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Vargo Acknowledges CAFTA Will Face Tight Vote in Congress

Assistant U.S. Trade Representative for the Americas Regina Vargo Dec. 8 acknowledged that the U.S.-Central America Free Trade Agreement (CAFTA) could be delayed if negotiators do not wrap up remaining issues in the current negotiating round and would likely face a tight congressional vote.

"Common wisdom is that CAFTA ... will be determined by a margin of one vote. I'd say this is probably an instance where 'common wisdom' is pretty wise," she remarked during a question and answer session after addressing a U.S. Chamber of Commerce event.

The United States is negotiating CAFTA with five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

The two sides Dec. 8 started what they anticipate will be the last negotiating round in Washington, D.C. Negotiators are scheduled to meet until Dec. 16 when they hope to announce completion of an agreement.

Next year, the United States will begin negotiating with the Dominican Republic. The aim of the negotiations is to integrate the Dominican Republic into CAFTA.

Vargo, the lead U.S. CAFTA negotiator, conceded that congressional consideration of CAFTA might not be possible next year if the negotiations stretch beyond Dec. 16. She cited the upcoming presidential election and specific deadlines set out in the Trade Act of 2002 for notifying Congress and getting input on a trade agreement before it can be voted on.

"There is a real concern on that front," Vargo said. "We're very focused on getting the job done now," she remarked when asked if failure to reach an agreement by Dec. 16 could delay congressional action to 2005.

Issues that still need to be resolved include cumulative content in textile provisions, Vargo told the forum.

The issue of cumulation--under which CAFTA countries could use inputs from countries like Mexico and Canada that have FTAs with the United States and still qualify for preferential treatment--is expected to figure prominently in this round of talks.

Asked about a recent industry agreement on textile cumulation provisions, Vargo said that the agreement does not address all the issues under negotiation. "[We'll] work out those issues at the table," she remarked.

Separately, several U.S. textile groups are planning to send a letter Dec. 9 to the Bush administration opposing the inclusion of either cumulation or tariff preference levels (TPLs) in the CAFTA. Cass Johnson, acting president of the American Textile Manufacturers Institute (ATMI), told BNA that six trade associations that make up the Joint Textile Coalition are expected to sign the letter, which states that the coalition will oppose the CAFTA if it includes either measure.

Other members of the coalition include the American Manufacturing Trade Action Coalition, the National Textile Association, and the National Cotton Council.

The letter follows a Dec. 3 proposal from an ad hoc group of textile companies, apparel makers, and retailers that

called for a cumulation provision to be added to CAFTA that would include the United States' North American Free Trade Agreement partners, Canada, and Mexico. Under the proposal, yarns and fabrics from Canada and Mexico could be assembled into apparel in the Central American countries and shipped duty-free to the United States.

In addition, the proposal called for "strict enforcement" of transshipment rules and would allow other free trade agreement partners that agree to the transshipment enforcement measures to be added to the cumulation provision in the future.

Supporters of the ad-hoc proposal included Burlington Industries, Cone Mills, Jockey International, Sara Lee Branded Apparel, J.C. Penney, Wal-Mart Stores, and Warnaco, among others.

Representatives of several U.S. textile groups strongly criticized the proposal, and argued that the only significant textile makers that supported it are owned by financier Wilbur Ross, who has recently purchased a range of distressed companies in the steel and textile industries.

Investor-State Appellate Mechanism

Vargo told the Chamber audience that the CAFTA investment chapter would include modifications to investor-state arbitration provisions called for by the Trade Act of 2002, including increased transparency and ways to address the filing of frivolous cases. The Trade Act provisions were a response to perceived shortcomings in NAFTA Chapter 11 which set up a system of investor-state arbitration.

CAFTA will contain a "commitment" to an investor-state appellate mechanism but the details of the procedure will be fleshed out later, Vargo told reporters after her presentation. The commitment to such a procedure will be stronger than that in the U.S.-Chile and U.S.-Singapore FTAs, she said.

"We have seven countries [in the CAFTA] so it's worth the investment," she remarked.

With respect to agriculture, Vargo said that an agricultural safeguard the two sides are discussing is still an "evolving topic."

"What is on the [negotiating table] keeps changing its shape," she remarked when asked about the U.S. position on Central America's agriculture safeguard proposal. However, Vargo said that both sides agree on the need for such a safeguard and see it as key for some of the most sensitive agricultural products.

From the U.S. perspective, an "objective" trigger should be built into the safeguard whether the safeguard is based on a volume or price threshold, Vargo said. The United States also favors a "snapback" provision so that duties can be gradually adjusted. "The more you are over the volume or the more you're under the price the more the duties would snapback [toward original levels]," she remarked.

Agriculture products which are sensitive and will be subject to a 15-year phaseout will number "more than a handful," Vargo told reporters. She noted sensitivities in trade in pork, beef, poultry, dairy, sugar, corn, and rice.

By Rossella Brevetti and Christopher S. Rugaber

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