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**Report Name:** Costa Rica to Join Pacific Alliance

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**Report Highlights:**

The members of the Pacific trade bloc Alliance advanced Costa Rica's bid for full membership, charting a course for Costa Rica to formally join Mexico, Colombia, Peru, and Chile in 2023. While Costa Rica expects membership will expand trade with Asian markets, FAS/San José expects near-term market access effects would be limited as Costa Rica has existing bilateral agreements with Pacific Alliance members. FAS/San José does not anticipate discernible changes to U.S. competitive positions in the Costa Rican following accession to the bloc.

## **Costa Rica to Join the Pacific Alliance**

The Pacific Alliance (PA) was established in 2011 to advance commercial, political, and economic integration among Mexico, Colombia, Chile, and Peru. Since 2012, Costa Rica has been an ‘Observer Candidate’ to the Asia-facing PA, which promotes free movement of goods, services, capital, and people among its members to achieve higher economic growth, development, and competitiveness.

Costa Rican President Rodrigo Chaves announced in the winter of 2021/22 – during his successful political campaign – that he wanted Costa Rica to join the PA to further open Costa Rica up to trade with Asian-countries and to eventually join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In July 2022, the Chaves administration formally initiated the process of joining the PA, and the PA Ministers of Foreign Relations voted to admit Costa Rica in October 2022.

Costa Rica is expected to complete its accession to the PA in 2023, with negotiations by the countries’ technical groups beginning in early 2023. According to Costa Rican Minister of Foreign Trade Manuel Tovar, PA negotiations should be pragmatic and brief, provided Costa Rica already has free trade agreements with Mexico (1995, updated in 2013), Chile (2002), Colombia (2016), and Perú (2013).

Costa Rica’s total exports to the four PA member countries was \$593 million in 2021, with imports of \$1,865 million. Costa Rica’s largest trade partner among the PA is Mexico (bilateral trade of \$1.5 billion in 2021), followed by Colombia (\$434 million), Chile (\$322 million), and Perú (\$157 million).

## **Costa Rican Agricultural Sector Opposes PA Membership**

In late November, President Chaves publicly acknowledged that there will be farmers “who will suffer,” from Costa Rica’s joining the PA. Unsurprisingly, a number of Costa Rican agricultural producer groups oppose PA membership, noting among other things that PA negotiations could force Costa Rica to compromise protections for commodities (e.g., dairy) that were excluded from or are protected under existing bilateral free trade agreements with PA member countries. Groups opposed to joining also claim PA membership would exacerbate poverty and unemployment, drive up prices for agricultural products, and imperil Costa Rican food security.

Fearing the potential disappearance of several agricultural sectors, the Costa Rican Chamber of Agriculture and Agroindustry (CNAA) has joined a group of agricultural organizations opposing the agreement. According to President of the Chamber of Milk Producers Ivannia Quesada, “in the agreements that were negotiated, the dairy sector participated and achieved a positive balance, however, today there is a threat that other countries, which are now observers (of the PA) may become parties to the agreement, opening greater risks for the dairy sector in the future.” The dairy sector appears to be the main sector opposed to PA membership, largely on the basis of anticipated competition from potential future PA members (e.g., New Zealand) rather than competition from existing members.

President of the Union of Small Agricultural Producers Guido Vargas recently said, “we hope that we will not have to come out and express our rejection (of the agreement), because we prefer to be in the field than to come to the capital to defend our right to continue producing.” He added that the group met with Minister of Agriculture and Livestock Victor Carvajal, who told them that the Chaves administration has the intention of integrating Costa Rica into the PA.

Chaves also added that Costa Rica, “will not leave producers, who will suffer legitimately in case of commercial liberalization, behind.” However, the Chaves Government is facing challenges implementing the modest support measures it proposed to support smaller-scale rice producers after Costa Rica dramatically reduced tariffs on imported milled and paddy rice in August. Industry sources have indicated Costa Rican rice area planted could fall by more than 50 percent in 2023 in the face of increased competition from South American-origin rice.

### **Negligible Impacts on U.S. Agricultural Exports Expected**

FAS/San José does not anticipate U.S. agricultural exporters will face significantly increased competition if/when Costa Rica fully joins the Pacific Alliance. Costa Rica already has bilateral free trade agreements in place with PA members, and U.S. access for most agricultural exports is already duty free and quota free under the Dominican Republic – Central American Free Trade Agreement (CAFTA-DR). With the exception of products excluded from existing bilateral trade agreements, most food and agricultural products exported from current PA members already enter Costa Rica duty free and have been competing with U.S. products (e.g., fruits from Chile and Peru). U.S. exports of rice and dairy products will enter Costa Rica duty free and quota free from January 1, 2025. U.S. potatoes and onions were excluded from full liberalization in the CAFTA-DR negotiations and exports remain limited by volume-based duty-free quotas.

**Attachments:**

No Attachments.