FREE TRADE TRADE-OFFS

A proposed new trade agreement links the United States and five Central American nations in a pact that could become a major boon to some Louisiana industries -- and a serious burden to others.

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Trade ministers who were in New Orleans last week to hammer out some details of a free-trade pact between the United States and most of Central America faced a complex challenge of juggling the interests of manufacturers, farmers, laborers and consumers.

But Louisiana sugar producers such as Wallace Ellender of Raceland were having none of it.

He and other sugar cane farmers still think the Central American Free Trade Agreement, known as CAFTA, won't nearly be sweet enough.

A fourth-generation sugar cane farmer, Ellender has seen his neighbors' farms disappear over the years because of drought, hurricanes and low sugar prices. He and his family have bought up much of the land surrounding their farm, growing the family operation from 100 acres to more than 3,000 acres. But the growth has come at a price.

"We've had to grow because our profit margin just keeps getting smaller and smaller," Ellender said.

It's a problem sugar producers in Louisiana and elsewhere are facing. Many say the influx of imported sugar can be blamed on trade deals such as the North American Free Trade Agreement, or NAFTA. Now comes CAFTA, which they say will make a bad situation worse.

CAFTA could open new markets for U.S. companies and products in five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The Central American countries are hoping the pact will produce a surge of badly needed U.S. investment in their countries, which have been ravaged by decades of civil war and stagnant economies.

The regional agreement would move the Western Hemisphere one step closer to creating a free-trade bloc large enough to face off with the European Union and an emerging alliance of Asian economies.

CAFTA supporters also say the agreement would help stabilize Central American countries by modernizing their economies, strengthening regulatory systems and lifting standards of living. For the United States, regional stability could stem immigration from the area, aid in the fight against drug trafficking and immunize the area against would-be terrorists.

The pact was proposed by President Bush last year and has strong backing from the administration and Republican majorities in both chambers of Congress. A number of Democrats have vowed to fight against the measure.

Trade ministers from the six CAFTA nations met in New Orleans last week for the sixth of nine negotiation rounds that started in January and are scheduled to end in December. Congress will have to ratify any final agreement, as will the legislative bodies of other participating countries.

Among the possible winners will be utility service providers, wheat and other grain farmers in the Midwest, and almost any U.S. company seeking to set up shop in a more stable Central American business climate.

Louisiana businesses and ports, particularly the Port of New Orleans, stand to gain from the deal largely because of their proximity to Central America -- the region is less than three hours from New Orleans by airplane -- and from deep cultural ties that reach back several decades to a time before the city lost the "gateway to the Americas" title to Houston and Miami.

Losers could include Louisiana agricultural sectors and unskilled workers.

The Louisiana sugar industry is a case in point.

Sugar is 'most sensitive'

Under the current tariff rate quota, the five Central American CAFTA countries already export a limited amount of goods, including about 168,500 tons of sugar, into the United States duty-free. CAFTA would expand on that, and give U.S. companies equal access to Central American markets in return, U.S. trade negotiators said.

Consumer groups hope that lowering tariffs would mean lower prices for products at U.S. stores.

But some industries say the Central American countries, whose economies depend primarily on agriculture, will flood U.S. markets with their products, which can be produced more cheaply because of lower labor standards and fewer environmental regulations.

With Central America's total available sugar export capacity at about 2.2 million tons, the U.S. sugar industry is concerned, said Don Phillips, trade adviser for the American Sugar Alliance.

Sugar prices have dropped steadily from about 22 cents a pound about 10 years ago to a record low of 17 cents a pound since industry officials acquiesced to a World Trade Organization request to accept more sugar imports in the United States in the late 1990s. With a 2008 deadline looming for all tariffs to disappear between U.S. and Mexican sugar, some U.S. producers fear a tidal wave of sugar that could cause the U.S. sugar market to collapse.

"It's bad enough having to deal with the weather, but having to deal with the politics of people trying to stab you through the heart, it's tough," Ellender said.

Besides CAFTA, pending trade agreements with Australia, which produces 4 million tons of sugar a year, and South Africa, which produces close to 2 million tons annually, could bring even more problems for U.S. sugar producers.

"We know that sugar is the most sensitive product we have to deal with in this agreement," said Regina Vargo, assistant U.S. trade representative for the Americas and the lead CAFTA negotiator for the U.S. government.

U.S. negotiators are keeping industry officials informed of any concessions or progress they make, she said. Negotiators said they have tools they could use to mitigate the impact on U.S. producers.

For example, when the North American Free Trade Agreement was negotiated between the United States, Mexico and Canada, the United States used gradual phase-in periods for lifting tariffs on sensitive products such as sugar as a sort of compromise in the deal. The tariff on Mexican sugar started at 15 cents and has gradually slid to 7.56 cents. The tariff continues to drop every year, and by 2008, there is scheduled to be no tariffs at all. The same kind of system could be used under CAFTA, Vargo said.

U.S. producers say that's unacceptable.

"I don't think anyone would support doing the same thing with this agreement," said Brian Breaux, assistant commodities director at the Louisiana Farm Bureau. "That's a recipe for disaster, at least for the sugar industry."

But U.S. trade negotiators are determined to address sugar in CAFTA, especially because all five of the participating Central American countries are large sugar producers. Guatemala is among the top 10 sugar producers in the world.

Industry officials don't want the issue of sugar dealt with in bilateral trade agreements, but rather through the World Trade Organization, where world producers and importers could address distortions in the global sugar market directly.

"While we know we can compete, we just need to know in the future that there will be something to compete for," said Charles Melancon, president of the American Sugar Cane League.

"We want to get to the point that we can compete in a free market, but if the government gives away everything we have before we get to that, then we are out of business before we can get there."

Farmers in Central America have similar concerns about a sudden influx of cheaper U.S. products, such as corn and beef, resulting CAFTA's elimination of tariffs that currently protect domestic agriculture in the region. Some people believe the agreement will put hundreds of thousands of farm workers out of work, and will spark a mass migration of poor people from the countryside to cities already struggling to provide basic services and adequate employment for their existing populations.

Roman Macaya, who heads a national Costa Rican business association known as Canaproge, told CAFTA negotiators during a public meeting last week in New Orleans that the firm stand being taken by the United States on opening Central American agricultural markets could promt some farmers in the region to turn to cultivating illegal narcotics crops to replace markets lost to U.S. exports.

Stable regulations sought

While domestic sugar might lose under CAFTA, one winner could be service providers, including U.S. electrical and water companies. Other winners could include telecommunications companies such as BellSouth, which has a large presence in New Orleans.

BellSouth, which is based in Atlanta, already has wireless phone holdings in Nicaragua and Guatemala with an investment totaling $150 million, Frank Urbany, a BellSouth vice president for international affairs, testified to a U.S. trade representative committee in November.

CAFTA would make the region more attractive to investors by creating regulatory systems that are predictable and transparent, Urbany said in an interview last week.

"If there were a common telecom regime in all of the five Central American countries, that would go a long way toward attracting not only a company like BellSouth but other telecom companies as well," said Urbany, who was in New Orleans for the negotiations.

BellSouth's experience in Central America so far has been far from problem-free. During his November testimony, Urbany told U.S. trade officials that BellSouth had run into arbitrary roadblocks in Nicaragua and Guatemala "under the guise of regulatory decisions." At that time, he asked that those countries be omitted from CAFTA until BellSouth could resolve its problems there.

Since then, he said, BellSouth has gone a long way toward resolving the problems and in fact has invested a great deal of money to upgrade its cellular system in Nicaragua.

But for U.S. telecommunications companies, one major sticking point remains: Costa Rica's public telecommunications monopoly.

BellSouth and other telecommunications companies are hoping Costa Rica will agree to allow competition. Many Costa Ricans oppose the idea.

Telephone service in Costa Rica is provided by Instituto Costarricense de Electricidad, a 40-year-old, state-owned monopoly that also runs the country's electricity supplier. According to a report by the Management of Global Information Technology program at the American University in Washington, D.C., ICE serves about 1 million wired phone customers and more than 311,000 wireless customers.

ICE's phone network is widely considered to be the most modern and best-run in the region.

In recent years, the company has invested $44 million in its network, including the expansion of fiber-optic lines that provide broadband Internet services.

The Costa Rican government took steps to privatize ICE in 2000, but the move spawned protests that led the government to abandon the plan.

According to some, ICE is simply off the table.

Marco Ruiz, a business leader from Costa Rica, said last week during a panel discussion on CAFTA in New Orleans that his country's negotiators have refused to open Costa Rica's telephone market to competition. U.S. officials appear willing to honor such refusals.

"If the government chooses to keep a monopoly in the region, we have not said that can't be done," Vargo said.

Still, Urbany said U.S. business groups and the other CAFTA countries hope Costa Rica will relent.

"I think, speaking generally, there's a hope that that problem will be resolved in a satisfactory way before the negotiations are finished, because they would be the only country in the group that would continue to have a closed environment," Urbany said. "It's pretty hard to envision where there would be a separate carve-out for Costa Rica."

Beyond the issue of privatization is the subject of the capacity of government agencies to administer regulatory systems. In some cases, the agencies lack workers with the expertise to administer existing programs, much less new regulatory systems that might be required under CAFTA.

The situation causes problems for companies that invest in a developing region only to find it impossible to cut through the red tape. One cited benefit of CAFTA is that it would encourage developing countries to build better regulatory systems not only by adopting usable regulations, but also by building agencies that can administer them.

"One of the problems for companies like BellSouth and others entering are to have those fundamental regulations and laws not observed after investment is made," Urbany told the U.S. trade representative panel in November.

The U.S. telecommunications industry would support educational initiatives designed to train workers, a move that could help build expertise and allow the developing countries to better administer systems in their countries.

Worries about patents

Harahan conveyor belt manufacturer Intralox Inc. also is counting on CAFTA to reduce the risk of doing business in Central America. A key issue for the company involves intellectual property rights, a major concern for many companies that want the same kind of patent and licensing protections they receive at home when they do business abroad.

Intralox has curtailed its presence in Central America not because of burdensome tariffs but because of fears that governments in the region won't do enough to prevent counterfeiters from illegally copying the company's plastic conveyor belt system, which has become a favorite of food and beverage manufacturers, said Agustin Loya, the company's field sales manager for Latin America.

Just a few years ago, Intralox ran into a copycat in Spain when the distributor who had been hired to market the Harahan company's belts in the country began making and selling nearly exact replicas of the products, Loya said.

The company challenged the patent infringements in a Spanish court, but the judge ruled in favor of the distributor, he said.

Intralox could have appealed the decision to the International Court of Justice at The Haguebut the company dropped the matter because the cost of seeking a higher court ruling would have far exceeded the value of sales lost to the counterfeiter, Loya said. "You have to make a call on what is the lesser of two evils," he said.

Regional trade agreements that are vigorously enforced strongly discourage would-be copycats from violating intellectual property rules, Loya said. "As big as Mexico is," he said, "we haven't had a single instance of patent infringement there" since the North American Free Trade Agreement was ratified in 1993. "That is the appeal of agreements like CAFTA to companies like mine," he said.

Critics: Workers to suffer

But the idea that U.S. businesses will invest more in Central America is precisely what worries some critics, who say the migration of industry will hurt working people in the United States and Central America. If U.S. companies move to Central America, lured by the draw of lower wages and lax labor rules, critics say, it could result in the creation of sweatshops that might benefit big business but not Central American workers.

CAFTA would require all nations to uphold their domestic labor policies, Vargo said.

But for some, that isn't enough.

"Well, what if they have no labor laws?" asked Timi Gerson, who follows trade policy for Public Citizen's Global Trade Watch in Washington, D.C. "Or what if their labor laws are really weak?"

Vargo said such concerns are unfounded. "While there are some areas that could stand improvement," she said, "by and large the labor laws of Central America are pretty good laws."

In any case, it's naive to think that developing countries would agree to labor concessions that strip them of one of the few advantages the countries have over the United States, said Susan Ariel Aaronson, a senior fellow at the University of North Carolina's Kenan Institute in Washington, D.C.

Some developing countries, such as Thailand, have in fact agreed to establish independent labor monitors to ensure that basic labor standards are met, Aaronson said. But that has occurred outside of trade agreements, she said.

"Does this have to be in trade agreements?" she asked. "It would be nice if it would be, but most developing nations aren't going to do that."

Because New Orleans' unskilled wage earners work primarily in service sectors such as the hospitality industry, they probably won't be directly affected by CAFTA, said Wade Rathke, chief organizer for the AFL-CIO's Service Employees International Union Local 100 in New Orleans.

Nonetheless, Rathke said, NAFTA has hurt working people in general and the organization thinks CAFTA would be no different.

As for workers in New Orleans, Rathke said, any agreement that pulls jobs out of the United States depresses wages across the board. It also could send new workers into the service industry, he said, thus flooding the labor pool and reducing wages for workers at a time when the service employees union is fighting for higher wages.

"It's hard to push the floor up from the bottom if the top is collapsing on them," Rathke said. "That's our concern. We're not at the top of the wage chain frankly."

No easy road for CAFTA

Drafting an agreement that trade delegates can accept is just one step in the process.

Even if negotiators successfully craft a trade agreement, CAFTA will likely face a tough ratification battle in Congress, said Mark Smith, director of Western Hemisphere affairs for the U.S. Chamber of Commerce in Washington.

"It's not going to be an easy road," said Smith, who was in New Orleans last week to monitor the CAFTA talks. "We are going to face a big, big challenge."

Although Smith said Louisiana's congressional delegation has been a strong supporter of trade agreements in the past, the agreement still will not be a slam dunk on Capitol Hill. In fact, he said CAFTA will face a tougher battle in Congress than did NAFTA and similar regional free-trade deals with Chile and Singapore that won ratification from Congress last week.

CAFTA needs the support of at least 20 Democrats in the House of Representatives, in addition to support from the Republican majority, to win ratification, Smith said. Although more than 70 House Democrats voted for the Chile and Singapore agreements in July, many of those lawmakers have vowed to vote against CAFTA, he said.

The Bush administration is hoping to win over some Democrats by rolling free-trade agreements with several other countries into CAFTA, Smith said.

The maneuver, which is known in trade negotiation circles as "docking," is being directed toward countries with large native constituencies living in the districts of key Democratic members of Congress. Smith said countries with the best chances for docking with CAFTA are the Dominican Republic, Colombia and Peru. Jamaica and Panama also could be added to the docking list, other CAFTA supporters said.

While in New Orleans last week, Smith pleaded with U.S. and Central American business leaders to begin mobilizing support for CAFTA and to step up their lobbying efforts for the treaty on Capitol Hill.

"Helping people understand the labor issues is not going to cut it," he said. "We can't have prominent members of the business community not supporting" CAFTA.

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