSP Plus) will not constitute the basis for trade negotiations. This is important as the majority of Central American agricultural products currently enter the EU tariff-free under this system and others face low tariffs, while all industrial products also enter the EU tariff-free (although the quantity exported is not significant). Some particularly important agricultural products for the Central American region, such as bananas and sugar, are excluded from the system.

In the area of investment and services, the mandate for negotiations says that the AA “should establish the gradual and reciprocal liberalisation of the establishment and trade of services with the aim of guaranteeing maximum opportunities for market access.”⁷ Although Central American countries are to be granted “a certain degree of flexibility” in this area, the transition period will not exceed 10 years. The most controversial aspects include the gradual liberalisation of public sector procurement, competition laws, and the effective and appropriate protection and application of IPR. These are the so called Singapore Issues, agreements on which have not been reached in the World Trade Organisation (WTO) talks.

⁶ The DR-CAFTA is a Free Trade Agreement (FTA) between the United States, and Central America and the Dominican Republic. It forms part of the United States’ intention to extend the North American Free Trade Agreement (NAFTA) to the entire American hemisphere in order to create a Free Trade Area of the Americas (FTAA). To date, DR-CAFTA is being implemented by all parties to the agreement, except Costa Rica.

⁷ European Commission (2006), Recomendaciones de la Comisión Europea al Consejo, Memorando Explicatorio, Borrador del mandato de la UE para las negociaciones de un Acuerdo de Asociación con América Central, pg. 19

Although the mandate for negotiations mentions taking into account the asymmetries that exist between the two regions in all of the trade negotiations, the inclusion of the principles of reciprocity and national treatment and the Singapore Issues, the elimination of the GSP Plus as the starting point in the negotiations, and the demand for parity with DR-CAFTA, reflects the lack of real willingness on the part of the EU to recognise the huge differences that exist between the two regions in terms of economic, technological and social development. This has been a cause for grave concern for civil society organizations who fear that the absence of a genuine and appropriate treatment of asymmetries will threaten poverty reduction and sustainable development based on respect for human rights in the region.

2.5 Civil society participation in the process

The negotiations of the AA are due to be finalized in mid-2009, which means that the rounds of negotiations are taking place at a significantly rapid pace, at one round every two to three months. This is another major concern for civil society due to the negative impact that the speed of negotiations is having on the ability of Central American governments to reach consensus, and the possibility of carrying out meaningful

consultation with civil society at the national and regional level. There have been efforts to facilitate the participation of civil society at national level in each of the Central American countries, although these processes have differed in terms of scope and quality.

Concrete, institutional mechanisms at regional level to ensure participation in the process have not been put in place despite the existence of proposals from various sectors and civil society organisations as well as a joint proposal from the Consultative Council for the Central American Integration System (CC-SICA⁸) and the European Economic and Social Committee (EESC⁹). This proposal includes national, regional and bi-regional forums combined with opportunities for broad consultations with civil society actors and sectors that are not represented on the CC-SICA itself. During the second round of negotiations that took place in Brussels in February 2008, the European Union indicated that this proposal would be analysed by the EU and the Central American governments with a view to reaching a common position on it. At the time of writing, decisions relating to the proposal have still not been made known. It is worth highlighting that the participation of civil society is important not only in the negotiation of the AA but also in its implementation, monitoring and evaluation.

⁸ The CC-SICA is the official regional body for civil society representation and participation in the Central American Integration System. It includes regional representatives from various sectors of civil society. However, it is not considered to be sufficiently representative and it has had a low level of functioning. In the framework of the AA, the CC-SICA has become more active although it still lacks sufficient dynamism. Nevertheless, as the official civil society body in the integration system, it is responsible for representing civil society in the AA negotiation process. To this effect, the CC-SICA has strengthened its links with other civil society actors in order to broaden consultations and the participation of other actors in the process.

⁹ The EESC is an advisory body within the European Union representing three groups: the private sector (Group 1), workers (Group 2) and various interest groups such as farmers, consumers, ecologists, NGOs etc (Group 3).

3. The potential impact of the trade chapter of the Association Agreement

3.1. The agricultural and manufacturing sectors in the Central American economies

The agricultural sector is very important to the Central American region. It represents between 10% and 23% of Gross Domestic Product (GDP),¹⁰ it is the foundation of American exports and generates a large proportion of the products sold in the domestic and regional markets. As such, the sector generates a high percentage of employment as it absorbs the largest share of the labour force in the region. Along with the fishing industry, agriculture provided employment for 28.4% of the economically active population in 2003. Although the agro-export sector is an important source of employment, small-scale, traditional agriculture provides 82% of total employment generated by the agricultural sector.¹¹ Unfortunately, agricultural production has decreased in the last decade due to structural adjustment policies which dismantled government support for the sector and facilitated trade liberalisation, leading to the importation of cheaper, better quality products with which national products have had difficulty in competing.

The manufacturing sector is composed of a wide variety of basic products and some light industry, and includes food products, toiletries, furniture, medicines, plastic, textiles, and some electrical appliances etc. The sector employs 15.6%¹² of the economically active population and small and medium-sized businesses account for a large share of the market. Strengthening Central American industry has been problematic due to the implementation of structural adjustment policies and trade liberalisation which have made it difficult to protect local industry, promote

greater sophistication of the sector and the manufacturing of products with higher levels of value-added.

3.2 Trade exchange between Central America and the European Union

The United States is Central America's most important trading partner, accounting for 35.4% of the region's exports and 35.7% of imports. Intra-regional trade occupies second place in importance accounting for 27.1% of exports and 12.3% of imports, while the European Union occupies third place absorbing 13.2% of Central American exports and providing 9.4% of the region's imports. However, Central America is not an important trade partner for the European Union, with only 0.4% of EU exports destined for the Central American market.¹³ Exports to the EU are made up primarily of agricultural products while imports are mainly industrial goods. As a result of these differences, Central America's trade deficit with the EU has been gradually increasing over the last 10 years, with an annual increase in exports of only 4.5% compared to an 8.9% annual increase in imports, resulting in a deficit of US\$1,016 million in 2006.¹⁴

In general terms, Central American exports are concentrated in a small number of products, the most important being coffee, fresh bananas and tropical pineapples, which together account for 50.5% of all exports. Fish exports are also important, especially prawns, and on a smaller scale tuna. It is worth noting that trade relations between the five countries and the European Union are very different, with Costa Rica carrying out most trade with the EU, accounting for 60% of all exports from the region and 43.8% of imports.¹⁵ Costa Rica also has the most

¹⁰ CISDE (2008), Agriculture in Regional Trade Agreements: A comparative Analysis of United States and European Union Agreements, pg. 10

¹¹ CIFCA (2008), Posibles sectores perdedores en la Región Centroamericana y Panamá de las negociaciones de un Acuerdo de Asociación con la Unión Europea (AdA), pg. 101-102

¹² Ibid, pg. 102

¹³ SIECA (2007), Las Relaciones Comerciales entre Centroamérica y la Unión Europea, pg. 14

¹⁴ ASEPROLA, ICCO and Bananalink (2007), La Agricultura de América Central en Juego, pg. 4

¹⁵ SIECA (2007), Las Relaciones Comerciales entre Centroamérica y la Unión Europea, pg. 20

diversified export base, which also includes more industrial products, while the other countries are particularly dependent on the exportation of coffee.

Although the majority of Central American products enter the European market tariff-free, other barriers to trade prevent Central American countries from fully exploiting the potential of the EU market. The most important barriers are EU hygiene and quality standards, export subsidies and internal assistance provided by the EU to European farmers and fishermen under the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP). This internal protection makes European agricultural and fish products very competitive, rendering it very difficult for Central American products to compete with them.

As previously mentioned, not all products enter the EU tariff-free. Some face high tariff barriers, as is the case for bananas and sugar, two of the most important Central American agro-export products. Central American bananas face one of the highest tariffs on entry to the EU and quota restrictions are also applied. This is due to EU policies aimed at protecting internal production of banana, which is quite small, and preferences granted by the EU to banana imports from African, Caribbean and Pacific countries. Sugar is the most highly protected product within the EU, with import tariffs of up to 177%¹⁶ on Central American sugar, for which reason the exportation of this product to the EU is low. Other important products to the Central America export sector, such as shellfish, pay extra-quota low tariffs.

3.3 The potential impact of trade exchange liberalisation

Given that the European Union is seeking parity with DR-CAFTA in the trade negotiations with Central America, it is necessary to take into account what was negotiated within DR-CAFTA and the impact of this agreement in order to

understand the potential impact in Central America of a Free Trade Agreement (FTA) with the EU in terms of trade exchange.

3.3.1 DR-CAFTA and trade exchange

Central American countries and the Dominican Republic did not have much to gain in terms of trade exchange in the DR-CAFTA negotiations with the United States as the majority of their exports already entered the US tariff-free (74% in 2002¹⁷) under the Caribbean Basin Initiative. On the other hand, they did have something to lose: the protection of sensitive products (white and yellow corn, rice, beans, dairy products, beef, pork, oil and sugar) from an increase in imports of these products, some of which are heavily subsidised, from the US. Protective mechanisms were agreed which included time-frames for the reduction of tariffs, import quotas, and a safeguard that can be activated if the volume of imports of specific sensitive products exceeds the quantities stipulated in the agreement.

In theory, gradual tariff reductions, the quotas and the safeguards would offer a certain level of protection for Central American farmers providing them with the opportunity to gradually increase their levels of competitiveness in order to be able to cope with complete tariff reduction. However, the reality is that the majority of farmers are not in a position to take advantage of the adjustment periods due to their high levels of poverty and the lack of access to technological and financial support for agricultural production. Another problem is the administrative capacity of the governments in the region to apply the protective tools, for which very efficient customs and inspection systems are necessary.

In general, the result of DR-CAFTA to date has been a significant increase in agricultural imports and an increase in the agricultural trade deficit with the US.¹⁸ Civil society organizations are concerned that the protective mechanisms will not be sufficient to offset the impact of tariff

¹⁶ IIDE (2007) Economic Implications of an Association Agreement between the European Union and Central America, pg. 10

¹⁷ United States Trade Representative (2003), Free Trade with Central America

¹⁸ Red Regional de Monitoreo del CAFTA-DR (2007), Síntesis del Informe Preliminar CIFCA(2007), Posibles sectores perdedores en la Región Centroamericana y Panamá de las negociaciones de un Acuerdo de Asociación con la Unión Europea (AdA), pg.81-82

reductions, with serious consequences for small subsistence farmers and small and medium sized farmers who sell their products in the domestic market, and in some cases, the regional market. At the same time, there is debate around the potential opportunity for small farmers of the promotion of bio-fuel production from white corn for export to the US. This debate remains inconclusive. However, there has been a significant increase in the cost of corn linked to the promotion of bio-fuel production, with negative consequences for the food security of a large proportion of the population, particularly the poor and vulnerable sectors.

In relation to exports, the growth of the agro-export sector has not been as strong as expected and in the majority of cases growth has been slowing.¹⁹ Costa Rica, where DR-CAFTA has not yet come into force, is the only country in the region whose exports to the US increased more than its imports in the period 2006-2007.²⁰ There are fears that there will be a loss of direct and indirect employment in the agro-export sector if the slow growth tendency continues or worsens, especially in sub-sectors such as beef, processed chicken and dairy products. On the other hand, growth of the fruit agro-export sector, as seen in Guatemala, is a source of concern due to the potential further concentration of land in the hands of a few to the detriment of the rights of small farmers and indigenous people. Not surprisingly, real export opportunities for small and medium sized farmers have not improved due to their low productivity levels and export capacity and the absence of an export strategy that includes them.

3.3.2 The potential impact of the AA on trade exchange

In the AA negotiations with the European Union, a direct gain for Central America would be to secure the permanent continuation of preferences granted under the GSP Plus. However, doubts

surround the real gains to be made from this in terms of actually *increasing* exports given that the other trade barriers (hygiene and quality standards and European subsidies) will continue to limit the access of Central American products to European markets. As such, the only scenario that would allow for an increase of Central American exports to the EU would be the inclusion in the SGP Plus of the two most important agro-export products which currently face high tariffs, i.e. bananas and sugar.

According to an analysis carried out by the Institute for International and Development Economics (IIDE)²¹, which examines the macro-economic impact of three scenarios of liberalisation of these products in Central America (total liberalisation, partial liberalisation and total exclusion), only the total elimination of tariff barriers on these products entering the EU would allow for an increase in exportation levels from Central America, with the resulting gains in foreign currency and employment generation. The study highlights that the partial elimination of tariffs would have little impact as they would continue to be too high to allow for real competition from Central American products. However, it is highly improbable that the EU will give concessions in this area.

As previously mentioned, fish exports face low extra-quota tariffs on entering the European market and the balance of trade in the sector is in the region's favour.²² Given that there is scant possibility of the elimination of subsidies to the European fisheries sector in the short to medium term, the potential for increasing exports in this sector is not likely.

Once again, opportunities for small and medium sized farmers will be minimal due to their low productive and competitive capacity, lack of government support for this sector, and the absence of measures to promote their participation in an export strategy.

¹⁹ Ibid

²⁰ Ibid CIFCA(2007)

CIDSE (2008), Agriculture in Regional Trade Agreements, A Comparative Analysis of United States and European Union Agreements, pg.10

²¹ IIDE (2007), Economic Implications of an Association Agreement between the European Union and Central America, Discussion Paper 200708-01

²² FUNDE y CONFEPESCA (2007), Análisis y Propuestas del Sector Pesquero Artesanal de Centroamérica ante el Acuerdo de Asociación con la Unión Europea

As pointed out earlier, the majority of European imports into Central America are industrial products (70%). A substantial quantity of agro-industrial products also enter the market and are already competing with local products. A trade agreement with the EU that implies the same opening of the agricultural market as that granted to the US, with the resulting increase in highly subsidised and competitive European products that are sensitive in the Central American region, will have serious consequences for the agricultural sector, especially for small scale traditional agriculture, which has already been severely weakened over the last decade as a result of structural adjustment policies and trade liberalisation.

Small subsistence farmers and fishermen whose products are for household consumption or the local market will be the most severely affected. Within these sectors are the poorest and most vulnerable groups, including indigenous and afro-descendent populations. They work under severe poverty conditions, have low levels of education, lack access to technological and financial support, use outdated techniques, have high production costs and low profits. In such conditions, they cannot compete with imported products that are cheaper and of better quality. Medium-sized farmers who sell their products in the national, and in some cases the regional market, will also suffer from an increase in European imports.

The solution offered to sectors that cannot compete is to switch to more profitable activities that stand to gain from the AA. This is not a viable option given that the majority of these farmers do not have the capacity to switch and government support for this is very limited. Furthermore, if the European market is already open to many Central American products and export opportunities are not likely to increase, it is difficult to see what they could switch to and to what market they would sell their product. Taking

into account that the EU is offering time-frames for tariff reductions that are less than those agreed in DR-CAFTA, insisting on a maximum period of 10 years, further opening of the market through the AA could increase the food insecurity of the poorest sectors of the population to worrying levels and further threaten the food sovereignty of the Central American countries.

Given the high levels of gender inequality in Central America and the more precarious conditions of poverty and exclusion suffered by women, greater liberalisation of the agricultural sector would have a particularly strong impact on rural women due to the inequality they experience in access to and security of land tenure, as well other productive resources, such as technical and financial assistance. Single mothers with small parcels of land and exclusive responsibility for feeding their children will experience even more difficulties in ensuring the food security of their families.

In the industrial sector, significant increases in exports to the EU are not expected due to the poor industrial base of the countries in the region and the difficulties involved in trying to strengthen this sector due to trade liberalisation. However, imports will increase and the increasing competition faced by small and medium sized Central American companies may put their survival at risk, with negative consequences for employment and income for a vast number of people, the majority of whom are poor. From a gender perspective, small and medium sized companies are important sources of employment for women,²³ and their potential collapse due to competition from European products will threaten the economic independence that many women have managed to achieve through huge personal effort.

As previously mentioned, intra-regional trade represents almost 30% of all trade carried out by Central American countries and was worth

²³ CAWN, The Association Agreement between the European Union and Central America: its potential impact on women's lives in Central America, Briefing Paper, pg.2

US\$3900 million in 2005,²⁴ making this market extremely important for the Central American economies. In contrast to exports from the region to third countries, which are mainly agricultural, intra-regional trade is made up largely of agro-industrial products and light manufactures. Also, the participation of small and medium sized companies in this market is significant, accounting for 75%²⁵ of trade exchanges. To date, national markets in Central America have suffered greater levels of de-articulation as a result of trade liberalisation than the regional market, and the EU claims that regional economic integration will help to further strengthen intra-regional trade. While there is little doubt about the contribution of a common market to facilitating trade within the region, it is important that measures taken to support the private sector to take advantage of the opportunities provided by economic integration are targeted at small and medium sized companies. This is of the utmost importance considering the potentially devastating impact of increased European imports on small and medium sized farmers and companies who sell their products on the regional market.

3.4 The potential impact of the liberalisation of investment

In Foreign Direct Investment (FDI), the EU is also seeking parity with DR-CAFTA and has placed the Singapur Issues on the negotiating table (these issues include the deregulation of services, government procurement, competition laws and the effective application of Intellectual Property Rights). There is also interest in increasing access to natural resources such as energy, metals and primary materials.

In relation to services, it is important to note that the EU is providing support for the modification of the Central American Treaty in Services and Investment (TCSI) with the aim of facilitating the equal liberalisation of all service markets in the region. This allows for the creation of regional level networks in service provision, a trend that is already developing in the financial, telecommunications and electricity sectors.

3.4.1 The deregulation of services

There has been an increase in European investment in a number of services in Central America over recent years, especially in the telecommunications sector, but overall EU participation in the services market is still quite low. Deregulation of the market would allow for greater access to it by European companies and ensure a transparent regulatory framework for their operations. The sectors of most interest to the EU are telecommunications, financial services and electricity services.

Since the 1990s, the telecommunications sector has been through a process of liberalisation and privatisation in all countries of the region, with the exception of Costa Rica. While the participation of European companies in this sector has increased recently, investment continues to be limited due to restrictions on foreign control of companies and strong competition from Mexican companies. Consequently, this is a sector of much importance in the AA negotiations.

²⁴ CIFCA (2007), Posibles sectores perdedores en la Región Centroamericana y Panamá, de las Negociaciones de un Acuerdo de Asociación con la Unión Europea (AdA), pg. 91

²⁵ Ibid, pg. 115

In the area of financial services, the EU aims to achieve greater liberalisation particularly in the insurance and banking sectors. A number of mergers and take-overs have taken place in this sector recently and it is progressing in a process of regional integration characterised by increasing levels of foreign capital. In the AA negotiations, the EU may ask for a reduction on the limits to foreign shareholders.

The electricity sector has also been liberalised and higher levels of private investment in the sector has had negative consequences for the cost of the service with little improvement in terms of coverage, with the exception again of Costa Rica where the privatisation process has not advanced as much as in other countries. Some European companies, mostly Spanish, have a strong presence in this sector in some of the countries of the region. However, given that restrictions on foreign investment are still in place, the EU is interested in further liberalisation. In addition, there may also be interest in the regional electricity market being established by the Central American System for Electrical Interconnection (SIEPAC) in the framework of the Pueblo-Panama Plan (PPP). The operation of this market on a regional level presents substantial investment opportunities for private foreign firms.

The liberalisation of services can have a positive impact on development and poverty reduction by increasing coverage and quality of services and reducing tariffs. However, such positive impacts are not generated automatically and in order for real benefits to be felt, in terms of improved access of the population (especially the most vulnerable) to services, governments must have effective administrative and monitoring capacity. This is particularly important in the telecommunications and electricity sectors where high investment costs limit competition and facilitate the existence of monopolies. The liberalisation of the financial sector could negatively affect access to credit for the local private sector, and the poor population who cannot comply with loan requirements such as guarantees and the provision of formal

information. Lack of access to credit is already a serious problem in Central America, as is the lack of State vigilance to ensure the protection of the rights and needs of consumers. Another potentially negative impact of the deregulation of services is the loss of employment for a large number of people in the public sector.

3.4.2 Tourism

European investment in tourism has been low to date, with the majority of important investments in the sector made by two Spanish groups, Barceló and Sol Meliá. Restrictions on foreign investment in this sector are greater in some countries than in others. In all of them, they include requirements relating to the employment of local people and in some countries there are requirements relating to capital control and shareholder percentages, amongst others.

The rural sector is important when it comes to tourism in Central America, and tourism projects are presented as important opportunities for generating employment and reducing rural poverty. However, the reality of such projects in the region is that they are usually luxurious resorts catering for a small upper-market clientele and contribute very little to improving the quality of life of the local population. Quite the contrary, they have caused conflicts due to the displacement of poor families, indigenous and afro-descendent populations from land that is considered to have tourism potential (this has been the case in Honduras for example), they have had negative environmental impacts and in some cases they have led to conflicts around access to water (in Honduras and Costa Rica for example).

In addition, these projects tend to develop few links with the local economy through the purchasing of local products for example, and working conditions leave a lot to be desired. In fact, it is one of the sectors in the region where informal labour is most common and a large number of workers do not have social security. As women make up a significant portion of the workforce, the impact on them is greater, and as in many other sectors they receive lower salaries

than men. Problems specific to the extremely vulnerable situation of women, such as prostitution and the sexual exploitation of women and girls, also tend to be exacerbated by these projects.

3.4.3 Government procurement

Government procurement is a very important area of trade as State institutions, ministries, local governments and other public bodies purchase a large proportion of a country's products and services. In Central America, as in other developing countries, much of this market is not liberalised. In the negotiation of DR-CAFTA, Central American countries gave concessions for greater participation of American companies in this market and with the application of the principle *National Treatment*,²⁶ these companies can now sell products and services to a certain number of municipalities in each country, to ministries and also to some public hospitals, under the same conditions as national companies. The liberalisation of this market can be seen from two perspectives. On the one hand, it can contribute to improving the quality of products and services for consumers, but on the other, it can have negative consequences for national companies, especially small and medium sized businesses, which cannot compete with large foreign companies due to their inferior levels of economic and technological development, with the end result being a loss of employment for many people. In this sense, the application of National Treatment for large foreign companies represents unfair competition. In addition, the elimination of performance requirements (for example, the use of local primary materials, the reinvestment of some of the profits made, and the hiring of local staff) means that the actual contribution of foreign companies to the development of Central American countries is significantly limited.

3.4.4 Access to resources: energy, metals and primary materials

The EU has a clear interest in increasing its access to natural resources, including energy, metals and primary materials. It is beyond the scope of this document to discuss the potential impact of agreements in relation to each of these three resources, and therefore only energy resources will be looked at given the huge importance that this issue has gained at international level. In relation to metals and primary materials, there has been little European investment in the extractive industry in Central America to date although it is a sector of interest, along with the forestry sector.

Due to the depletion of petroleum reserves at global level and the rising price of oil, combined with international commitments under the Kyoto Protocol to reduce carbon emissions, interest in bio-fuel production as an alternative source of energy has increased at international level. As previously mentioned, in Central America bio-fuel is made from white corn (in El Salvador for example), and from African palm oil (in Honduras) and its production from sugar cane is currently being promoted. In only three years, the export of bio-fuels has increased from a value of US\$33 million in 2003 to US\$202 million in 2006.²⁷ The largest share goes to the United States but there are also agreements with Brazil.

In order to satisfy high internal demand for, and consumption of energy, the EU also needs to diversify its sources of energy. Consequently, bio-fuel production is being promoted within the EU itself, and there is also interest in importing this form of energy.

²⁶ National Treatment means that foreign companies receive the same treatment as national companies, pay the same taxes, can compete under the same conditions for public contracts and can sell products and services to public institutions.

²⁷ CIFCA (2007), Posibles sectores perdedores en la Región Centroamericana y Panamá de las negociaciones de un Acuerdo de Asociación con la Unión Europea (AdA), pg.45

Although it is heralded as a viable alternative for small and medium sized farmers and a source of economic growth in rural areas, there is also another reality to the production and exportation of bio-fuel. As pointed out earlier, it has led to rising prices of white corn in the region, threatening the food security particularly of the poor and most vulnerable population. There is also a risk that it may intensify the concentration of land through the expansion of bio-fuel plantations producing for export, thus displacing smallholders, exacerbating conflicts over access to land, threatening food security and food sovereignty. It could also have serious environmental consequences through the use of large quantities of fertiliser, pesticides and herbicides, and can contribute to deforestation, habitat destruction and loss of biodiversity. Environmental degradation and deforestation are serious problems in Central America that have led to the region's increased vulnerability to natural disasters, the impact of which are more intensively felt by the poor.

In light of the above, a model of intensification of bio-fuel production in Central America that is not accompanied by measures to limit export quantities and ensure social and environmental standards will have serious consequences for the region, especially for the food and livelihood security of the poor, as well as for food and environmental sovereignty.

3.4.5 Intellectual property rights

The two areas of most interest to the EU in relation to the protection and effective and appropriate application of Intellectual Property Rights (IPR) are the pharmaceutical sector and the exploitation of biodiversity and the protection of new plant varieties.

Pharmaceuticals are one of the most important products imported by Central American countries. However, the production and sale of low-cost generic medicines by Central American companies is also very important and facilitates the access of the poor to essential medicines.

Articles within DR-CAFTA relating to the protection of American pharmaceutical companies' intellectual property rights have had two consequences in Central America: reduced access to essential medicines for the poor, adversely impacting their right to health; and a weakening of local pharmaceutical companies, which could lead to job losses in this sector. There are serious concerns that providing the same level of IPR protection to European pharmaceutical companies within the AA could further exacerbate these problems.

There is enormous potential for bio-exploration in Central America as it is a region rich in biodiversity and genetic plant varieties. However, the economic exploitation of biodiversity and the protection of investment and inventions by foreign companies in this field negatively impacts on the countries' sovereignty over their resources and also threatens the traditional knowledge of indigenous peoples.

At the same time, new IPR laws relating to brand names resulting from DR-CAFTA are having a serious impact on the rights and livelihoods of people who depend on the informal sector to make a living, by making the lack of respect for IPRs (previously categorised as a minor offence) a serious offence. This means that people who sell "pirated" goods face a series of severe penalties, from fines to confiscation and destruction of their goods, to prison sentences.²⁸ Through parity with DR-CAFTA and the application of the *Most Favoured Nation*²⁹ principle, the EU will receive the same protection in this field as the US, which could represent a further threat to the livelihoods of many people and poor families who depend on the informal sector to meet their basic needs.

3.5 The potential impact on the labour market, labour rights and migration

Characteristics of the labour market in Central America include a lowly qualified labour force, a significant gap in income levels for men and women, and a gradual feminisation of the labour

²⁸ Red Regional de Monitoreo del CAFTA-DR (2007), Síntesis del Informe Preliminar

²⁹ Most Favoured Nation is a WTO principle which means that the protection given by one country to another in the context of a Free Trade Agreement must also be given to other members of the WTO.

force, which has led to an overall decrease in salaries for both men and women. Due to the shortage of dignified formal employment, there has also been an increase in informal employment with nearly half of the economically active population working in the informal sector in 2003.³⁰ A large proportion of this work is independent trading consisting of the street-sale of food and non-food products, and much of it is carried out by women. The socio-economic situation of these workers is precarious and their income is unpredictable and not guaranteed. This sector could grow even more if the loss of employment feared in other sectors becomes a reality.

In some parts of the formal sector, the permanent violation of labour rights is the norm, particularly in the *maquila* and agro-export sectors. This is due to both deficiencies in national legislation and the lack of genuine will to respect and implement the legislation that exists. Given that the objective of Free Trade Agreements is to make countries a secure and attractive place for foreign investment, labour rights are treated from the perspective of strengthening competitiveness so as not to negatively affect investment and trade. This can have serious consequences in Central America where cheap labour is promoted as one of the most important advantages the region has to offer in facilitating competitiveness. Civil society organisations are concerned that the violation of labour rights will worsen in order to retain employment in the region.

If the negative impacts of the trade related aspects of the AA become a reality, the already precarious living conditions of a large percentage of the population will deteriorate even further, leading to further increases in the alarmingly high levels of migration from rural areas to the cities and to other countries, including the United States and Europe. The consequences include family disintegration, delinquency and youth violence, and a general decline in social cohesion. From a gender perspective, an increase in male migration increases the pressure on women to provide for their families, and in rural areas their situation is aggravated by the inequality that exists in relation to land tenure. Women who migrate to work in the *maquila* industry or as domestic employees face discrimination in the workplace and different types of abuse, including sexual abuse and the growing risk of becoming victims of illegal trafficking for sexual exploitation.

In the context of the GSP Plus, Central American countries committed to ratifying and implementing 27 international labour and human rights conventions but not all countries have ratified and implemented them. Consequently, civil society organisations have been calling for mechanisms to be included in the AA that would ensure the effective implementation of ILO and other human rights conventions, including Convention 169 of the ILO on Indigenous Peoples; the creation of a regional norm or standard for the protection of labour and human rights; and concrete mechanisms for monitoring the application of these rights.

³⁰ CIFCA (2007), Posibles sectores perdedores en la Región Centroamericana y Panamá de las negociaciones de un Acuerdo de Asociación con la Unión Europea (AdA), pg.6.

4. The European Union's Development Cooperation Strategies for Central America 2007-2013

The European Unions' new development cooperation strategies for Central America cover the period 2007-2013. These strategies have already been approved by the EU and are not part of the discussions in the negotiations of the Association Agreement. The type of cooperation that is being discussed in the negotiations relates to political cooperation in areas of mutual interest and of international importance. However, the EU has affirmed that the priorities set out in the development cooperation programme may be reviewed depending on needs arising from commitments undertaken during the AA negotiations.

It is beyond the scope of this document to provide a comprehensive analysis of the contents of the regional and relevant country development cooperation strategies. Therefore, a general summary will be provided of the main priorities outlined in these documents and the focal sectors chosen by the European Commission for EU support.

4.1 The Regional Strategy Paper 2007-2013

The Regional Strategy Paper for Central America for the period 2007-2013 aims to strengthen the activities undertaken in the previous strategy (2002-2006) in support of regional integration, which constituted two of the three core areas of the previous programme. The strategy's budget is also the same as the previous regional strategy, with a total of 75 million Euro,³¹ which will be financed from the Development Cooperation Instrument (DCI).³² An intermediary evaluation is scheduled for 2010.

The global objective of the strategy is "to support the political, economic and social integration

process in the context of the preparation of a future Association Agreement between the European Union and Central America".³³ Support for the regional integration process is divided into three areas: 1) strengthening the institutional system for regional integration; 2) strengthening regional economic integration; and 3) strengthening governance and regional security.

Support for the institutional system is targeted at regional institutions, inter-governmental coordination systems and national entities involved in the integration process with the aim of strengthening their capacity to further the process of regional integration. The priority objectives relating to economic integration include the creation of a regional customs union and the reduction of non-tariff barriers to intra-regional trade in order to facilitate the creation of a common regional market. The aim is the elimination of technical barriers to trade, services, investments and intellectual property rights in the entire region. The objective relating to governance and regional security involves the implementation of measures to prevent regional crime, which it is feared may increase as a result of the free circulation of goods, capital and people arising from deeper regional integration.

Cross-cutting issues in all three objectives include social equality, gender equality, human rights (including the rights of vulnerable groups), conflict prevention, environmental sustainability, migration, justice, security, decentralisation, and the fight against corruption. However, concrete information on the nature of measures to be supported in each of these areas is not provided.

The inclusion of migration as a new issue in the cooperation strategy is a positive development given the scale of the problem in the region.

³¹ European Commission (2007), Central America Regional Strategy Paper 2007-2013, pg.1

³² The DCI is the new legal framework for the European Union's development cooperation

³³ European Commission (2007), Central America Regional Strategy Paper 2007-2013, pg.19

However, it has yet to be ensured that the issue is approached from a human rights perspective and does not focus exclusively on the issue of illegal migration. In relation to the consolidation of democracy, a priority issue in a region which has such high levels of inequality, the regional integration process is expected to bring about improvements in this area.

Although the strategy's global objective is "to support the political, economic and *social* regional integration process", social integration and regional social cohesion are not mentioned in the specific objectives of the strategy. The document points out that this component of integration will be addressed at the national level through the individual country strategies with the argument that it is at national level that social cohesion can be addressed and achieved. In view of this, it is clear that the main priority of the regional strategy is regional economic integration and the creation of a free trade zone that facilitates trade and investment in the region.

4.2 Country Strategy Papers 2007-2013

Table 1 highlights the priorities identified for the five countries involved in the AA negotiations, the budget allocated to each country, and the percentage of the budget allocated to each priority. As can be seen in the table, there are two main priorities: social cohesion; and economic growth and trade. The total amount allocated to the five countries is 727 million Euro.

Comparisons with amounts allocated to individual countries in the previous development cooperation programme (2002-2006) reveal that the budget for Costa Rica remains roughly the same, El Salvador's has doubled, Guatemala will receive an additional 42 million, the budget for Nicaragua increases by 7 million, and Honduras replaces Nicaragua as the country in the region which receives the highest amount of external assistance from the European Union, with an increase of 76 million.³⁴

³⁴ European Commission (2007), Costa Rica Documento de Estrategia de País 2007-2013, pg.22
European Commission (2007), El Salvador Country Strategy Paper 2007-2013, pg.25
European Commission (2007), Guatemala Country Strategy Paper 2007-2013, pg.29
European Commission (2007), Honduras Country Strategy Paper 2007-2013, pg.34
European Commission (2007), Nicaragua Country Strategy Paper 2007-2013, pg.28

Table 1: Funding amounts and priorities established per country in the development cooperation programme 2007-2013

Country	Amount (Euro)	Priorities and % of the allocated budget
Costa Rica	34 million	<ul style="list-style-type: none"> • Social cohesion (75%) • Regional integration (25%)
El Salvador	121 million	<ul style="list-style-type: none"> • Social cohesion and public security (70%) • Economic growth, regional integration and trade (30%)
Guatemala	135 million	<ul style="list-style-type: none"> • Social cohesion and public security (35%) • Economic growth and trade (65%)
Honduras	223 million	<ul style="list-style-type: none"> • Social cohesion: education and health (50%) • Sustainable management of natural resources: forestry sector (30%) • Justice and public security (20%)
Nicaragua	214 million	<ul style="list-style-type: none"> • Consolidation of democracy and good governance (20%) • Human capital (education) (35%) • Economic growth and trade (45%)

Source: author's based on data from the European Union's Country Strategy Documents 2007-2013

In comparison to the previous programme, there is a notable reduction in the importance attached to issues that have historically been priority issues for EU cooperation (democratisation, human rights, the rule of law and good governance) and an increased focus on economic and trade issues. This focus fits with the orientation of the regional strategy and the negotiations for a free trade zone in the framework of the AA. Accordingly, support for economic growth and trade at national level is

complemented with assistance to help the countries of the region to implement the measures necessary to bring about regional economic integration. Table 2 outlines the cooperation components relating to growth, trade and economic integration. It is worth pointing out that the emphasis on economic growth and trade is not reconcilable with national poverty indicators and that the links with poverty reduction objectives and achieving the MDGs are, for the most part, quite weak.

Table 2: Support for economic growth, trade and regional integration at country level (development cooperation programme 2007-2013)

Country	Support for economic growth, trade and regional integration
Costa Rica	<ul style="list-style-type: none"> • Consolidation of national institutions to ensure harmonisation of legislation, norms and technical and industrial standards, sanitary and phytosanitary standards, and intellectual property standards. • Fulfilment of technical conditions required for the implementation of the Association Agreement. • Implementation of measures aimed at increasing the country's competitiveness in the context of market liberalisation.
El Salvador	<ul style="list-style-type: none"> • Support for the expansion, diversification, competitiveness and productivity of the private sector, with particular emphasis on small and medium sized companies. • Measures aimed at improving the environment for local and foreign investment. • Support for economic integration and common regional policies, the customs union and trade facilitation.
Guatemala	<ul style="list-style-type: none"> • Effective implementation of a rural development policy. • Economic growth in rural areas through diversification and the reduction of food insecurity. • Promotion of trade, including the effective implementation of a customs union and trade facilitation. • Support for the implementation of reforms and measures aimed at increasing regional economic integration.
Honduras	<ul style="list-style-type: none"> • Promotion of economic development, employment and trade in the forestry sector. • Support for the implementation of national reforms: fiscal reform and reform of the legal and regulatory frameworks relating to the customs union. • Technical assistance for trade and support to potential export sectors, such as non-traditional products, certified forestry products, and non-wood forestry products.
Nicaragua	<ul style="list-style-type: none"> • Support for macro-economic stability through the provision of financing for the National Development Plan. • Support for improving trade and investment conditions. • Support for the implementation of regional and international commitments, with a focus on regional economic integration and the application of trade and administrative customs norms and standards in order to facilitate trade.

Source: author's, based on data from the European Union's Country Strategy Documents 2007-2013

As the table demonstrates, the focus of support for economic growth differs from country to country and a pro-poor approach is only evident in some cases. Some of the components of the national strategies can be seen as positive, such as the emphasis on the participation of small and medium sized companies in support to the private sector in El Salvador, the rural focus of some of the strategy for Guatemala and the emphasis on the reduction of food insecurity in that country. However, other elements are a source of concern, such as the elimination of rural development as a priority in the strategy for Nicaragua and support for the National Development Plan, a plan which has been very controversial and highly criticised by civil society due to the absence of a pro-poor focus and its emphasis on the promotion of “clusters” or agglomerations in regions and sectors that already have a lot of potential, with the resulting abandonment of the poorest rural areas in terms of productive investment.

In the case of Honduras, in order for the promotion of economic development and trade in

the forestry sector to be a means of combating poverty, measures must be taken to ensure that poor groups and small and medium sized companies benefit from the development of this sector. Also, the absence of specific criteria relating to poverty reduction in the areas of technical assistance and support for trade in Honduras is worrying. Support is envisaged for potential export sectors, including non-traditional products, certified forestry products and non-wood forestry products and it is unclear how small and medium sized producers and small and medium sized companies will benefit from this support.

Specific measures to achieve social cohesion also vary from country to country, although in general there are two main focuses: expanding and improving basic public services, including education and health; and reducing social violence linked to gang activity in order to improve public security. Table 3 outlines the main components of the cooperation strategies relating to social cohesion.

Table 3: Support for social cohesion at country level (development cooperation programme 2007-2013)

Country	Actions in relation to social cohesion
Costa Rica	<ul style="list-style-type: none"> • Consolidation of social policies and strengthen capacity at local level, particularly in the areas of health, education, employment and the environment, in the country’s poorest areas and regions with particular emphasis on disadvantaged populations, including immigrant populations.
El Salvador	<ul style="list-style-type: none"> • Reduce public insecurity linked to gang activity. • Improve access to basic services including health, water and sanitary services in the poorest rural areas. • Improve the efficiency and quality of the education system and increase education and employment opportunities for young people.
Guatemala	<ul style="list-style-type: none"> • Consolidation of democracy and good governance and respect for the rights of indigenous people. • Reduce social violence through the integration of young people and strengthening the rule of law.

Honduras	<ul style="list-style-type: none"> • Budget support for the human capital chapter of the national Poverty Reduction Strategy (PRS), focusing on health and education. • Reduce public insecurity related to the criminal activities of gangs through the adoption of an integrated approach to the problem.
Nicaragua	<ul style="list-style-type: none"> • Consolidation of democracy and good governance by strengthening the rule of law, ensuring the effective separation of powers within the State, and improving legal security in land and property tenure. • Budget support for the National Education Plan.

Source: Author's based on data from the European Union's Country Strategy Documents 2007-2013

As can be seen from the table, the consolidation of democracy, good governance and the rule of law are only priority areas for two of the five countries, Guatemala and Nicaragua. In the other three countries they are dealt with as cross-cutting issues. Public safety is a priority issue in the three countries that are currently suffering from high levels of violence and insecurity: El Salvador, Guatemala and Honduras. However, the focus is predominantly on the activities of gangs and falls short of an adequate and holistic approach to the problem of public insecurity. In the area of improving access to and quality of basic services, the focus is on health, water and sanitary services in the poorest rural areas in El Salvador; the health and education pillars of the national Poverty Reduction Strategy (PRS) in Honduras; and the National Education Plan in Nicaragua. It must be noted that it is in the area of support for improved access to and quality of public services that stronger links are made between development aid, combating poverty, and the MDGs.

Cross-cutting issues in the country strategies include human rights (with the exception of Guatemala where a component of the first priority is respect for the rights of indigenous peoples), the consolidation of democracy and good governance (with the exception of Guatemala and Nicaragua), gender equality and HIV/AIDS. The environment is also a cross-cutting issue in all the strategies, with the exception of Honduras, as is disaster risk reduction, two issues which are of

utmost importance given the vulnerability of the region to natural disasters.

4.3 General appraisal of the development cooperation programme

It is important to note that the new development cooperation programme does not take into account the results of the Evaluation of the EU's Cooperation Strategy for Central American 1996-2006 because it was drawn up and approved before the results of this evaluation were known. This highlights the lack of adequate planning and the little importance attached to lessons learned. One of the most important observations made by the evaluation relates to real progress made in the regional integration process, which, it points out, is limited to economic integration, especially the customs union, with few real results in the areas of social, environmental, institutional and political integration. Other areas highlighted by the evaluation where European development cooperation did not achieve the expected results include human rights, good governance and the environment.³⁵

In the area of institutional and political integration, regional institutions are still very weak and several actors have expressed doubt about the political will that exists in Central America to further deepen the integration process beyond economic integration. As already highlighted, social integration is not included in

³⁵ European Commission (2007), Evaluación de la Cooperación Regional de la Comisión Europea en América Central, Informe de Síntesis, Volumen 1

the specific objectives of the new regional development cooperation strategy and while it is affirmed that all the components of the country strategies will contribute to social cohesion, in reality this can only be achieved by reducing the high levels of poverty and inequality within the countries of the region, consolidating democracy and good governance, and strengthening the rule of law and respect for human rights. Looked at from this perspective, all of the country strategies are lacking in many respects. As pointed out in the previous section, in most cases the strategies do not have a pro-poor focus in the areas of economic growth and trade, and the consolidation of democracy and good governance, strengthening the rule of law and respect for human rights have been reduced to cross-cutting issues in both the regional and country strategies (with the exception of two). The environment was a priority in the previous programme due to the high (and almost irreversible) levels of environmental degradation and the high level of vulnerability of the region to natural disasters. However, in the new programme it is also reduced to a cross-cutting issue despite the results of the previous programme being poor, which would seem to indicate the need to strengthen cooperation in this area.

It is possible to question the compliance of the regional cooperation strategy with the EU's Development Cooperation Instrument (DCI) criteria, which stipulate that funds must be allocated to combating poverty and achieving the MDGs. No direct link is made in the regional strategy with these two criteria. The priority objectives do not even mention poverty reduction and the MDGs while support for regional integration focuses on economic integration and trade, the impact of which on poverty reduction is dubious as already highlighted in section three.

As previously mentioned, the development cooperation programme priorities could be revised and updated in line with requirements that emerge from commitments made during the AA negotiations. It is still unclear what this could mean but there are two possibilities. The first is

the use of development cooperation funds to compensate for the negative impact on poor and vulnerable groups of the AA. This would be unacceptable given that the primary objective and fundamental focus of development cooperation should be to reduce poverty and promote a true process of sustainable development. It should not be reduced to compensating for the negative impacts of what is, in essence, an unjust trade agreement between two very unequal regions. The second possibility is the use of cooperation funds as aid for trade aimed at increasing levels of productivity, competitiveness and trade capacity so that the countries of the region can take advantage of potential opportunities offered by the AA. In this scenario, criteria relating to combating poverty and achieving the MDGs should be applied so as to ensure that the most vulnerable groups benefit from this support and that it does not end up benefiting sectors that already have the capacity to deal with trade liberalisation.

5. Conclusions

The negotiation of an Association Agreement between the European Union and Central America marks the start of a new phase in the bilateral relations between the two regions. The Association is based on three pillars: Political Dialogue, Cooperation, and Trade. Although the Central American governments and the EU affirm that the three chapters are equal in importance, the reality is that much greater emphasis is being placed on the trade aspects of the agreement.

Official EU documents indicate that the AA will be based on a number of key principles, including respect for democratic principles, respect for fundamental human rights as enshrined in the Universal Declaration of Human Rights, and a commitment to the achievement of the MDGs, sustainable development and social cohesion. However, in the area of human rights, the absence of concrete mechanisms to ensure the effective application and protection of human rights renders the principle in-operational, thus reducing this commitment to one of rhetoric. This has been a source of grave concern for civil

society organizations in Central America, which have consistently called for the inclusion of mechanisms within the AA to ensure the effective implementation, monitoring and evaluation of relevant international human rights conventions.

The level of real commitment to the MDGs, sustainable development and social cohesion has been questioned by civil society for two main reasons: the prioritisation of economic integration above other equally important dimensions of regional integration; the inclusion of issues in the trade negotiations that reflect the non-recognition of the significant asymmetries that exist between Central America and the EU in terms of economic, technological and social development etc. These issues include the elimination of the GSP Plus as the starting point for the negotiations, parity with DR-CAFTA, the application of the principles of reciprocity and National Treatment, the deregulation of services, the liberalisation of public procurements, competition laws relating to foreign investment, and the effective application of Intellectual Property Rights. The inclusion of these issues has given rise to concerns that, rather than strengthening social cohesion, the real impact of the AA could be the further erosion of social cohesion in the region.

In the area of trade exchange liberalisation, opportunities to increase Central American exports to the EU are thought to be minimal, unless the high tariffs on particularly important Central American products (bananas and sugar) are eliminated, which is highly improbable. Export opportunities for small and medium sized producers will be even fewer given their low levels of productivity and competitiveness and the absence of measures to ensure their inclusion in an export strategy. At the same time, there are concerns that a rise in the importation of highly subsidised European products that are sensitive for Central America will impact very negatively on subsistence and small farmers and fishermen whose produce is used for household consumption and where possible for sale on the local market. This sector is made up of the poorest and most vulnerable groups, including

indigenous and afro-descendent groups. Small and medium sized farmers and fishermen who manage to market their products at the national and regional level will also be adversely affected by a rise in imports. Sensitive sectors that cannot compete are offered the alternative of switching to products that may stand to gain from the AA. However, this is not seen as a very viable option given their weak capacity and the lack of government support strategies.

Small and medium sized companies in the manufacturing sector will face an increase in imports of European industrial products that are cheaper and of better quality, with which they will have difficulties in competing. There is concern about the possible collapse of these companies and the resulting loss in employment for many people, the majority of which are poor and female. Intra-regional trade is especially important for the Central American economies, with a large proportion of small and medium sized companies participating in it. On the one hand, the AA could help to strengthen intra-regional trade through the creation of a common market in the region. However, there is also the risk that these companies will not be able to withstand the competition from European imports, with a resulting negative impact on trade between the countries of the region.

Although in theory the deregulation of services could contribute to development through the introduction of competition, which should lead to better coverage, tariffs and quality of services, positive results of deregulation are not automatic, nor guaranteed. The EU is interested in greater liberalisation of the telecommunications, electricity and financial services sectors. These sectors have already been through a process of liberalisation in recent years and the percentage of foreign capital within them has increased. Although this has brought benefits in the telecommunications sector, especially in increased access to mobile phone services, the impact on the poor of liberalisation in the electricity and financial services has not been positive. Given the lack of proper government monitoring in favour of consumer rights and

needs, there is no guarantee that increased liberalisation of these services will benefit the poor sectors of the population.

To date, the tourism sector in Central America has received little European investment. As rural areas are important for tourism in the region, tourism projects are presented as a means of tackling rural poverty and boosting the local economy. However, historical evidence shows that these projects, which usually cater for an upper class clientele, do not provide the benefits promised for the local population. On the contrary, tourism projects have led to conflicts around access to land and water, linkages to the local economy are weak, and the employment provided for local people is often informal.

The EU is also interested in increasing its access to natural resources. There is particular interest in bio-fuel production as a means of solving energy problems linked to the increasing cost of petroleum and international commitments to reduce carbon emissions. Bio-fuel is already being produced in Central America from white corn, as well as other products, and is being exported to the US, and there has been an alarming increase in the price of corn which is threatening food security in the region. There are fears that increased production of bio-fuel as a result of agreements made within the AA will have a very negative impact on the poor population and the environment in Central America.

The liberalisation of public procurements and the protection of Intellectual Property Rights are other areas of interest. For civil society, foreign companies participating in the public procurement market under the same competitive conditions as national companies represents unjust competition that could lead to the collapse of many small and medium sized businesses that sell products and services to the State, with an overall negative impact on local industry and employment. There are serious concerns that AA articles aimed at ensuring the protection of European pharmaceutical companies' IPR could worsen the situation provoked by DR-CAFTA in

terms of further reducing the access of poor people to essential generic medicines. In addition, the protection of IPR in the area of bio-exploration is seen as infringing on national sovereignty over bio-diversity and possibly threatening the traditional knowledge and practices of indigenous populations.

In a region where the labour market is characterised by a low-skilled workforce, gender inequality in income levels, increasing feminisation of the market and of informal employment, as well as constant violations of labour rights, there is concern that these problems will worsen as a result of pressure to increase competitiveness. The potential worsening of already precarious living conditions for the majority of the population, the effects of which will be especially felt by women due to high levels of gender inequality, could lead to an increase in already alarming levels of migration, thus further eroding social cohesion within the region.

The EU's development cooperation programme for 2007-2013 is firmly rooted in the priorities of the AA. Although the overall objective of the regional strategy is to provide support for the political, economic and social integration process in Central America, in reality the strategy prioritises economic integration. Similarly, the country strategies place a strong emphasis on matters relating to economic growth and trade, especially when compared to the previous programme. Economic growth and trade now constitute one of two priority areas for each country, with a general reduction in the importance attached to historically prioritised issues such as democratisation, human rights, the rule of law and good governance, which are now only priority areas in two of the five country strategies. The second global priority, strengthening social cohesion, focuses on reducing social violence, linked to gang activity exclusively, and on improving access to and quality of basic services. The environment, a very important issue in Central America due to the region's vulnerability to natural disasters, is now

reduced to a cross-cutting issue in the regional and country strategies, with the exception of Honduras, where the forestry sector is prioritised.

Given the flexibility that exists to revise the priorities set out in the development cooperation programme, there is apprehension among civil society organizations that development cooperation funds could be used merely to compensate for the negative impacts that the AA may have on the poor population. The other possible scenario is that the funds are used to strengthen the trade capacity of the Central American countries. Should this be the case, criteria relating to poverty reduction and reaching the MDGs must be applied in the allocation of

these funds in order to ensure that the most vulnerable groups are the real beneficiaries of development aid. In any case, as Central American civil society has pointed out on many occasions, in a region so asymmetrical to the EU, where structural poverty, high levels of inequality, weak democratic systems and constant abuse of human rights are the norm, development cooperation should not be subordinated to the requirements of a Free Trade Agreement. Rather, development cooperation must prioritise poverty reduction, sustainable development and respect for human rights. This type of development cooperation should also constitute the basis of relations between the two regions.

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