

Andean countries scramble for US free-trade pact

Reuters, 05.12.04, 3:44 PM ET

By Phil Stewart

MEDELLIN, Colombia (Reuters) - If you gave your mother fresh-cut roses on Mothers' Day in the United States, odds are that they came from a drug-trafficking Andean nation.

Thanks to U.S. duty-free incentives that aim to bolster legitimate businesses in Andean countries on the front lines of the war against cocaine, Colombia and Ecuador have cornered about 90 percent of the U.S. rose market.

Those incentives expire in 2006 unless negotiators from Colombia, Ecuador and Peru succeed in locking them in at free-trade talks with the United States starting on May 18.

While the mood is optimistic, analysts and industry leaders warn negotiators meeting at the Caribbean port of Cartagena, Colombia, are short on time and face formidable political and practical obstacles.

Free trade is a delicate issue in the U.S. presidential race and analysts doubt President Bush will publicly root for the Cartagena talks as Democratic challenger, Massachusetts Sen. John Kerry, complains about U.S. jobs moving overseas.

But the negotiations are a high priority in Washington and a unique opportunity for the United States to extend its reach in Latin America by gaining free access to another 80 million consumers.

All sides are hoping talks will be wrapped up by 2005.

An accord would build on momentum gained in Central America and the Caribbean, where the United States recently struck a free-trade deal that is awaiting difficult congressional approval. A U.S.-Chile trade accord went into effect earlier this year.

Analysts say a U.S. deal in the Andes would pressure Brazil -- Latin America's largest economy and Washington's biggest obstacle to a pan-American trade zone, called the Free Trade Area of the Americas (FTAA).

Brazil has threatened to sink any FTAA agreement without a politically perilous round of farm concessions in the United States. As a result, Washington has sought bilateral, or regional, trade pacts, effectively isolating the country.

"The hope would be that Brazil would worry about getting beaten out (by

regional rivals) in the U.S.," said Ed Gresser, trade director at the U.S.-based Progressive Policy Institute.

NO MORE VIDEOS

Beyond the political obstacles to free trade are practical problems with doing business in the Andean region.

For example, widespread piracy forced the Blockbuster Inc. video rental chain out of Ecuador earlier this year. Street peddlers there were selling copies of popular DVDs for a third of the rental price.

"I think Ecuador must seriously prove that it is taking steps and making progress to eradicate piracy, which is not evident at the moment," groaned franchise manager, Pablo Borja.

Security is also an obvious concern in Colombia, home to a four-decade-old guerrilla war fueled by the world's largest cocaine industry.

U.S.-based banana distributor, Chiquita Brands International Inc., admitted this week that its Colombian subsidiary paid protection money to paramilitary groups that the U.S. government calls "terrorists."

Still, instead of extortion and guerrilla violence, U.S. companies most often complain about changing regulations that make long-term investments risky.

Engelhard Corp., for example, has accused the Peruvian government of withholding \$30 million in tax refunds.

"I think that if you ask U.S. companies, the biggest detriment to investment here is the insecurity of the judicial system," said Francisco Fernandez, U.S. counselor for economic affairs in Colombia, speaking before the Chiquita revelation.

THE MAD DASH

The window of opportunity is closing fast.

Beyond the November presidential elections in the U.S., which could usher the Bush administration's negotiating team out office, the U.S. government's trade promotion authority expires in mid-2005.

TPA allows the White House to negotiate trade deals that it can then submit

to Congress for a straight up-or-down vote, without the possibility of amendments that could unravel the accords.

With the United States already courting more than 22 countries as potential free-trade partners, including Australia and Thailand, Andean nations are worried about being left with a shrinking piece of the U.S. market.

Sorely needed foreign investment that would expand Andean capacity -- and help the countries keep up with competitors -- won't come before free trade is a sure thing, businessmen say.

For flower exporters, much is at stake. Colombia sold 720 million roses to the United States last year, or more than two for every American. Clothing manufacturers are also worried.

"I used to compete with four countries two years ago. Now I compete with 45 options. I'm talking about Lesotho, Mauritius, Uzbekistan," says Jorge Julian Rico, a Colombia-based branch area manager of Levi Strauss & Co.

"Those countries and other poor countries are coming and they are killing us." (Additional reporting by Amy Taxin in Quito and Robin Emmott in Peru)