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EU-Central America FTA Implications for US Exports

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Report Highlights:

The Acuerdo de Asociación entre Centroamérica y la Unión Europea (AACUE), Free Trade Agreement (FTA) between five Central American governments, Panama and the European Union, was signed on May 19, 2010. Once enacted, it will immediately eliminate import and export tariffs of many agricultural commodities. Signature countries agreed to the terms of the contract which will remove nearly all tariffs between Central America and the European Union over the course of fifteen years.

U.S. exporters are likely to experience increased competition in Costa Rica due to additional EU investments in Central America and comparative advantages in trade posed by the EU in various sectors. The U.S. should maintain a strong foothold in bulk commodity exports as well as intermediate and forestry products. The consumer-oriented sector could be most affected by the new Central American and EU trade agreement.

General Information:

Costa Rica is the only Central American country to hold FTA's with the world's three largest markets: the United States, China and the European Union. Therefore, it possesses a competitive trade advantage in relation to other Central American countries. Costa Rica is believed to be the Central American country which will most benefit from the agreement.

The AACUE includes more than free trade between the regions. Five projects, funded by the EU, have been designed and agreed upon to enhance the productive and commercial sectors as well as the social sector of Costa Rica. The focuses of these projects are: better sanitary and phytosanitary methods, strengthened competitiveness of small businesses with improved quality and processes of evaluation, prevention of high school drop-outs due to vulnerable social conditions, environmental security program, and strengthening of women's business skills and economic independence.

Broad implications for U.S. exports

The EU is a large exporter of consumer-oriented products. In 2009, the U.S. exported a total consumer-oriented of \$96,094,000, the highest export level since FY 1970, which is expected to increase in 2010. However, with the implementation of the ACCUE, products within this sector will face competition. Those products, which are moderately to highly-processed, include: snack foods, breakfast cereals, dairy products, processed fruit and vegetables, tree nuts, and wine and beer. Breakfast cereal exports have already slightly decreased in 2010 compared to total exports at the same time in 2009, despite the fact that the FTA has yet to be enacted.

Tariff Reductions on EU products imported to Costa Rica

Many agricultural exports from the EU will see increased demand in the Central American market due to lower consumer prices and greater market access. Products that are immediately tariff-free or have drastically lowered tariffs include:

- wine and other alcoholic beverages
- olives
- olive oil
- chocolates
- apples
- cherries
- grapes
- raisins
- filled pastas

The Costa Rican government is aware that the agreement will provide large competition for domestic producers of some candies, gum, pastas, cookies, breads, salsas and jams. This will also provide additional competition for U.S. exports of these products.

Costa Rica and the EU have agreed upon tariff-rate-quotas for various commodities. The highly-sensitive tariff-free powdered milk quota has been set at 200 metric tons. Hard cheeses currently obtain a 317 metric tons tariff-free quota, while cured and brined hams may be imported duty-free up to 300 metric tons. All tariff-rate quotas will be removed over the course of fifteen years.

Currently, under the U.S.-Central America FTA, quotas set for U.S. exports of cheese and pork to Costa Rica are significantly higher than the initial quotas set for EU exports to Costa Rica. U.S. cheese and pork may enter duty-free up to 498 metric tons and 1,500 metric tons, respectively. The quota for powdered milk is 243 metric tons, up from the initial 200 metric ton quota.

FTA implications for U.S. dairy products exported to Costa Rica

The EU tends to be less price competitive than the U.S. due to U.S. geographical and logistical advantages. However, the EU currently provides export subsidies for butterfat, milk powder and cheeses, which make it more competitive in these areas. Unlike other Central American countries, Costa Rica is almost self-sufficient in the dairy sector and not a main importer. In 2009, 95 metric tons of cheeses with EU origin were imported, while 201 metric tons of U.S. cheeses were imported. The U.S. powdered milk sector should not be greatly affected by the FTA, as the U.S. and EU are not large competitors. The U.S. exports mainly “skimmed” milk powder, whereas the EU exports whole milk powder.

FTA implications for U.S. pork products exported to Costa Rica

At this time, Costa Rican demand for U.S. pork products remains strong. There was a considerable increase in demand between 2008 and 2010, almost doubling the amount imported within the three years. The price of pork imports decreased in 2009 due to economical strains and Costa Ricans began searching for a more price accessible protein with more volume at a lower price. However, more pork muscle was imported in the first three months of 2010 than in the entire year of 2009, implying that 2010 will be a record year for U.S. pork imports to Costa Rica.

Tariff Reductions on Costa Rican products exported to the EU

Foods whose tariffs have immediately been lifted include frozen shrimp, rice, pineapple, melon, ornamental plants, flowers, fruit juices and yucca. A total import quota for the region has been set for beef at 9,500 metric tons. Banana tariffs will gradually be reduced from the current tariff of 176 euros per metric ton to 75 euros per metric ton by the year 2020. The total rice and sugar quotas have been set at 20,000 and 162,000 metric tons respectively. Incentive programs for domestic producers will be developed in Costa Rica to foster to the growing demand in the EU for fish, artesian products and organic foods from the area.

Central America and Panama’s comparative advantage in production and exports of rice and sugar to the EU will pose competition for the relatively smaller U.S. export market of these products. In 2009, the U.S. exported 7,933.8 metric tons of rice and 64,208.8 metric tons of sugar and sweeteners to the EU.

FTA implications for U.S. beef exports to the EU

Currently, approximately 80% of Costa Rica beef exports are to only five countries: USA, Mexico, El Salvador, Puerto Rico and Guatemala; none of which are European countries. In 2009, only 19 metric tons of Costa Rican beef was exported to Spain alone. Therefore, U.S. exports of beef to the European Union should not face much competition from Costa Rica.

Future steps in implementing the EU-Central America FTA

Although the agreement has been signed, it must now pass through several other steps before it is official. Currently, it is being legally revised. The FTA must then be translated into the 23 official languages of the EU. Lastly, it must be ratified by each individual country. This official signing may not be complete until the end of 2010. Therefore, the majority of the proposed trade agreements would not take effect until the beginning of 2011.

**Information for this report was obtained from La Nación and the Ministerio de Comercio Exterior de Costa Rica (COMEX).*