

CAFTA

CAFTA – Central American Free Trade Agreement

I
S
S
U
E
P
A
P
E
R

What is it?

CAFTA (Central American Free Trade Agreement) is a trade agreement that promotes trade liberalization between the U.S., Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Dominican Republic. CAFTA is modeled after the 11 year old North American Free Trade Agreement (NAFTA) and is widely seen as a step toward the larger Free Trade Agreement of the Americas (FTAA) that would include all the countries of the Western Hemisphere except Cuba. Connected to this economic restructuring is Plan Puebla Panama (PPP), a ten year long mega development project modernizing the infrastructure (roadways, harbors, airports, electronic communications, etc.) necessary for transportation of products. CAFTA must be approved by the U.S. Congress and the National Assemblies of the Central American countries before it becomes law.

A bit of history –

Negotiations for CAFTA were formally launched in January 2003 with a goal of completing the agreement within a year. This was an unusually short timeline. Negotiations around NAFTA took seven years and the FTAA has been in process for almost a decade. To facilitate CAFTA, the U.S. Congress approved legislation to confer Trade Promotion Authority (or “Fast Track”) to the White House. This limits Congress to an up or down vote and they cannot amend a trade agreement. CAFTA negotiations were held monthly during 2003. There were protests in every city including those in Cincinnati held in February. By the end of the December 2003 session negotiations were substantially complete. On December 17, Nicaragua, Honduras, El Salvador, and Guatemala signed. Costa Rica signed in January, 2004. The substantially finalized version of CAFTA was made public on January 28, 2004.

On February 20, 2004, President Bush notified Congress of his intent to sign CAFTA. According to U.S. law, he had to wait 90 days to sign (May 21) and then he could send it to Congress anytime after that. Because CAFTA is an executive agreement, it does not have to be ratified by 2/3 majority of the Senate. Rather, enabling legislation must be passed first by the House of Representatives and then by the Senate.

CAFTA’s Future

The US has signed CAFTA. The President must then submit a copy of the final legal text of the Agreement to Congress for approval. Congress has 60 days to vote the agreement up or down. There can be no amendments. It is difficult to estimate when the president will move forward. CAFTA has not yet been sent to Congress but this is expected in late Spring, 2005. Passage of CAFTA will not necessarily be easy. Negotiations were done in secret. As members of Congress and the U.S. people become familiar with it, they have questions. Resistance to CAFTA is growing and is quite strong in the countries of Central America. There have been mass demonstrations in nearly every country. El Salvador and Honduras have ratified CAFTA after massive Anti-CAFTA protests. Guatemala experienced major protests. Nicaragua will probably vote in April. Costa Rica has suggested that it may put the agreement to a national referendum.

Some Problems

CAFTA was negotiated between very unequal trading partners. The combined GDP (Gross Domestic Product) of Central America is equal to 0.5 percent of the GDP of the U.S. Critics in Central America claim that trade privileges were given to their countries by the Caribbean Basin Initiative 20 years ago. They say that CAFTA is more of an agreement to establish rules for investment than trade. Analysts expect that CAFTA will attract foreign direct investment and boost Central American exports in certain sectors but will provide few benefits to the rural and urban poor of the region. Free trade doesn’t lead to improve living standards. Cardinal Oscar Rodriguez Maradiago points out that in 1982, when the Caribbean

Basin Initiative began, Honduras had a poverty rate of 59%. In 2002, under a free trade philosophy, the poverty rate was 71%.

CAFTA AND INVESTMENT:

- 1) prohibits Central American governments from ensuring that foreign investment serves national development goals,
- 2) prohibits governments from using policy tools designed to encourage sustainable development, stabilize the economy, promote employment, and insure that investment provides maximum benefit to local communities,
- 3) subjects legitimate environmental, public health, and social protections to challenge by foreign investors. Corporate investors will have the right to file suit against laws and regulations on the national, state and local levels, even if they were enacted for legitimate public interest including public health, safety and environmental protection.
- 4) gives greater rights to foreign investors than to domestic investors and ordinary citizens.

CAFTA AND LABOR

- 1) asks countries to uphold their own labor laws, which may or may not be consistent with international standards,
- 2) provides for action to be taken only when a country repeatedly fails to enforce its domestic law, regardless of the inadequacies of human rights laws.
- 3) fails to protect women workers from discrimination,
- 4) creates a labor cooperation and capacity building mechanism but does not guarantee funding so that the mechanism will operate or perform its function,
- 5) does not have safeguards to protect small, local farmers.

CAFTA AND AGRICULTURE

- 1) sets up competition between highly efficient and high subsidized U.S. agriculture and relatively undeveloped, small scale farmers in Central America. CAFTA will open the gates for a major influx of U.S. grain. Prices for local produce will likely drop sharply. 5.5 million Central Americans depend on agriculture for their survival.
- 2) opens up some U.S. markets to Central American producers but many opportunities are constrained. CAFTA denies Central American producers free trade in sugar by limiting access and retaining prohibitive tariffs.
- 3) would prohibit farmers from using their traditional farming practices because it allows patents on seeds to have precedence over the farmers' traditional right to save their own seeds.

CAFTA AND HEALTH

- 1) has stronger patent protection than the agreement made by the World Trade Organization which affirms that Trade Related Intellectual Property Rights should be interpreted so as to prioritize public health or patent rights,
- 2) extends patents and limits a government's ability to introduce generic drug competition, to provide health coverage and keep costs down. A study done in Costa Rica estimates that it would increase the cost of some medicines 800%.

Source of information:

Quixote Center www.quixote.org/cafta US Dept. of Agriculture www.fas.usda.gov/info/factsheets/cafta
Oxfam America www.oxfamamerica.org
Washington office of Latin America www.wola.org