

The Andean Countries and the US Begin FTA Talks. Will Venezuela Veto the Deal?

Colombia, Ecuador and Peru held the first negotiating session for a free trade agreement with the US on May 18-19 in Cartagena, Colombia. Bolivia's trade minister attended the talks as an observer. The meeting had been announced at the conclusion of the Free Trade Area of the Americas (FTAA) Ministerial in Miami in November 2003. Although no deadline has been set for completing the negotiations, it is known that the Andean countries would like to do so by February 2005 so that the US can take advantage of its Congressional Fast Track Authority, which is scheduled to expire in June 2005. There will be a total of seven negotiating sessions. The second negotiating session took place in Atlanta on June 14-18 and the third will be held in Lima, Peru on July 26-30.

The Content of the Talks So Far

The first brief session in Cartagena allowed the participating countries to set out their interests and expectations for the talks and identify areas of sensitivity. In general, agriculture and intellectual property are areas of special concern.

USTR Robert Zoellick has used diplomacy and subtle warnings to keep the Andeans engaged in the FTA process. He visited Peru and Ecuador between the negotiating sessions and met with Presidents Toledo and Gutiérrez, legislators, private sector leaders and civil groups. He stressed the urgency of reaching an agreement on an FTA in early 2005 before Fast Track Authority expires and pointed out that the Andean Trade Preference Act (ATPA) benefits will expire in 2006.

Peruvian Chief Negotiator and Vice Minister of Trade Pablo de la Flor told the Peruvian media during the second negotiation in Atlanta that Peru is looking for a commercial opening with the US that avoids the distortions caused by agricultural subsidies. According to reports in that country's press, Peru presented proposals on intellectual property, protection for the biodiversity of the Andean countries, genetic resources and traditional knowledge. De la Flor also defended the drawback mechanisms (export tax rebates) of Peru's free zones.

Although market access was not on the agenda at the Atlanta meeting, the US is able to table market access offers because the International Trade Commission has completed its required report to USTR on the probable effects of an FTA with the Andean countries. The US expressed its concern to the three Andean countries over their lack of a Common External Tariff (CET). The Andean Community has failed to advance on this issue but Peru, Ecuador and Colombia agreed to have it ready for the third negotiating session of the FTA.

The president of the Agriculture Commission attended the Atlanta meeting and told the press that Peru should propose that the US set up compensatory mechanisms through a Fund for Productive Reconversion and Technological Development. The fund would implement competitiveness, modernization and conversion of agriculture programs in Peru to help offset unequal competition with US agriculture. He also proposed a term of 15 years for reduction of tariffs on sensitive products, fixing compensatory tariffs on subsidized products and maintaining the "Price Band" for Peru. It is worth noting that

Peru's agricultural imports from the US increased by 94% in the first five months of 2004 (\$153 million, or 30% of all agriculture imports).

Peru Wants Aid, Too

Prior to the meetings, the Peruvian press and some observers speculated that the governments of Peru and Ecuador would and should ask for additional assistance from Washington. This is the approach the Europeans used when new members entered the EU. Reportedly, the US rejected the idea when the Central Americans proposed it as part of their FTA negotiations with the US. Perhaps there will be a small increase in the future for Peru to assist in its continued efforts to fight drug cultivation and trafficking. In Colombia, the US already is financing Plan Colombia to fight narcotics trafficking and the Marxist insurgency.

A Venezuelan Veto?

Although the negotiating countries and the media have not addressed the issue, the possibility exists that the government of Venezuela could try to delay or complicate the participation of the three Andean countries in a US FTA based on its rights under the treaty creating the Andean Community. So far, the government of President Hugo Chávez has not officially expressed a position on the issue but it has openly criticized the FTAA process. Informed observers point out that Venezuela was not part of the ATPA because of its high income levels and because it is not a narcotics producing country. The FTA is an attempt by the US to extend and make permanent the benefits of ATPA. Since Venezuela was not included in the original process, it is not fair to say that it is being excluded now for political reasons. Nonetheless, it is possible that some provisions of the FTA could conflict with the provisions of the existing Andean Community treaty.

Mercosur Enters the Picture

Mercosur has said that it expects to reach an agreement on a trade pact with the Andean countries by July 1. This is an optimistic deadline for an effort that has been going on for years, but it seems to be a play by the Brazilians to one-up the FTA negotiations. (Talks are also underway between the EU and Mercosur). Realistically, the Brazilians are interested in a goods-only agreement and even that would be riddled with exclusions. The Andean countries are not likely to allow such a limited agreement to sidetrack the US FTA, which holds far greater potential.

Observations

A decision seems to have been made to handle the Venezuelan issue quietly. According to reports, the US raised the question informally and the Andeans indicated that they would deal with it themselves. With the Venezuelan political situation in constant turmoil, any objections Venezuela might raise to its neighbors joining an FTA with the United States will depend on the political conditions at the moment.

With regard to increasing aid levels, the official US position is that the parties are negotiating an FTA and not an economic union, as is the case of the EU. The degree of integration is much less. The US has officially favored increased aid levels in the area of Trade Capacity Building (TCB). In November 2002 it actively supported creation of the Hemispheric Cooperation Program, which is designed to fund training in negotiations, technical issues, implementation of agreements and transition with assistance from the

US and multilateral sources. A large increase in aid to finance adjustment to the FTA, however, is not in the cards. The US does not officially say it, but its TCB funding largely comes from shifting and renaming existing resources. Undoubtedly, some good has come from insisting that the Andeans and others draw up TCB plans. It has resulted in better internal governmental coordination on the use of foreign assistance, improved coordination among donors, and forced the setting of priorities.

If the Andean-US FTA is a success, it will represent an important step forward in US efforts to promote free trade among as many countries as possible. The countries involved are significant trading partners; in 2003, the US exported \$1.7 billion to Peru, \$1.3 billion to Ecuador and \$4.25 billion to Colombia (total exports of \$13 billion and imports of \$13 billion). These three countries would add to recently concluded FTAs with the five Central American countries, the Dominican Republic, Australia, Bahrain and Morocco, in addition to older agreements with Mexico, Canada and Chile. Negotiations are ongoing with Panama and the five nations of the Southern African Customs Union.

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