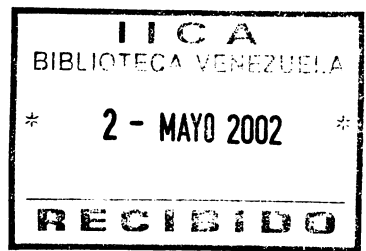


THE AGRIFOOD SECTOR IN CENTRAL AMERICA: INTEGRATION AND INTERNATIONAL LINKAGES FOR ITS



CONSEJO REGIONAL DE
COOPERACION AGRICOLA





THE AGRIFOOD SECTOR IN CENTRAL AMERICA:

REGIONAL INTEGRATION AND
INTERNATIONAL LINKAGES FOR ITS DEVELOPMENT

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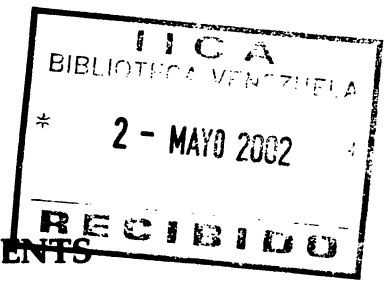


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INTRODUCTION

UNCTAD is pleased to present this compilation of articles¹ on the Central American agrifood sector.

These papers were presented during the seminar entitled, "The Agrifood Sector; Regional Integration and International Linkage for Its Development," held March 14-16, 2001, in San José, Costa Rica, in collaboration with the Regional Council for Agricultural Cooperation in Central America, Mexico and the Dominican Republic (CORECA) and the Inter-American Institute for Cooperation on Agriculture (IICA).

The seminar sessions and documents providing the basis for discussion were organized around three central themes:

- Theme I: "Complementation and Regional Cooperatio for Access to International Markets," which included the work of Ricardo Zapata, of CEPAL, Mexico; Irving Soto, of PROCOMER, Costa Rica; Erick Bolaños, IICA official; and Eduardo Gitli, a consultant contracted by UNCTAD
- Theme II: "National Articulation and the Regional Market as a Platform for Export," with the contributions of Enrique de Loma Ossorio, of FAO; Carlos Pomareda and Eduardo Alonso, UNCTAD consultants; and Luis Figueroa, of INCAE, Costa Rica
- Theme III: "Aspects of Risk Administration and Financing for Basic Products," based on the works of Olivier Matringe and

¹ The ideas and proposals in the articles presented here are those of the authors and do not necessarily reflect the opinion of UNCTAD or organizations collaborating in the event.

Leonela Santana-Boado, UNCTAD officials; Miguel Yoldi Marín, ASERCA, Mexico; Fernando Fravega, UNCTAD consultant; Juan Bautista Moya, ICAFE, Costa Rica; and Patricio Rueda, of CABEI.

Also included is a report by Pilar Fajarnes, UNCTAD official, containing the main ideas and themes discussed in the working groups. Finally, there is a compendium of conclusions and recommendations from the event.

As annexes, readers will find the work program, a list of participants and speeches by Larry M. Boone, Under Director General of IICA; Abdelaziz Mezgari, Vice-Director of the Division of International Trade at UNCTAD; and Alberto Dent Zeledón, Minister of Agriculture and Livestock of Costa Rica, all of whom spoke at the opening session of the workshop.

Once again, UNCTAD wishes to express its appreciation to IICA and CORECA for their valuable collaboration in this event, and thank speakers and participants for their important contributions toward the achievement of its objectives.

Section I

COMPLEMENTARITY AND REGIONAL COOPERATION FOR ACCESSING INTERNATIONAL MARKETS

AGRICULTURE IN OPEN TRADE AND ECONOMIC INTEGRATION: AN EVALUATION OF THE FREE TRADE AGREEMENTS¹

*Speaker: Ricardo Zapata
ECLAC, Mexico*

INTRODUCTION

After the end of century events, a different panorama of the world economy and trade has emerged in the year 2000, on the eve of the "new millennium". In order to analyze the outlook for agriculture in the current context of globalization, we must consider this subject against the backdrop of the political, organizational, technological and cultural changes taking place as we enter the new century. This paper aims to contrast these new circumstances with an integral (holistic) vision of development, and based on these considerations, reflect on the implications of the free trade agreements, whether these be multilateral in scope (world or global), regional (such as the FTAA negotiation process in our hemisphere) or bilateral (such as those signed by Mexico with one or more countries, from FTACAN to the more recent agreements with Central American countries).

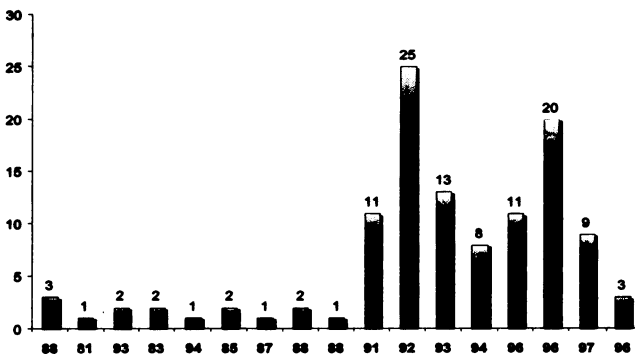
This presentation does not analyze any of these agreements in detail. The idea is simply to discuss particular elements that will enable us to draw some conclusions about their implications for the process of development in general and for agricultural and rural activities in particular.

1 Lecture by Ricardo Zapata Marti, Head of the International Trade Unit, Subregional Office of CEPAL, Mexico. Regional Workshop of UNCTAD, The agrifood sector: regional integration and international links for its development, in cooperation with IICA and CORECA-CAC, March 14-16, 2001.

THE STRUCTURE OF WORLD TRADE IN THE YEAR 2000 AND BEYOND

From the perspective of trade, the structural and technological changes taking place as part of what is termed the "globalization process" have a number of characteristics that should be highlighted and analyzed in depth, particularly by the academic communities of developing countries. Without wishing to enter into the debate on what globalization is—there are those who prefer to call it the internationalization of economic relations—or taking sides in the debate on whether globalization is a good or a bad thing, the inescapable fact is that globalization is, to a large extent, an irreversible process and that national policy decisions, as well as those of a business or sectoral nature, should seek to ensure that participation in this process is the least damaging (as advantageous) as possible. This process has led to an unprecedented proliferation of free trade agreements or formal trade arrangements. (see graph 1).

GRAPH 1
**Number of regional agreements
reported to the WTO**



Source: WTO, 1999

Source: OMC, 1999.

We should begin by recognizing that there have been some very important changes in the composition of world trade. Increasingly, we are moving from trading goods to trading services. This not only means that services and financial transactions play an increasingly important role in the trade balance of all countries. It also implies that, even in the goods traded, the incorporation of added value actually means incorporated services (processing, packing, labeling, transportation, publicity, distribution networks and promotion of consumption, etc.).

In the particular case of rural and agricultural production, the new trade structure means that the value of primary production is becoming increasingly lower in the commodity's final sale price to the consumer. One implication is that this incorporation of added value and services to agricultural products is not done in the rural milieu. In other words, the final value of these products is being "urbanized". This situation has prompted the idea set out in this document, which is to promote the creation of services associated with agricultural production in the rural milieu itself: the establishment of production chains from the farmer to the agroindustrial processor, to the marketing and distribution networks. Another aspect is to generate new services that the rural milieu can offer. Environmental services are the first example of this type of new activities (CO₂ absorption by forests, watershed protection, biodiversity conservation, etc.) for which there is increased international demand and increased prices.

In addition to changes in the structure of world trade, the forms or modalities under which trade takes place have also undergone substantial modification. This may be summarized in the statement that we are moving from real to virtual trade. It is not just the explosion of the Internet and electronic commerce (e-commerce). Even the exchange of traditional products—particularly basic commodities—is conducted on the basis of electronically controlled information and agreements. For this reason, decisions about production (even of agricultural goods) to some extent no longer depend on climatic or seasonal factors. Because distribution and consumption networks are now of global scope, pro-

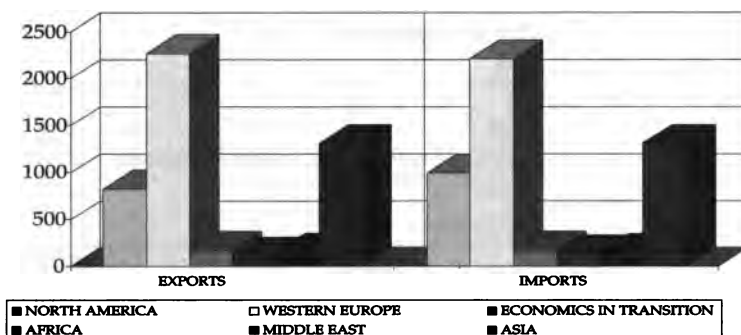
duction is simply displaced to the areas, climates or regions that offer the most advantages or competitive prices at each particular period of the year.

Although it is not as important for agricultural production as for industry, another outstanding characteristic of the "new" global trade or the "new economy" is the fragmentation and polarization of production; in other words, the final product that reaches the consumer is the sum of numerous "integrated" components, parts and inputs. The origin of each one of these components may be very different and variable (rules of origin are increasingly becoming a potential instrument of trade protection to prevent triangulation among countries that give a differentiated treatment to their trading partners), responding to efforts by global businesses to reduce costs and maximize profits by global businesses. The new relationships of subcontracting, affiliation and outlets among transnational corporations and the associated national or regional companies characterize a type of international trade that increasingly depends more on electronic media, on financial variables and not on the allocation of resources, raw materials or supplies. Accordingly, private transnational corporations and local companies establish relations of symbiosis, conflict and/or dependence.

Undoubtedly, the political and organizational changes associated with the end of east/west polarization and the ideological confrontation that dominated a most of the post-war era accelerated the globalization process. At the same time, as the post-war political divisions progressively evolved, this accelerated the formation of blocks, based on large geographical units: the so-called triad (Asia, America and Europe, see graph 2).

Another outstanding characteristic of the turn of the century is the radical change in the functions of the State. In developing countries, in particular—but not only in them—the State is no longer the dominant economic player or main agent in the processes of production, distribution and consumption, but is increasingly assuming a regulatory role. From having held a monopoly in many sectors of the economy—particularly basic services—the State has ceded its dominant role to the private sector, even in those areas

GRAPH 2
Importance of blocks in the trade
of goods, 1996



Tables 1 and graphs 3 and 4 illustrate the development of the trade in goods (imports and exports) in the main regions of the world. Table 2 illustrates the situation in the trade of services.

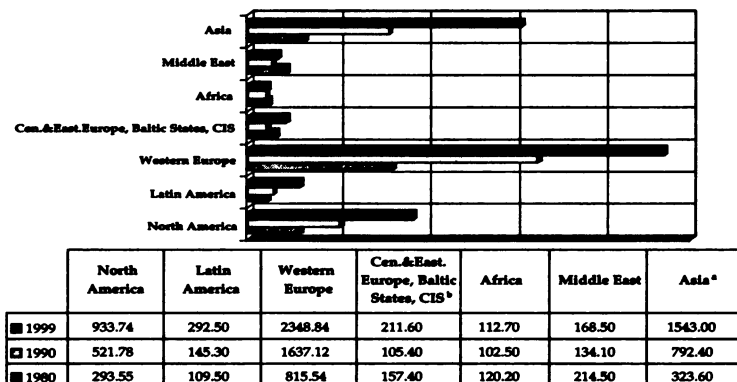
TABLE 1
Growth in the value of the world trade in goods,
by region, 1998
(billions of dollars and percentages)

Exports					Imports			
Value 1998	Annual variation				Value 1998	Annual variation		
	1990-98	1997	1998			1990-98	1997	1998
5270	6	3	-2	Entire world	5465	6	-3	-1
897	7	9	-1	North America ^a	1152	8	10	5
276	8	10	-2	Latin America	340	14	19	5
2348	5	-1	3	Western Europe	2367	4	-1	5
2181	5	-1	3	European Union (15)	2172	4	-1	5
214	6	4	-5	Central & Eastern Europe, Baltic States, CEI	242	9	6	-2
101	8	6	9	Central and Eastern Europe	132	12	6	11
113	4	2	-14	Baltic States and CEI	110	6	6	-14
107	1	2	-15	Africa	134	5	6	3
137	0	4	-22	Middle East	144	5	8	-5
1293	7	5	-6	Asia	1086	5	0	-18
388	4	2	-8	Japan	280	2	-3	-17
184	15	21	1	China	140	13	3	-2
504	8	3	-8	Six trading countries of Eastern Asia	437	6	1	-25

^a Mexico is excluded from this entire report.

Note: There are interruptions in the continuity of the figures on the countries and regions. These interruptions are indicated in A3 and A4 of the Appendix; the Technical Notes explain the most important interruptions.

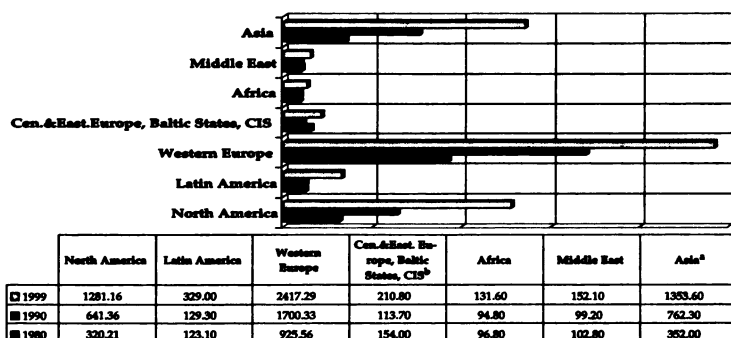
GRAPH 3
Evolution of exports by major region



^a Includes a substantial volume of re-exports.

^b Includes trade within the Baltic States and within the CIS, as of 1996.

GRAPH 4
Imports by major region



^a Includes a substantial volume of re-exports.

^b Includes trade within the Baltic States and within the CIS, as of 1996.

TABLE 2
Principal world exporters and importers of trade services, 1998
(billions of dollars and percentages)

Order	Exporters	Value	Part	Annual percentage variation	Order	Importers	Value	Part	Annual percentage variation
1	United States	240.0	18.2	2	1	United States	165.8	12.7	8
2	United Kingdom	100.5	7.6	9	2	Germany	125.0	9.6	3
3	France	84.6	6.4	5	3	Japan	110.7	8.5	-9
4	Germany	78.9	6.0	3	4	United Kingdom	78.8	6.0	11
5	Italy	66.6	5.1	0	5	France	65.4	5.0	5
6	Japan	61.8	4.7	9	6	Italy	62.9	4.8	7
7	The Netherlands	51.6	3.9	2	7	The Netherlands	46.6	3.6	4
8	Spain	48.7	3.7	12	8	Canada	35.2	2.7	-4
9	Belgium-Luxemburg	35.4	2.7	4	9	Belgium-Luxemburg	33.9	2.6	8
10	Hong Kong, China	34.2	2.6	-10	10	Austria	30.1	2.3	6
11	Austria	32.4	2.5	11	11	China	28.8	2.2	-4
12	Canada	30.3	2.3	2	12	Spain	27.5	2.1	13
13	Switzerland	27.1	2.1	6	13	Korea, Republic of	23.8	1.8	-18
14	China	24.0	1.8	-2	14	Taipei, China	23.3	1.8	3
15	Korea, Republic of	23.9	1.8	-6	15	Hong Kong, China	22.7	1.7	-2
16	Turkey	23.2	1.8	21	16	Sweden	21.8	1.7	12
17	Singapore	18.2	1.4	-40	17	Ireland	20.0	1.5	33
18	Sweden	17.9	1.4	2	18	Brazil	18.7	1.4	6
19	Taipei, China	16.6	1.3	-2	19	Singapore	17.9	1.4	-7
20	Australia	16.0	1.2	-13	20	Australia	16.8	1.3	-9
21	Denmark	14.8	1.1	6	21	Russia, Fed. of	16.1	1.2	-15
22	Norway	14.0	1.1	3	22	Switzerland	16.1	1.2	10
23	Thailand	13.1	1.0	-16	23	Denmark	15.3	1.2	12
24	Russia, Fed. of	12.9	1.0	-9	24	Norway	15.2	1.2	4
25	Mexico	11.9	0.9	6	25	India	14.2	1.1	16
26	India	11.1	0.8	24	26	Mexico	12.6	1.0	7
27	Malaysia	10.7	0.8	-28	27	Malaysia	12.4	0.9	-29
28	Greece a	9.8	0.7		28	Thailand	11.9	0.9	-31
29	Israel	9.0	0.7	8	29	Indonesia	11.6	0.9	-28
30	Ireland	8.9	0.7	-1	30	Philippines	10.1	0.8	28
31	Portugal	8.5	0.6	13	31	Israel	9.6	0.7	5
32	Egypt	7.8	0.6	-14	32	Turkey	9.4	0.7	17
33	Brazil	7.6	0.6	13	33	Saudi Arabia	8.7	0.7	-40
34	Philippines	7.5	0.6	51	34	Argentina	8.7	0.7	3
35	Czech Republic	7.3	0.6	3	35	Finland	8.0	0.6	2
36	Ireland	6.9	0.5	14	36	Ireland	7.1	0.5	25
37	Finland	6.8	0.5	-5	37	Portugal	6.7	0.5	11
38	Hungary	4.9	0.4	1	38	Egypt	5.9	0.5	1
39	South Africa	4.8	0.4	-1	39	South Africa	5.6	0.4	-7
40	Argentina	4.4	0.3	2	40	Czech Republic	5.4	0.4	2
	Total	1210.0	91.8	.		Total	1180.0	90.4	.
	World	1320.0	100.0	0		World	1305.0	100.0	1

a Estimate of the Secretariat.

Note: The figures for some countries and territories have been estimated by the Secretariat. The interruptions in the continuity of the series corresponding to a large number of economies and the limitations on comparability of the data of the different countries affects the growth rates and the positions occupied in the classification. See the Technical Notes. For statistical data on the annual values for 1988-98, see Tables A5 and A6 in the appendix.

traditionally considered to belong to the public sector in many countries (energy, telecommunications, healthcare, pension funds, even defense and security).

Meanwhile, in the other part of the equation —consumption— there has also been a process of globalization or universalization of certain consumption patterns or expectations. So-called “ethnic markets” have emerged, generating their own expansion within the cultural changes taking place in the “economic centers”, and based on differentiation in consumption. At the same time other goods and services are becoming generalized —either through the franchise system or through brand promotion— among what are really universal consumers. On the one hand, we see a growing homogeneity of expectations, of similar aspirations, and yet on the other, a positive emphasis on particular preferences of a cultural, ethnic or gender nature.

This raises a number of questions whose answers will become clear in the coming years:

Are we witnessing the emergence of a universal “culture”? Given the spread of certain expectations and standards of conduct (such as respect for individual freedom and human rights, environmental protection and gender equality, which are assuming the status of universal values) we observe the strengthened emergence of differences which in a persistent way, and in all regions (developed and developing) are becoming a source of violent internal conflicts of a religious, cultural, racial or gender nature.

Will the new forces of the international order that emerged in the nineties become consolidated? Or, expressed another way, will the institutional transformations and policies that were previously associated with efforts to preserve the balance of power to guarantee world peace within the context of the cold war be consolidated in operational terms? In this new context, where the formation of economic

blocks is the dominant trend and in which internal or regional conflicts are not controlled by superpowers, it seems that the emerging international needs are, on the one hand, to have clear, universally accepted trade regulations, that are more equitable and with credible instruments (sanctions) for their implementation, and on the other, mechanisms to prevent internal or regional conflicts from degenerating into actions likely to be condemned by the international community and that violate currently accepted values. In other words, in the transition from political blocks to economic blocks, globalization and regionalization are interwoven. Are they two sides of the same coin?

RELATIONSHIP BETWEEN DEVELOPMENT, OPEN TRADE, GLOBALIZATION AND INTEGRATION

External insertion, whether directly in world markets or through processes of regional integration, economic complementation or reciprocal free trade, is regarded as a tool for development, in other words, to raise living standards and improve economic, technological and social indicators. This statement—based on classical economic theory—sidesteps but does not deny the fact that this process is not exempt from frictions and assumes that in the transition from closed markets to open markets there will be winners and losers, both in terms of economic sectors and of social agents and economic strata.

Indeed, in the formal design of models to establish a general equilibrium, the expected increase in general wellbeing may occur in an uneven manner, this inequality being associated with pre-existing structural conditions and with the imperfections of the workings of the markets (monopolistic and monopsonic conditions, whether in the private or the public sector).

Therefore, we need to adopt an integral or “holistic” vision of development. In the systemic concept of development there are

four components, four pillars that will determine if advances in living standards are being achieved. The order in which they are listed is not an indication of their priority or of their sequence (one is not a prerequisite for the others). Rather, these four components must operate simultaneously and mutually reinforce one another.

A first condition for development is to achieve competitiveness in the cycles of production, distribution and consumption: participate in international trade with competitive prices, have domestic production costs that do not imply a high "national cost", generate efficient production and distribution processes and achieve levels of consumption that do not involve waste or misuse of resources.

An equally important condition —but not sufficient in itself— is sustainability, in both senses of the word: enduring in time (that is to say, the growth of economic variables is not exhausted or conditioned by external conditions such as excessive dependence on external investment due to insufficient domestic savings and investment), and sustainable in the sense that it does not exhaust, degrade or pollute natural resources and reserves of non-renewable assets. Sustainability is also defined as a vision of resources and their dynamism based on trans-generational environmental conservation.

A third component of an integral vision of development is governability. This is undoubtedly a multidimensional concept, since it has obvious political implications and relates to social participation and the legitimization of the government by citizens. Another implication is that the policies followed (economic, social, environmental, etc.) must be viable. In other words, in addition to their being validated through a process of social consensus in the country, they must also be technically correct and their application should not create imbalances or lead to a crisis.

The fourth element, which like the others is necessary, but is not sufficient on its own, is vulnerability, or the need to deal with

risks in the face of external shocks to the economic situation. These are generally associated with external crises, in the balance of payments, in the price of exports or the flight of capital (as seen in recent years). But there is another aspect associated with fragility or exposure to natural disasters, which have devastating or catastrophic consequences. Recent natural events such as hurricanes, floods and earthquakes etc., which have caused massive destruction in parts of Latin America and other regions of the planet—whether associated with the phenomenon of global climate change or not—are having a devastating and growing economic impact, and must therefore be included in planning development strategies. In short, efforts to counteract this vulnerability should be expressed in measures or policies to reduce and minimize it. Insurance systems, the establishment of compensatory financial mechanisms, emergency funds and/or stabilization funds are some of the possible options.

INTEGRATION AND GLOBALIZATION: DIFFERENCES AND CONVERGENCES

Let us begin by defining what we mean by globalization, in contrast to integration. As mentioned earlier, the first term is associated with technological change, the fragmentation/internationalization of processes: changes in the patterns of production, sale, distribution, marketing and consumption. It is also associated with the growing incorporation of services in the buying and selling of goods: the growing “inviability” of the processes.

Integration is conceived as a shared strategy among the economic agents of different countries to give added value to exports through industrialization and technological change. The idea is to find ways of expanding the domestic market to make it viable on an industrial scale, expand purchasing capacity (implicitly enhancing demand) and expanding production capacity through the vertical/horizontal integration of processes. The objectives of working towards the coordination, standardization and homoge-

nization of policies, are to meet adjustment and transaction costs. This has internal and external implications.

Internally, it is conceived as a necessary condition (though not sufficient in itself) to re-establish macroeconomic balances and comply with the conditions set by official multilateral financial institutions.

Regionally, it is seen as a way of consolidating and expanding the subregional integration process, making it more viable (and perhaps less costly) to comply with agreed financial obligations (GATT/WTO).

Thus, in the realm of multilateral negotiations (whether in a new international round in the future, or in the course of the so-called "implicit agenda" emanating from the Uruguay Round) and in lower level discussions (regional, subregional, bilateral) efforts are made to minimize the costs of transition to open trade. The negative effects are well known: in the fiscal area (possible loss of tariff revenues), in the sectoral sphere - differentiated effects on agriculture and industry, for example, or in the "losers" and "winners" in different subsectors within these sectors, according to how far they are oriented towards (previously protected) internal markets or towards exports (associated with transnational conglomerates). There are also effects on jobs, sometimes making these unproductive, which implies an urgent need for re-training and the consolidation of social integration and educational aspects.

With free trade and integration, obsolescence (industrial, of capital goods, businesses and processes) becomes more rapidly apparent. However, if we consider the European Union's experience, for example, this can be overcome through the consolidation of scientific and technical cooperation.

Other important elements include crucial access to financial resources and the capacity to attract foreign investment to complement domestic savings. Certainly, in the global context, a central issue is the competition to attract investors and non-discrimination

between internal and external investors. The integration processes contemplate a possible preference for or attraction of domestic savers. This undoubtedly affects the costs of investment capital and leads to the adoption of policies that consolidate the harmonization of financial and banking practices. It is important here to avoid generating spurious elements of competition that could unleash "incentives wars" with ruinous consequences. But —conversely— it must be recognized that when there are elements that discriminate in favor of local investors, the (internal/external) preferences must necessarily be eliminated. Once again, it is important to recognize the advantages of building consensus on negotiating positions, even adopting commonly agreed regulatory aspects, to help to reduce the costs of transition.

The reduction of transaction costs also covers issues related to global markets: the establishment of regulations, institutions, legal mechanisms, systems of arbitration, monitoring and sanctions, simultaneously provides certainty and permanence to the policies adopted and eliminate distortions associated with a lack of competition.

SOME IMPORTANT ELEMENTS OF DEVELOPMENT AND FREE TRADE

We must begin from the premise that the concept of free trade is just that —a concept. In everyday international practice, what really operates is a worldwide system of managed trade, in the sense that for many years now (since 1949 with the signing of the General Agreement on Tariffs and Trade, GATT, and the successive rounds of trade negotiations up to the Uruguay Round and the implantation of the World Trade Organization in 1994) we have been negotiating standards, regulations and procedures acceptable to the majority of countries, with respect to the conduct of international trade transactions.

*ECLAC's proposals on integration,
globalization and regionalism*

These are summarized in the historical development of its thought:

- 1949-1960** The theory of dependence: the deterioration in the terms of exchange and the vicious circle of exports concentrated on raw materials and goods with little added value.
- 1960-1975** Towards a new strategy of regional integration: industrialization driven by the expansion of the markets (increased demand) 1975-1985. Proposals for a strategy to overcome the crisis: strengthen regional cooperation.
- 1985-1995** Resume the path of growth and development: in search of a new integration
- 1995-2000** Transformation of production and social equity: in search of an open regionalism: integrated and systemic focus
- 2000-** Proposals on the multidimensional nature of development and equity and the necessary citizen participation. An area of great importance for generating social consensus on policies that affect economic development and equity is the need for a fiscal pact (rights of contributors with respect to transparency and monitoring of the use and assignation of resources and tax obligations to guarantee the necessary levels of revenue collection to fulfill socially accepted functions). In a development of this systemic vision, globalization is aimed at regulating elements of the process of structural change and the "new generations" of reforms that States must undertake, beyond the macroeconomic adjustments implemented until now.

The fact that this is an unfinished process is demonstrated by the fact that the negotiations continue and that there is still debate with regard to the benefits of such negotiations. Certainly, unfair trading practices and monopolistic practices persist. There are arguments over the unequal conditions of competitiveness —among economic agents and among countries— and assertions that free competition implies a proper functioning of the markets, in conditions that are comprehensively documented in the literature, with continued imperfections, disparities and fragmentation of the markets.

Problems of triangulation and diversion of trade persist or are even worse in commercial relations. The multiplicity of partial subregional and regional agreements, with differentiated treatments that generate relative prices and varying conditions of competitiveness that are sometimes not adjusted to real costs, may be contributing to this in the short term and to a more static vision of trade. Certainly, in a dynamic vision it could be argued that we are progressing in generating trade —notwithstanding major trade diversions— since these increase the volume of transactions and open up new opportunities.

In any case, the traditional trade protection instruments have changed both quantitatively and qualitatively. On the one hand, we see an ongoing reduction of nominal tariffs as a result of successive rounds of negotiations, which have led to the consolidation of lower tariff levels and have expanded the scope of liberalization. On the other hand, the non-tariff measures that constitute effective barriers —and whose effects accumulate in the treatment given to capital components and intermediate inputs, and affect the final and effective protection of any commodity or service— have had an uneven development, depending on whether these are industrial products, agricultural commodities, textiles and clothing products or services of all types.

In the case of goods —particularly agricultural commodities— efforts have been made to quantify and place tariff and non-tariff barriers on an equal footing through a process of tariffication. The idea is to have an initial starting point for the negotiation of tariff reduction measures.

In the case of services, "intangible" protection is achieved through regulations, administrative dispositions, discriminatory treatment of external suppliers or consumers, etc., which constitute barriers that are not easily quantifiable. Given the numerous different modalities and practices in the provision and reception of services, barriers or limitations to open trade are many and difficult to determine.

At the same time, openness and increased liberalization of trade does not immediately translate into development. There is no automatic correlation between growth and open trade. There is statistical evidence, however, that an expansion of trade or, more specifically, of a country's exports, may not necessarily be associated, or correlated, with increased wellbeing or growth, as measured in the major macroeconomic variables. Additional efforts, such as internal savings are required to complement external investment in production. We also need aggressive social policies that integrate the goals of transforming production with improvements in the quality of the labor force. Competitiveness here must be based on offering greater added value, not just lower costs (low salaries, as in the case of the assembly line workers).

It is also important to note that external insertion is accompanied by simultaneous processes involving different degrees of emphasis and by different actors: on the one hand, there are the formal processes (intergovernmental) of negotiation and agreement that culminate in binding commitments, in policy measures (internal and external) and in dispositions and regulations that are supervised by Governments. On the other hand, there are real or practical processes that define trade, business, social and cultural links among the economic actors, private business, civil society, academic groups, etc. and that can precede and give meaning to the need for Governments to make commitments through binding agreements and in negotiation processes.

These are not necessarily alternative or opposing options. What is important to note is that they have differentiated consequences and that—in many cases—the signing of free trade agree-

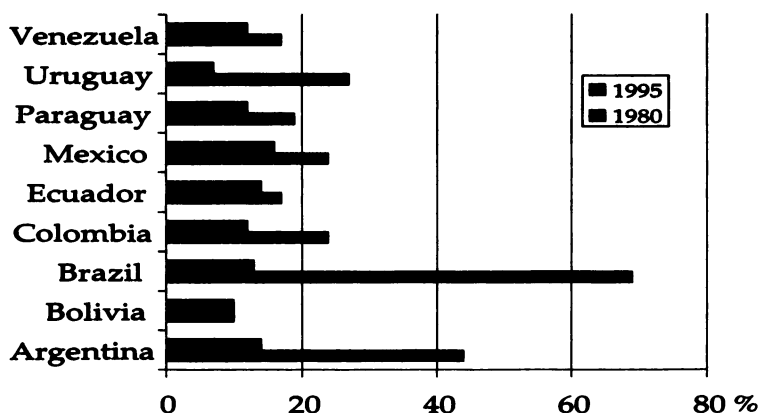
ments does not necessarily result in increased commercial relations in practice. This has been, in good measure, the context of the negotiations in Latin America and the Caribbean. While regional trade agreements offer preferential treatment to their members, with the exception of a very few (NAFTA or MERCOSUR), the level of exchange between signatories is of little consequence or of little relative weight.

THE CONTENTS OF TRADE NEGOTIATIONS IN THE 21ST CENTURY

In the wake of the multilateral rounds of negotiations, the advances in the regional systems and the reciprocal bilateral or multilateral free trade agreements, there have been major advances in the liberalization of the trade flows. The trans-border movement of goods and services is increasingly free.

Successive tariff cuts on goods and an increasing number of goods subject to the disciplines of open trade means that —except in some cases of tariff “peaks” and specific goods subject to very

GRAPH 5
Evolution of tariff reductions



high tariffs, the costs of protection do not exceed 3 to 8% of the price of a given item. In most countries, the "average" nominal tariffs now tend to be in ranges below two digits. Graph 5 shows the evolution of tariff levels in some Latin American countries.

With regard to services, although the amounts and extent of the barriers are not fully known or quantified (even in developed countries), technological developments, the uncontrollable advance of the Internet and e-commerce are certainly making many governmental attempts to regulate and control services irrelevant. Put differently, the negotiations on the liberalization of trade flows are increasingly irrelevant.

At the same time, the protection of assets is becoming an important element of the negotiations, one that is being very strongly promoted by civil society. The preservation of patrimony in its different forms is an aspect that will be critical in the inter-governmental trade negotiations of the future. The assets that have acquired great importance in the negotiations are:

Environmental. The conservation of endangered species, the intergenerational conservation of natural resources, the non-contamination of vital resources, the sustainable use of resources, the protection of biodiversity, efforts to tackle phenomena associated with global climate change are all seen as positive values that should be promoted through sanctions and incentives, as a counterpart of economic and commercial instruments.

Intellectual. The preservation of intellectual property rights has a long history, dating back to agreements and conventions covered by the World Intellectual Property Organization (WIPO) in the international sphere. In the area of trade, these rights were consolidated in the Uruguay Round of trade negotiations, with the adoption of the agreement on "TRIPS" (Trade-Related Intellectual Property Rights) or intellectual property rights related to trade. The adoption of national legislations comparable to international "stan-

dards" is becoming an almost inescapable requirement to attract external investments that are vital to development, without giving an equal degree of protection to the patrimony derived from biodiversity.

Cultural. The preservation of cultural diversity, of the indigenous or native cultures, the necessary protection of cultural heritage, has emerged as an important element additional to the purely economic criteria of competition and efficiency. But the preservation of cultural heritage goes further: it includes the protection of human rights, of uses and customs, and of historical, anthropological, archaeological, ethnographic heritage, etc; and even the principles of democracy (where nobody is excluded by reason of gender, race, religion or culture) as the essence of non-discrimination, transparency in government and efforts to combat administrative corruption are perceived as a form of patrimony (cultural or political) that not only needs to be conserved but also promoted.

Social and labor issues. Given the enormous disparities in incomes and working conditions between developed and developing countries, establishing "comparable labor" relations has become a major aspect of the negotiation and definition of homogeneous conditions of competitiveness. Thus, certain trade union rights (the right to establish unions, the right to strike), the regulation of child labor and the sale of goods produced by prisoners, are now included in negotiations to establish international "standards". These "standards refer to social indicators and human development: the reduction of economic and social disparities, demographic control, improvements in health and disease control, citizen security and efforts to combat violence and controlling the use and trafficking of drugs: the dimension social of sustainable development

Investments. Although the signing of an international agreement on investment has been very conflictive (due to differences among the industrialized countries themselves) already in the Uruguay Round the issue acquired legitimacy during discussion

on the framework for TRIMS (or "Trade Related Investment Measures) protection measures for trade related investment. The issue extends to the protection of the capital, property, remittances, profits and utilities of a foreigner in any country. These are already contemplated not only in the bilateral accords to protect investments and in the accords to avoid double taxation, but have also been included in the chapters on investments in free trade agreements. The most significant example is certainly the NAFTA/FTAA. At the same time, international financial stability and the need for prudential practices in banking and financial systems have emerged as a priority after the recent crises, particular those in Asia.

The above implies that our concerns go beyond borders: conditions of competition (non-discrimination or exclusion), facilitation of business activities (basically the adoption of equitable customs and mercantile practices that are transparent and verifiable), the adoption of "best practices" in administration, accounting, etc. become matters for intergovernmental negotiation and regulation. Although these may be based on principles to promote free competition and the absence of monopolistic practices, they have a qualitatively different dimension.

Nowadays, concerns also extend beyond the products themselves (and their differentiated treatment), focusing on the processes of production, distribution and consumption. If a production process causes pollution or contributes to the depletion of non-renewable natural resources, sanctions could be applied or limitations imposed on its trade (tariffs, taxes, non-tariff barriers, trade bans, etc.). Similarly, if goods are produced by child labor their trade can also be banned, etc.

In this regard, there are clearly different views among countries and the dividing lines not only occur among developed and developing countries. The "Cairns Group", a group of countries that includes major producers of grains and agricultural products,

represents this types of coalition, in this case confronting the protectionist agricultural policies of the "Triad", but including developing, emergent and developed countries.

In fact, in the context of the globalization/regionalization processes, there are sporadic advances and strategic alliances among countries of different regions and levels of development or production structures and policies, as well as among groups of producers, buyers, entrepreneurs, non-governmental organizations (NGOs), etc. In the present context, although governments undertake the negotiations, the contents and even the forms of negotiation are influenced by civil society. One example of this is evident in the context of negotiations on a future hemispheric free trade area in the American continent: a civil society consultation group has been established.

Similarly, the regional economic integration process have changed both in context—these now include social, political (such as the democracy clause in MERCOSUR) and environmental elements—as well as in purpose. In Latin America, particularly in the sixties, when these processes began, integration was visualized towards the inside (expanding domestic demand to allow for competitive industrialization on an appropriate scale). At present, inspired by the open regionalist processes in Asia, the notion of integration has shifted towards the outside—the expansion of the internal supply market to be competitive in the global markets—or, perhaps more appropriately for Latin America and the Caribbean—integration from within. This approach means taking advantage of the strengths of the processes of industrialization and partial modernization achieved during the post-war decades to achieve the integration of production, distribution and consumption in the transnational processes

Clearly, there is still debate and conflict over the supposed contradictions between the "expansion" of regional and subregional systems (to include new partners, such as the current debate in Europe with respect to how to integrate the emerging economies

of Eastern Europe, previously associated with the Soviet Union) and "consolidation" (adoption of new instruments such as the single currency, monetary integration) to confront the effects of globalization in the different spheres.

THE SITUATION OF AGRICULTURE IN THE GLOBALIZATION PROCESS, OPEN TRADE AND INTEGRATION

Agriculture is increasingly being incorporated into the various trade disciplines, something reflected in recent agreements (signed during the nineties) that could be synthesized in the following aspects:

- Comprehensive cover of products/services subject to liberalization (lists negative vs. positive),
- Comprehensive tariff reductions
- Incorporation of "new" topics (services, investment, intellectual property),
- More attention to rules of origin

Below is a brief review of the state of the negotiations in two arenas: in the WTO and in the FTAA process.

AGRICULTURE IN THE WTO

The treatment of protection (and its successive reduction) in agricultural products is summarized in three types of measure under negotiation:

- Tariffication of non-tariff barriers to define a starting point for tariff reduction,
- Definition of acceptable or permitted policies (green box), those subject to conditional application (amber) and prohibited policies that must be progressively eliminated (red).

- Definition of internal support measures and existing export subsidies to negotiate their progressive reduction until their elimination.

Given that this was a first step in the multilateral context, the Uruguay Round accords established some goals for the subsequent progress of the negotiating process. These contemplated special and differentiated treatment for developing countries, special considerations for net food importers highly dependent on those imports to satisfy their needs, and a schedule of negotiations beginning in the year 2000.

In the WTO² rapid agreement was reached on the "first stage" of these new negotiations. At the first meeting, held March 23-24 of 2000, those in charge of the WTO negotiations on agriculture quickly agreed on the schedule for the first stage of the talks.

Members of the WTO agreed to submit proposals on the objectives of the negotiations before the end of the year. A margin of flexibility was allowed for the presentation of new or more detailed proposals at the beginning of 2001, so that governments would sufficient time to examine and evaluate them at the meeting in March 2001.

The delegates also agreed to carry out technical studies on protection and subsidies in the agriculture sector in the context of article 20 of the Agreement on Agriculture (see below), and hold discussion meetings in June, September and November of 2000, plus another possible meeting in January 2001.

The new negotiations on agriculture were scheduled to begin this year, according to an agreement reached at the end of the multilateral

2 PRESS/172, 27 March, 2000. Organisation Mondiale du Commerce, rue de Lausanne 154, CH-1211 Genève 21, Suisse.

trade negotiations of the Uruguay Round in 1986-1994. This is established in article 20 of the WTO Agreement on Agriculture, which forms part of the Uruguay Round Accords.

The decision reached on March 24 refers to the "first stage" of the negotiations and consists of three parts (see the text included below):

Technical studies: countries need information on what is happening in agriculture and the effects of present efforts to reduce subsidies and protection measures, in order to be able to discuss the next stage, as required also by article 20 of the Agreement on Agriculture. The Secretariat, which has been assigned a series of tasks for the next meeting, will gather all the factual information.

Date for the reception of proposals: countries may present their proposals from now until the end of December, with a certain margin of flexibility for those that cannot submit them in time or that wish to make additions. The Committee will evaluate the proposals in March of 2001, so these should be submitted in good time to allow Members to examine all the proposals before the meeting.

Schedule of the meetings: in the first stage, meetings will be held in June, September and November of 2000, and in March of 2001. These will be "extraordinary meetings" of the Agriculture Committee, and will take place immediately before or after the ordinary meetings of the Committee. There is a possibility of organizing an additional meeting in January of 2001.

No date has been set for the conclusion of the negotiations. Countries have explained, in general terms, their positions on agriculture, echoing to a large extent what was said prior to Seattle (see also the background document prepared for the Ministerial Conference).

Several members of the Cairns Group (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Philippines, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, South Africa, Thailand and Uruguay) emphasized that they consider the negotiations on agriculture to be "autonomous", since they obtained a commitment to resume the negotiations in exchange for modest reforms agreed at the Uruguay Round. The European countries, Japan, the Korean Republic and other countries said that to reach an agreement in the negotiations on agriculture would need a global round that would cover a broad range of issues. The countries of Eastern and Central Europe said that the negotiations should also discuss the special problems faced by countries in transition and the how to reach agreements on national subsidies (at current prices) when countries experience high inflation rates. Many of the developing countries (including some members of the Cairns Group) said they considered it a priority to address the special problems facing developing countries and net food importers.

Recognizing that to achieve the long-term objective of introducing substantive and progressive reductions in support and protection mechanisms that will translate into a fundamental reform is a continuous process, the Members agree that the negotiations to pursue this process should begin one year prior to the end of the period of application, bearing in mind: the experience acquired to date in the application of the reduction agreements; the effects of tariff reduction commitments in world trade on the agriculture sector; non-commercial concerns, special and differentiated treatment for developing countries Members and the objective to establish a system of equitable, market-oriented trade, as well as the rest of the objectives and concerns mentioned in the preamble of the present agreement; and that new commitments are necessary to achieve the above-mentioned long-term objectives.

THE SITUATION IN THE FTAA: THE NEGOTIATING GROUP ON AGRICULTURE (NGAG)

In accordance with the format agreed by the 34 countries that have embarked upon this process (culminating in the year 2005, in line with the proposal of the Presidential Summit of Miami which began the process) the Negotiation Group on Agriculture will be in charge of negotiations on tariff and non-tariff measures that affect agricultural products, subsidies on agricultural exports and other practices that affect the trade of agricultural products in the Hemisphere, and sanitary and phytosanitary measures.

Negotiation and consultation groups in the FTAA

- | | |
|--|-----------------------------|
| • Access to markets | • Governmental purchases |
| • Agriculture | • Conflict resolution |
| • Services | • Small economies |
| • Intellectual property | • E-commerce |
| • Investments | • Civil society |
| • Subsidies, antidumping and compensation rights | • Trade negotiations |
| • Competition policies | • Administration and budget |
| | • Facilitation of business |

In the specific case of the Negotiation Group on Agriculture, members agreed to:

1. Define, in line with the objectives established for Access to Markets, the scope, methodology and schedule of negotiations for the progressive elimination of tariff and non-tariff restrictions, as well as other measures with equivalent effects that restrict the trade of agricultural products;

2. Define the scope, methodology and schedule of negotiations on the elimination of subsidies on exports that affect the exchange of agricultural products in the Hemisphere;
3. Identify and prepare an inventory of other measures and practices that distort the trade of agricultural products in the Hemisphere, including those with an effect equivalent to subsidies on agricultural exports;
4. Define the scope, methodology and schedule of the negotiations aimed at imposing greater discipline on the measures and practices identified;
5. In line with the definitions of Sanitary and Phytosanitary Measures (SPM) of the WTO, and bearing in mind the substantive areas previously identified by the SPM Working Group, define the methodology and schedule of the negotiations to guarantee that the sanitary and phytosanitary measures applied in the hemisphere are congruent with the principles and obligations established by virtue of the SPM Agreement of the WTO, and that these do not constitute a form of arbitrary or unjustified discrimination among countries or a hidden restriction on international trade;
6. Identify the measures that need to be negotiated in order to facilitate trade, as established in the SPM Agreement of the WTO;
7. Work with Negotiation Group on Access to Markets to guarantee an appropriate framework to establish appropriate links and achieve consistency in the work of both groups;
8. Define modalities for incorporating the progress made in the multilateral negotiations on Agriculture that are taking place in accordance with Article 20 of the Agreement on Agriculture of the WTO, as well as the results of the review of the SPM Agreement of the WTO".

With respect to special and differentiated treatment for small and/or developing economies, some delegations noted that in the Declaration of San Jose, Ministers agreed that the rights and obligations of the FTAA will be shared by all countries and the necessary measures can be adopted to facilitate the adjustment of the smallest economies and the full participation of all member countries of the FTAA. According to some delegates, the mandate means that we should not make sweeping and categorical assumptions on the granting of special and differentiated treatment for the smallest countries and/or those in development. In this respect, other delegations said that, from their point of view, the mandate given by Ministers to countries in the Declaration of San Jose, with respect to taking into account the different levels of development as well as the size of the economies, does not limit the applicability of said mandate. They note that the guidelines included in the San Jose Declaration are indicative, rather than exhaustive, and should therefore not be considered to limit the scope and content of mechanisms aimed at facilitating the adjustment of the region's small economies and the full participation of all the countries in the FTAA.

IMPLICATIONS OF OPEN TRADE FOR AGRICULTURE

Finally, to conclude, we note some of the aspects of the trade negotiations that have special implications for agriculture. The meaning (positive, negative or neutral) of such implications cannot be predetermined or prejudged. The specific content of the negotiations and the sectoral structures of each country may lead to winning or losing situations. In defining the areas likely to be of greatest impact, we seek to define the lines of research to be followed, both in preparation for the negotiations and for the subsequent evaluation of the agreements signed. For this reason, we simply state them:

- **Implications for the development of production in agriculture**
- **Changes in rural activities**
- **Control and sovereignty over natural resources and biodiversity**
- **Intersectoral production linkages and international (transnational) production linkages in the globalization process.**

In a more "micro" sense, the above will translate into very concrete implications for the distribution of the costs and benefits between "winning" and "losing" activities, with far-reaching consequences for the incomes and living standards of a significant portion of the countries' population —particularly the rural populations. Therefore, we must also consider what types of social or sectoral policies will be permitted to neutralize or minimize the negative effects.

LINKS ABROAD: THE EXPERIENCE OF PROCOMER IN COSTA RICA

*Speaker: Irving Soto
PROCOMER, Costa Rica*

INTRODUCTION

The Costa Rican Foreign Trade Corporation, though not a State agency, is the official public institution responsible for the promotion of national exports. Its mission is to promote successful insertion of exporting companies into the international market in keeping with national trade policy, through world class services on behalf of the development of Costa Rica.

To carry out this mission, PROCOMER actions take place in three major areas:

- International marketing
- Trade intelligence
- Export development and logistics

Today we will be focussing on the department of international marketing, which develops the main export promotion activities to foment the establishment of trade ties.

First, I will briefly mention the most important of these activities and then concentrate on the program called "Creating Exporters to Canada", and participation in the SIAL fair, held March 4-6, in Montreal.

EXPORT PROMOTION

- **International Fairs**

Through PROCOMER, the Costa Rican export sector is present in major international fairs around the world, displaying exportable goods and services, researching and analyzing the competition and generating business contacts.

During 2000, 63 companies participated in 11 international fairs, showing their products to markets in Panama, Mexico, the U.S., Puerto Rico, Germany, Italy, France and Japan. More than 30% of the companies reported having made exports thanks to contacts from international fairs.

- **Expo Tasting**

Forty-eight companies participated in this new category of event that combines the display and tasting of Costa Rican products in supermarkets or shopping plazas, in the Dominican Republic, Mexico and Chile. This activity constitutes a true market test allowing business people to see how their products move and response in the market visited.

- **Trade Missions by Exporters**

In order to generate business contacts, PROCOMER organized visits by 25 Costa Rican exporters to Mexico, Chile, the Dominican Republic and Puerto Rico. Thanks to the agendas PROCOMER had set up before their arrival, 20% of the companies involved in these missions have carried out exports, and negotiations are at an advanced stage for others.

- **Buyers Mission**

At the end of November 2000, a mission was organized bringing together 35 buyers from Chile, Mexico and the Dominican Republic and 129 Costa Rican exporters. More than 400 business

meetings took place, and are beginning to bear fruit in terms of exports.

- **MarketplaceCostaRica.com**

This is an Internet site that displays and promotes Costa Rican exports. This program makes use of the many advantages Internet offers in terms of display and access, allowing Costa Rican businesses to exhibit their products and even receive requests for quotes.

- **Showcases**

PROCOMER maintains three showcases in the passenger boarding areas of the Juan Santamaría International Airport, offering 27 companies an opportunity to display their export products for a four-month period as a means of strengthening their image and generating contacts. Each showcase has a touch-sensitive screen allowing users to request more information about the participating companies, and a brochure indicating how potential buyers can contact a particular exporter.

- **Creating Exporters**

Through the Creating Exporters program, Costa Rica is small- and medium-scale producers can receive training about export, obtain information about markets of interest, and participate in an international trade activity. The objective is to improve the business development of the Costa Rican productive sector and permit greater insertion of small- and medium-scale businesses in the global economy. During 2000, participation included 80 companies in the following sectors:

- Food industry
- Metalworking
- Agriculture

- Forestry
- Crafts

Also participating and collaborating were the respective business chambers representing each of these sectors.

In addition, a component called Creating Exporters to Canada, was developed, in which PROCOMER received collaboration from the Inter-American Institute for Cooperation on Agriculture (IICA), the Costa Rica Chamber of Exporters (CADEXCO), the Costa Rica Food Industry Chamber (CACIA), the National Council on Production (CNP) and CENECOOP.

- **Integrated System of Companies**

As a second phase of the Creating Exporters program, the Integrated Companies System was developed to form consortia for export promotion purposes, comprised of companies whose smaller size prevents them from competing by themselves at the international level. Uniting in this way offers an interesting alternative for reducing costs.

CREATING EXPORTERS TO CANADA

The first version of this program was developed during 2000 within the framework of the Free Trade Treaty between Costa Rica and Canada, as an instrument that would allow the Costa Rican export sector to take better advantage of the treaty's benefits.

The purpose of this program is to foment business development and increase the presence of Costa Rican companies in the Canadian market.

To achieve this objective, PROCOMER formed an inter-institutional committee with the Inter-American Institute for Cooperation on Agriculture (IICA), the Costa Rican Chamber of

Exporters (CADEXCO), the Costa Rican Food Industry Chamber (CACIA), the National Council on Production (CNP) and CENECOOP.

The program consisted of three stages:

Stage 1: Training

Eight training modules carried out through a series of one-day workshops, providing information on such topics of importance as the export plan, market assessment, forms of payment, trade negotiation and the special characteristics of the Canadian market

Stage 2: Validation in the market

To determine the acceptance of Costa Rican products in the Canadian market and any adaptations that might be necessary to meet existing regulations and the tastes and preferences of potential buyers. This stage was implemented by a Canadian specialist contracted by PROCOMER.

Stage 3: On-site marketing

The training and validation effort culminated with the participation of 13 companies in the SIAL international fair in Montreal, March 4-6, 2001.

- **SIAL Fair, Montreal**

Under PROCOMER coordination, companies involved in the Creating Exporters to Canada program had the opportunity to participate in the Montreal SIAL Fair, held March 4-6, 2001.

During these three days the Costa Rican companies shared experiences with 850 Canadian and international exhibitors, visited by a total of 12,000 persons interested in their products. Costa Rica set up a 120-square meter stand, where national companies held

more than 200 business meetings and had the opportunity to examine competitors' products and study trends in labeling, packing, quality and other areas. Four of the companies are currently exporting to Canada as a result of the fair.

Participating in SIAL Montreal represented a great opportunity for these companies to experience negotiating in a market that was unknown to them a few months ago. Their involvement in the Creating Exporters program has now opened doors to a great number of trade opportunities.

SANITARY, PHYTOSANITARY AND FOOD SAFETY STANDARDS¹

*Speaker: Erick Bolaños
IICA*

BACKGROUND

Most countries, lending institutions, and international cooperation agencies have traditionally sought to strengthen sanitary and phytosanitary systems. In addition, in order to foster comprehensive development in the agri-food sector, food safety was recently included among their priorities.

Projects to modernize the Sanitary, Phytosanitary and Food Safety Systems (SPFSS), however, have tended to be characterized by poor articulation among their elements, due to a lack of assessments and to an imbalance in the attention given to the regulatory, technological and institutional aspects. This has produced a fragmentation of the SPFSS and given rise to difficulties for identifying and prioritizing their needs.

In a document describing its strategy for agri-food development in Latin America and the Caribbean², the Inter-American Development Bank (IDB) acknowledges that during the past 15 years, adjustments implemented in the different fields of develop-

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- 1 Document presented to the Committee on Sanitary and Phytosanitary Measures (CSPM) of the World Trade Organization (WTO).
 - 2 Echeverría, Rubén. 2000. Estrategia para el desarrollo agroalimentario de América Latina y el Caribe. Policies and Strategies Series of the Department for Sustainable Development. Inter-American Development (IDB).

ment have produced uncertain results. It can be deduced, then, that the results of investments made during this period to upgrade sanitary and phytosanitary systems were also limited.

During the 1961-1998 period, the IDB disbursed a little more than US\$16 billion (constant) on funding for agricultural projects. Of this, only 3% was used for agricultural health projects, revealing the little importance accorded by the countries to investment projects in this subject area.

Discussions on the subject of technical cooperation have taken place in the different forums of the World Trade Organization (WTO) and other international organizations. Representatives of developed countries have expressed their concern over the low impact of the cooperation provided by themselves and by cooperation agencies on the advancement of developing and less developed countries. In addition, and despite the large amount of funds and actions executed to date, developing countries continue to call for more cooperation and for better implementation of the concept of technical cooperation. This shows that cooperation actions have not fully adjusted to the new functions of the SPFSS, nor have they always produced the expected impact or results.

NEW STRATEGY NEEDED

To begin with, new strategies need to be implemented in order to maximize the use of resources and change the traditional belief that isolated or relatively unplanned disease-control efforts, investments in technology, or quarantine measures can modernize the SPFSS.

Efforts to strengthen the bases of the SPFSS will depend on the priorities of each country, but public-private sector articulation

must be the first aspect addressed in any modernization process. Such articulation can be understood as the existence of formal or informal mechanisms for inter-sectoral communication that facilitate dialogue, analysis and the prioritization of needs among different stakeholders. This requires transparency, institutional commitment, organized structures and/or permanent mechanisms for communication.

The first framework that should be strengthened is the institutional framework, in order to upgrade the country's official representation, the technical independence of its institutions, and the processes that ensure the sustainability of sanitary and phytosanitary systems.

The second is the regulatory framework, in order to harmonize national legislation with international standards and to establish the rights and obligations of stakeholders.

Last, but not least, is the technological framework, which is the tool that will increase the efficiency of the stakeholders and the processes identified earlier.

Table 1 lists the variables that make up the aforementioned frameworks and that must be taken into account when establishing technical cooperation or investment programs to upgrade SPFSS. Many countries have made considerable progress in some of these areas; others have significant gaps, indicating, in part, the need for more effective mechanisms for identifying and prioritizing needs, and for conducting monitoring and evaluation.

Like any other tool supporting SPFSS, technical cooperation must be an integral part of any modernization model. Once the stakeholders have defined the model, the technical cooperation they request must take into account the stages of diagnosis, prioritization, implementation, monitoring and evaluation.

TABLE 1
Variables to be taken into account when implementing technical cooperation processes

Regulatory framework	Institutional framework	Technological framework
<ul style="list-style-type: none"> -Laws -Standards -Regulations <p>Relative to plant protection animal health, food safety and the safety of agricultural inputs</p>	<ul style="list-style-type: none"> -Responsiveness -Financial sustainability -Technical independence -Official representation (WTO,OIE,IPPC,CODEX) -Certification -Accreditation -Traceability -Technical sustainability (education, training, compensation) -Research -Public communication 	<ul style="list-style-type: none"> -Diagnostic capability -Surveillance -Quarantine -Risk analysis -Emerging issues -Regionalization -Information systems -Input records -Health campaigns -Risk factor campaigns (HACCP, GAP)

Public-private sector articulation is necessary for achieving a balance and for fostering an effective development of the different frameworks comprising the SPSS. It will determine the degree of effectiveness and the speed at which necessary changes take place.

CONCLUSIONS

Technical cooperation is a tool that can help countries modernize their SPSS; it can also upgrade the countries' capabilities to effectively implement the WTO Agreement on Sanitary and Phytosanitary Measures. However, a change in methodology is necessary in this technical cooperation to incorporate inter-sectoral articulation.

The private sector has probably been the stakeholder most overlooked in modernization processes, despite the fact that most sanitary or phytosanitary rules are implemented in that sector. Thus, mechanisms of articulation should ensure that the private sector participates actively in the stages of diagnosis, identification, prioritization and evaluation of technical cooperation.

Stakeholders in the SPFSS must become aware that the effectiveness of technical cooperation does not lie in being granted longer periods for complying with sanitary or phytosanitary regulations, and that financial resources are not a sufficient condition for effectively implementing said cooperation.

As in the case of any other component of the agri-food system, sanitary systems respond more efficiently to long-term planning policies. Accordingly, a comprehensive modernization model must be adopted, one that addresses animal health, plant protection and food safety, as well as the issues of the institutional, regulatory and technological frameworks.

Actions to modernize SPFSS should be characterized by a balanced and gradual process of implementation. In striving for balance, initial efforts should work to strengthen the frameworks (regulatory, institutional or technological) that have the greatest need. The process should be implemented gradually so that efforts can adjust to the real availability of resources, both in requesting countries and in countries offering the technical cooperation.

Human leadership and institutional strengthening are basic requirements for effectively developing technical cooperation programs on agricultural health, plant protection and food safety. They are, then, two fields that are opening up as new niches for cooperation in this area.

TECHNICAL COOPERATION: THE STATE OF THE DIFFERENT AGRIFOOD SANITARY SYSTEMS IN THE AMERICAS

*Speaker: Erick Bolaños
IICA*

INTRODUCTION

The sanitary, phytosanitary and food safety systems (SPFSS) have been developed with different priorities in mind. However, their objectives in some cases have been aimed at strengthening the control and eradication of pests and diseases, at providing a rapid response to the introduction of same, and at taking quarantine actions at the border, backed up, on some occasions, by heavy investments in infrastructure. These actions are necessary, but, if taken separately, can create weaknesses in the overall health and safety system, as a result of imbalances in the institutional, technological and regulatory frameworks.

Another weakness that has been detected in the SPFSS is the lack of articulation between the public and private sectors and between the different public institutions either directly or indirectly involved in the field of sanitary and phytosanitary measures. This public/private articulation takes place through formal and informal channels of communication, which facilitate the identification and prioritization of the needs of both sectors. The Inter-American Institute for Cooperation on Agriculture (IICA) addresses this issue in the document *Technical Cooperation: an Overview*.¹ In the document, emphasis is placed on the need to articulate and balance the actions taken in the three basic frameworks of the SPFSS: institutional, technological and regulatory.

¹ Document presented to the Committee on Sanitary and Phytosanitary Measures (CSPM) of the World Trade Organization (WTO).

THE BASIC FRAMEWORKS OF THE SPFSS

Under the institutional framework, national sanitary and phytosanitary interests are represented and defended, agreements are implemented and commitments acquired at the international level are fulfilled. Also, channels of communication are established at the intersectoral and interinstitutional levels, and the financial and technical sustainability of the system is ensured.

The technological framework increases the efficiency of the actors in both the public and private sectors, and involves actions in the fields of surveillance, quarantine, and diagnosis. This framework demands few resources, and should be backed by processes of identification and prioritization, which considers the possibility of regional investments.

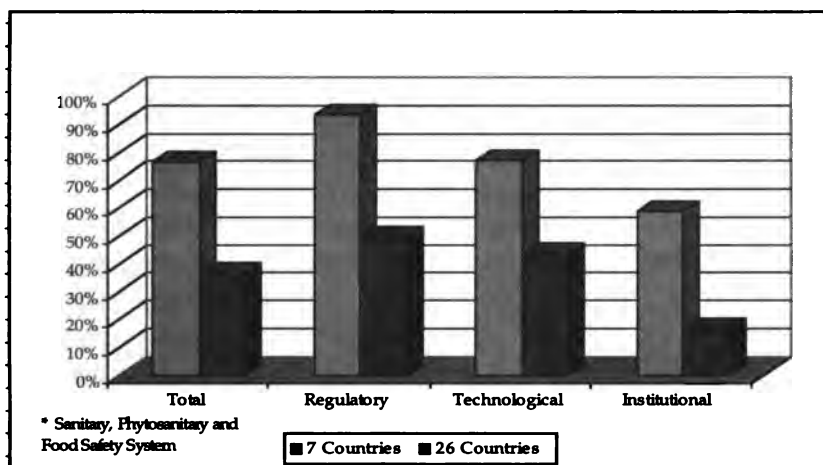
The regulatory framework promotes the modernization of legislation (laws, regulations, decrees, rules), bringing it into line with international regulations and defining the rights and obligations of the actors.

RESULTS OF THE STUDIES ON THE SPFSS OF THE AMERICAS

The level of development of the different variables of the three frameworks in the SPFSS of the Americas, vis-a-vis the proper implementation of the Agreement on the Application of Sanitary and Phytosanitary Measures (ASPM) of the World Trade Organization (WTO), can be quantified on the basis of an analysis of the results of several studies conducted in the region.

The data from these studies show that, of the 33 countries for which there is information, seven form a group that meets, on average, 76% of favorable conditions in order to comply and implement the ASPM. More specifically, they meet 93% of the requirements in the regulatory framework, 77% in the technological framework and 59% in the institutional framework. (See graph 1.)

GRAPH 1
Development of the SPFSS* in 33 countries of the Americas



The countries of this group are characterized by a modern and harmonized regulatory system; effective and balanced participation in the international forums (99%² in the Committee on Sanitary and Phytosanitary Measures (CSPM) of the WTO, and 90%³ in the committees of Codex Alimentarius); and the technology needed to respond to emergencies.

The remaining 26 countries meet, on average, 36% of the favorable conditions in order to comply and implement the ASPM. They meet 49% of the requirements in the regulatory framework, 44% in the technological framework and 16% in the institutional framework.

The level of development of the SPFSS in the 26 countries varies. Some have invested large sums in technology and infrastructure,

- 2 These percentages come from a study on the participation of the member countries in the CSPM of the WTO, which was conducted using the lists available in the document dissemination system of the WTO, and information from eleven meetings held to date.
- 3 Information from the meetings of six Codex Alimentarius horizontal committees, five of which were held in 2000 and one in December 1999, was also analyzed.

but suffer from shortcomings in the regulatory and institutional frameworks. Also, there are also countries in which all three frameworks are underdeveloped, despite having economies highly dependent on the agrifood sector. Some of these countries participate on a limited basis in the international organizations, which would suggest that institutional development and articulation between the public and private sectors is minimal.

Balance in the SPFSS generates benefits in terms of trade and establishes efficient channels of communication among the actors, regardless of their relative size. For example, one of the seven countries accounts for only 1% of agricultural exports in the Americas; participates effectively in the international forums (90% in the CSPM of the WTO⁴ and 83% in the horizontal committees of Codex Alimentarius⁵); and estimates that it receives some US\$83 in exports for each US\$1 it invests in its sanitary system.

This shows that the benefits this country has obtained as a result of a well-planned policy for development in the agricultural health field results both in compliance with and application of the ASPM, as well as tangible benefits in terms of trade and consumer protection.

CONCLUSIONS

Based on the results obtained, it is clear that technical cooperation must be implemented in such a way as to incorporate elements of diagnosis, articulation and balance. Also, we should no longer believe that that the effectiveness of such cooperation is determined only by the amount of financial resources invested or by granting longer periods of time for the implementation of specific rules.

4 See footnote 2.

5 See footnote 3.

Public/private articulation is key factor in the proper application of the ASPM and, therefore, constitutes a major challenge for those countries that lack efficient mechanisms for communication and intersectoral participation.

The greatest weaknesses of the countries of the two groups analyzed were, coincidentally, in the institutional area, which indicates that, this should become the new niche for technical cooperation.

Balance must be the principal characteristic in the development of SPFSS. However, institutional strengthening is the framework, which should be given special attention, since it involves public/private articulation and the proactive participation of the international organizations. At the national level, the framework involves actions of diagnosis and prioritization, and at the international level, actions of implementation.

The data obtained at the hemispheric level also showed that balanced and articulated development opens up more possibilities for access to markets and protection of consumers, as shown by the group of seven countries, which account for nearly 88% of agri-food exports in the Americas.

CONSIDERATIONS ON THE INTERNATIONAL MARKETING OF ORGANIC PRODUCTS IN CENTRAL AMERICA: SOME IDEAS ON COSTA RICA

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ABSTRACT

Organic agriculture might be a feasible solution to many of Central America's agriculture problems: excessive use of pesticides, health disorders, migration to cities and the essential issue of insufficient incomes for rural producers. Most organic farmers argue ideological motives for their techniques. While these are very important indeed, the economic factor is important as well: The concept of sustainability includes a positive income. The export market is essential for the success of organic agriculture as a broad program. Many producers strive to reach international markets to take advantage of the division of labor, as in the case conventional food products. In this article strengths and weaknesses of this sector are examined, as a preview of the elements that should be included in an exporting strategy.

1 The authors work for the International Center on Economic Policy for Sustainable Development at Costa Rica (CINPE): inca00@racsa.co.cr This study was conducted for UNCTAD but the opinions expressed in this paper are those of the authors and do not necessarily reflect the views of UNCTAD. We recognize the support received by Virginia Cajiao and Rafael Sánchez, who integrate our broader working group. We are also grateful to Manuel Amador, the board of APROCAM, Jack Perella and Virginia Umaña for useful conversations and exchanges.

INTRODUCTION

Organic agriculture might be a feasible solution to many of Central America's agriculture problems: excessive use of pesticides, health disorders, migration to cities and the essential issue of insufficient incomes for rural producers. Most organic farmers argue ideological motives for their techniques. While these are very important indeed, the economic factor is important as well: The concept of sustainability includes a positive income. The export market is essential for the success of organic agriculture as a broad program. Many producers strive to reach international markets to take advantage of the division of labor, as in the case conventional food products. Therefore a general view of the organic international market and the main obstacles for Central American farmers is necessary.

Although we use a Central American scope for our views, we base our opinions on the Costa Rican situation after interviewing producers and a survey of existing research. Several conclusions are reached at the end of this paper under the form of policy proposals, but there is still a long way to go before thinking in organic agriculture as a viable strategy for a broad segment of the rural population.

THEORETICAL CONSIDERATIONS

General Overview

Agricultural policy works, to a larger extent, through influencing the financial position of farmers (Michelsen et al 1999). This is obviously a truthful statement, but the main point is how are policymakers thinking on influencing farmers? When it comes to organic products there are two variables and four alternatives to consider.

One variable is the justification for the activity. There are organic growers who favor a "philosophical" motivation, which

can have different origins (disdain for agrochemicals stemming from individual ailments, historical farming without fertilizers, closeness to the earth or emulation of traditional farming methods), while other farmers might foresee global demand leaning towards organic products and want to start now. These are referred to as "market oriented". We are aware that such dichotomy is oversimplified. All "philosophical" growers concur in the importance of profit, but present their ideology as the main cause of their preference.

The second dichotomy is found in production techniques. In our interviews with Costa Rican farmers we found, mainly in small farms, a tendency towards the preservation of biodiversity as part of the technological package. This implies associated crops and conservation of the original productive environment. Therefore, we have called this the "biodiversity" sector. A second group, not too prominent in Costa Rica, is the self-named "monoculture". The generally employ larger areas with few associated crops and high doses of natural fertilizers, in some cases imported². We illustrate our view with these two variables, "motivation" and "technological", of the combinations that define the farmers (fig. 1)

FIGURE 1
Motivation and technology for organic agriculture

		Motivation	
		Philosophy	Market
Technology	Biodiversity	I	II
	Monoculture	III	IV

² We can cite as examples of "organic monoculture" in Latin America the banana plantations in the Dominican Republic or some farms in Argentina.

Quadrant I is the most prominent in Costa Rica, where in most cases we find small farmers with an unclear market objective. They do not ignore it, but their market strategy is underdeveloped. The cases of market oriented monoculture are probably no more than two or three.

This is an important issue, because many times organic farmers in Latin American countries are supported by NGOs without consideration of markets or production costs. A pure theoretician in economics would argue that markets are implicitly considered when someone is prepared to contribute to other people's income (even in different countries) to produce with organic techniques. It is a matter of taste (even though ideological) and demand. The real problem here is that the "outside world market" continues to be unknown and technical improvements are secondary issues because the continuity of the programs are a function of external funding with changing priorities. Therefore investments by the farmers are kept at a minimum.

Under these conditions it is a contradiction by itself to speak about sustainable agriculture concluding that the path to sustainability goes through organic techniques. This is one side of the issue. However, from the point of view of sustainability of the organic production process it is important for the farmers to extract profits through the arbitration of markets. These may concede pricing-premiums or may, through improved techniques, increase the profits extracted from each acre planted (Cussianovich and Gitli 1997). Profits make widespread organic production feasible, while competition allows for higher efficiency in the allocation of resources, mainly implementing less expensive agricultural processes.

Therefore, the main obstacles to remove are the lack of transparent markets for final products. The development of the organic market is essentially different from other markets. It began with the growth of supply and demand for ideological considerations starting from fringe producers and consumers. There wasn't here

a transnational corporation conducting a market study, deciding what and how to produce and investing millions of dollars in publicity, packaging, distribution and demonstrations to introduce the new product.

This lack of broader and widely known channels of distribution, associated with the complexity of certification and labeling, is an important characteristic of the organic market. The amount of information actually included in product labels is confusing. For an analogy think for example of the concepts of "light", "fat free", "cholesterol free" and "sugar free". Most of the times it is impossible to sort out the real significance of these labels without the support of a specialist.

The main issues to set forth in the market of organic products are:

Product specifications

Obviously we are considering organic products only, but this is not enough. Is a brand name required (organic cola)? Is it necessary to combine the organic feature gourmet with market characteristics (this is the case in the coffee market). What kind of certification is necessary?

On the other hand, it is important to consider the whole set of linkages in the agro-industrial organic sector at the same time that it is important to eliminate pesticides and other contaminating agro-chemicals in the first stage of production. Techniques for the second and other value-added processes must also take into account the need to use fewer and not fully tested additives, which may alter the durability and quality of final products.

Quality standards which are sensible to the consumers have been historically developed for conventional agricultural goods (taste, smell, color and size). Hence, when organic products appear

close to conventional ones we have a marketing problem, which must be solved through promotion and adequate display of the products. Generally speaking, there are no problems with taste and smell, but with color and size organic goods give an image of inferior quality (Michelsen et al 1999:48).

For this reason, it is convenient as part of a package of production promotion activities to induce research in how to improve the physical appearance of the products as well as in additional processes, in order to increase the value of organic products.

How to reach the market

The final destination of the products is distanced from the producer by a diverse and complex set of events. Generally speaking, a single farm's output is small in relation cost-breaking point for gathering the products, handling them, packing and putting them into appropriate containers. The product, first, has to reach the foreign port of entry in the case of exports. From there, the distributors' problem is widely known. Distributors prefer not to sell small quantities because of the efforts involved, unless there is a wide consolidated chain for organic products. This means that from the point of view of foreign markets, two characteristics should be outstanding for the choice of a final destination: a) it should be a country with a high degree of development of the market of organic products³ and b) it will be better for the exporting country if the country of destination has a tradition of being a net importer of food in general, or at least in the same range of conventional products. In this case the probability of non-tariff measures against imports is reduced⁴.

3 Therefore it is possible that organic products have relatively developed channels of distribution, maybe in supermarkets.

4 This is the case of organic tropical fruits, juices and coffee.

A great number of goods coming from agriculture are under exceptional rules negotiated in the Agreement on Agriculture in the World Trade Organization (WTO). Others have a strong tradition of non-tariff barriers. Therefore it is very important to be cautious when promoting exports of sensitive foodstuff products, even though organic. Examples of these sensitive goods are dairy, poultry and cereals. For Central American countries the tropical products mix is the best⁵. Consumers are used to these products coming from these countries. Therefore they will be prone to accept new varieties under the form of organic food coming from these places. Of course, there is always the possibility of negotiating cooperation agreements to assure that organic products will reach the market in spite of problems with their conventional alternatives. This has been suggested for the banana imports in the E.U.: to separate organic banana from the conventional quota system.

Two important problems associated with how to reach the market are: a) the low durability of some organic products, especially vegetables and b) the necessity to supply the markets all year long and not sporadically. The first is an issue which should command additional research, because some organic producers argue that the durability of their products is larger than conventional ones. This may depend on the kind of food-products involved and the particular quality, but it also may depend on the treatment the products receive at the food stores. In some cases supermarkets allocate less space to organic products and they stuff them together, thus shortening their span of good presentation.

Promotion

When we deal with commodities in general, the promotion issue is almost non-existent. If we are exporting cantaloupes the only problem is the quality issue. In the case where the product has a special feature which has to be distinguished by the customer, the need for investment in promotion is considerably large.

5 Central American countries are major suppliers for bananas, pineapples and coffee to the U.S. market.

Display areas are a relatively scarce good and store owners are reluctant to open special counters for niche-products unless the price differential is high and customers know the product and where to look for it.

Also, there is the issue of the free rider. When the organic produce is a commodity which cannot be differentiated from a similar certified good (say an organic melon), publicity expenses cannot be entirely recovered because other producers may mount the wave without investing a dime.

In some markets, the central retailing groups are very active in promoting and distributing organic foods, since they view this products as important image builders.

On the other hand, it is important to consider that although "fair trade", which is based on recognizing social conditions for production with a premium price, is a completely different thing from organic markets, there is a strong relationship often neglected: At the International Federation of Organic Agriculture Movements (IFOAM) meeting in 1992 it was brought upon consideration that organic markets may only reproduce the old exporting agriculture without bringing benefits to poor or small farmers (van Bemmelen 1995). Hence, it makes sense to think of a possible alternative route of certification and promotion of mixed organic and fair trade features, which is being worked out by one institution in Costa Rica⁶.

Last, but not least, there is one argument which has not been explored so far. U.S. consumers don't know that as a general rule imported products are in most cases healthier than the American counterparts. This is because import controls are thorough and efficient, which is not the case with domestic production⁷.

6 Personal communication from Manuel Amador (CEDECO).

7 Rosen and Larson (2000) quote a study by the U.S. publication Consumer Report which gave better results for 67 percent of the import products investigated against the same American goods.

Price

In most cases there is little information concerning the producers' prices and in many cases research is conducted knowing only the price in the supermarket. There is scant information to take decisions. The concept of market price is ambiguous. The only relevant price for the producer is "my broker's price". In many cases the costs to reach the market are very high and may be reduced through cooperative action of the producers, taking advantage of market prices at a premium for organic products. The general warning is not to compare farmer and retail prices. Even if we compare conventional retail prices against organic, for an industrial country, this is a risky approach, because market conditions may be quite different: Competition versus monopoly, high marketing costs, non-competitive practices at the border or among companies. In conventional food products, there are wide differences between farm and retail prices. Prices may increase fourfold from the farm to the consumer. We don't have equivalent measures for organic products but according to one source in the U.S. the typical premium for producers is 20 percent, and the consumers premium price is 50-100 percent (cited by Rosen and Larsen 2000).

Although great price differentials are cited in Central American countries as occurring in most industrial countries, they might be lower than generally thought. For example, premium prices close to 100 percent (or higher) were detected in the case of coffee in the import market⁸. But from different sources we consider that on average, the price premiums in Europe for (European) producers of vegetables are in the range of 30-40 percent, for cereals around 50 percent, potatoes 50 percent, milk products 10-25 percent, fruits 20-50 percent, poultry 90 percent and oilseeds 90 percent (Michelsen et al 1999:67, SIDA 1995, Cussianovich and Gitli 1997) There are wide variations among countries and among products within categories. The preference

⁸ Other sources indicate that the average premium for coffee is between 20-30 percent (Conejo et al 1995, Rosen and Larson 2000).

for domestic producers in the markets of destination could be a negative factor in the future⁹.

An important problem in specific markets (for example, the European market) is the high cost of agricultural products in general. In some markets the buyer wants small sizes and small quantities. Therefore, it is convenient to be careful with price-premiums because the negative impacts on the demand side could be very great.

Price Mechanism

Prices of organic products are generally higher than those of similar conventional products for two reasons: a) the mechanism of supply and demand (supply scarcer than demand at prices close to conventional equivalents), b) for the same quantities of products consumers are prepared to pay more, for ideological considerations (which should be carefully studied in the future)¹⁰.

There is some agreement that as supply increases, prices should go down, because of the new realities for partial equilibrium of the markets¹¹. One important point of analysis is in what part of the process are markets positions in relation to long run trends.

As the supply increases it drives prices down; there is also the increase in demand due to the change in cultural patterns toward healthier food, but also due to more or less random occurrences

9 These are small details that are insignificant right now, but could become important in the future.

10 For the time being, organic farmers are considered some sort of heroes who should be compensated by the consumer to induce the increase of their rank and files. As more producers increase the supply this view will undoubtedly tend to disappear.

11 This should not be the case when the cost of organic production is clearly higher than its conventional counterpart.

like the "mad cow" disease, that prompted European public, farmers and even the national and Community authorities to promote changes in the production techniques. Indeed here we have supply and demand factors being affected almost simultaneously. Therefore we don't know the resulting impact on prices¹². The beef problem in Europe will bring upon an increase in the consumption of fruits and vegetables. Most important: it will bring organic food to gourmet restaurants, which so far was a negligible component of demand for organic products.

Another important issue is the fact that supply responses to changes in demand are of a longer run nature. A two year period is required as a minimum to convert from one technique to the other.¹³ Therefore, important demand developments affecting prices in the short run in conventional products are not so strong in these cases. There may be an interesting point which warrants further study and is related to the motives for conversion. We may assume that an organic farmer is long run-motivated, but his production and costs function can move with a different rationale under low or high prices. Under higher conventional prices (which may encompass organic prices as well), if he/she can react rapidly to demand expansion, this reaction may be quicker expanding production with conventional techniques and therefore abandoning organic production. This issue should be investigated on the field.

Another source of complications is the fact that when several certification firms compete, there is a supply and demand for each label. The demand depends, among other things, on the selling capacity of each one: whether it is widely known and respected by consumers and by the distribution channels, or whether the organic standards are all the same, and so on.

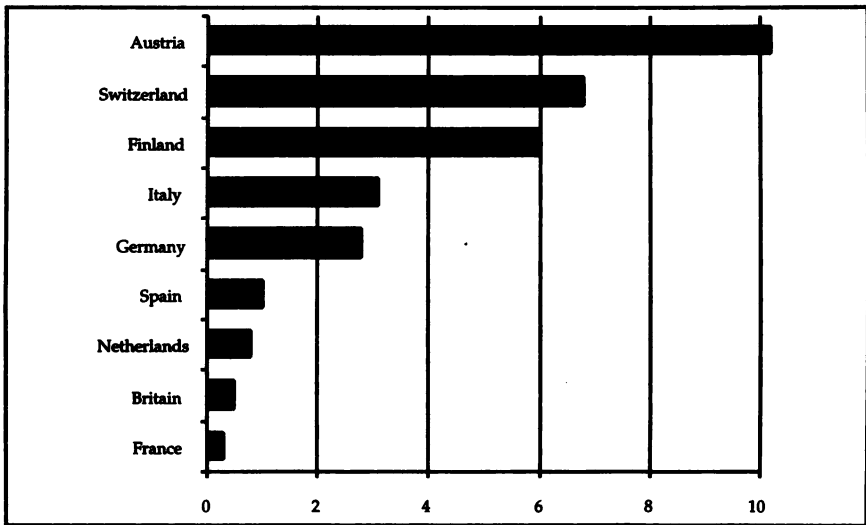
12 By "prices" we mean both prices: organic and conventional, as there are obvious substitution effects.

13 The two year period is a formal requirement according to EU regulations. Some certifying agencies in Central American countries require three years.

HOW IMPORTANT IS THE ORGANIC MARKET

According to a recent study in 18 European countries taken as a whole, organically grown areas only represented 1.3 percent of total utilizable agricultural area in 1996¹⁴. There is a huge variation among the 18 countries: in 11 of them the share is less than 1 percent, and in Austria was 9 percent. Newer data released by the English publication *The Economist* presented Austria with more than 10 percent of the land organically farmed. (See Graph 1).

GRAPH 1
European countries: Land organic farmed
as percentage of total, 1998-1999



Source: German Ministry for Consumer Protection, Food and Agriculture; German Association for Organic Farming. *The Economist*. February 3, 2001.

In the U.S. there are different figures according to varying sources. A big part of the so-called organic market is not properly certified. The organic certified market was about 5 billion dollars in the year 2000 (which according to the USDA is similar to the EU), increasing at an annual rate of 25 percent (Rosen and Larson 2000), but the non-certified market may reach five times this volume.

14 Foster and Lampkin, cited by Michelsen *et al.* 1999:13.

In Costa Rica, according to an inventory made by CEDECO and after some calculations we estimated the agricultural organically farmed, or in transition, certified or not is in the order of 1.8 per cent of total farming land (see Annex).

MAIN ISSUES IN EXPORT MARKETS

Production and Imports

One important and often neglected issue concerns the import penetration in the agricultural sector for the market being prospected. If the country of destination is a net exporter of agricultural products, or of the product we are planning to sell, there may be access problems if local producers are strong enough to lobby against imports.

For example, we should be very careful if we try to export organic milk to European countries or to the United States. An interesting possibility for Central American countries to explore could be to open special export windows for organic milk, but the deal should be both ways. It is difficult, though, to imagine all countries in the sub-region would be interested in opening local markets for organic milk.

The U.S. market for fruits and vegetables is not dynamic in statistical terms associated with trade: The market share of imported food products did not grow during the nineties (Rosen and Larson 2000). Therefore, imports grow at the same pace as consumption, but there is an important change in the composition of these imports. Mainly, fresh produce has been steadily gaining market share as opposed to processed food products.

Another important fact with organic producers in the U.S. is that most of them are not full time farmers, or at least not full time organic farmers. A national survey of organic farmers in 1999 found that income from organic farming represents less than half

of net family income in 68 percent of organic farmers (Walz 1999, cited by Rosen and Larson 2000). This is a signal that it is not so easy to increase domestic organic production in that market as this activity is not the main source of income for many farmers.

Certification

In order to trade in organic products, as such, these have to be certified. When trading overseas, there is an added level of complexity due to the fact that in each country or group of countries the certifying company has to be accredited.

About this, "certification guarantees that a determined process, product or service abides by the rules of the certifying agency and by the minimum requirements of the International Federation of Organic Agriculture Movements (IFOAM), or by government authorities" (Solano 2000). However, since organic producers constitute IFOAM, its recommendations are not binding and are valid only as a guideline for the certification process. Ultimately, national regulations oversee the internal certification process, including imports.

Therefore, export promotion efforts are conditioned not only by national certification requirements, but also by the selected foreign market, due to the varying legislations and regulations that rule organic products in different countries.

In this sense, production aimed at multiple markets forces the producer to obtain multiple certifications (through a single company accredited in various countries or through several companies), depending on the selected markets, in order to have his/her products treated as organic in each one of these destinations. This presents additional obstacles in terms of additional costs needed to obtain fairly similar certification processes. Also, different certification requirements might call for modification of production processes in order to comply with variations from one country to another, thus adding to the cost of multiple certifications.

Therefore, certification may be considered a source of costs to producers, which should be transferred to the price of the finished product. This would be one of the reasons behind the price differential between conventional and organic products. Here we find a problem faced by small organic producers or small groups of producers, which is the elevated cost from certification that could be assigned to each unit. Hence, production and/or export levels become a limiting factor in the certification process. The larger the producer and his output, the lower his cost per unit. This is the general principle, though there might be special considerations for small producers, depending of the certifying agency or foreign cooperation.

Certification in the European Community is determined by regulation 2092/91, operational since January 1993. This general standard, valid throughout the EC, contributes to boost consumer confidence, which makes it a market development tool.¹⁵

In some instances, known brand names are added to certification. Although these products comply with the rules and regulations, they carry their own distinct brand label in order to highlight their products exclusively. This system is known as "commercial labeling".

National certification agencies - while largely private - are governed by their respective Departments of Agriculture but rely on European agreements to set the standards. Only a handful of US companies are accredited by the EU (de Pazzis 1995)

In the US, the average organic certification cost is \$413 (Rosen and Larson 2000). In Costa Rica, the subsidized certification cost is around \$500. However, it is necessary to acknowledge that certification is often also subsidized in the U.S.

¹⁵ This goes against the dogma "the consumer always knows best" which in practice means that several certifying firms may compete, but each consumer has a rational preference. In the end, the lack of appropriate standards undermine the validity of certifications, which has a negative impact in the consumers' perception of the products.

The cost of certification is an important issue in Central America. We have found that in many cases, certification is a gray area. Some of the logos are unknown or non-official, which undermines their validity and recognition. In other cases, the importer can complete the certification process in his own country with relative ease.

These cases found in Costa Rica may be due to the rather small quantities involved. It would be advisable, however, to investigate these situations as they may be conducive to future complications, if we assume an expansion of exports.

The certification process requires the producer to gather historical data about his/her use of agrochemicals and his production processes ranging from 2 to 5 years¹⁶ (In the E.U. this period must be at least 2 years, 5 years in the U.S. and 3 years in Costa Rica)

This period is considered to be the transition stage in which, according to scientific findings, the soil is drained of all non-organic chemicals from past use.

Certification in the U.S.

In the U.S.; certification rules and regulations were established by legislation encompassing organic production, which had its newest version in early 2001. The USDA is in charge of accreditation

16 Some of the basic inspection-certification processes are:

- a) The history for the last 3-5 years of agrochemical and fertilizer use
- b) Roads and neighbors
- c) Use of logs
- d) Soil and fertilizer management
- e) Crop management
- f) Water management
- g) Plagues and disease management
- g) Weed management
- h) Harvest and post-harvest management
- i) Animal management
- j) Processing management
(CEDECO 2000).

for certifying companies and agencies. Additionally, the USDA is in charge of verification of imported organic products and their compliance with the requirements of the National Organic Program.

With only three exceptions, all organic products have to be certified. These are:

- Products with annual sales under \$5,000. It is recommended that these producers sign a statement indicating they abide by national regulations.
- Retailers not processing the goods.
- Products with less than 70 percent of organic content by weight. In this case there is a requirement to include this information in the label.

The USDA is able to accredit a foreign certification company or agency, if requested by a foreign government, as long as there is a reciprocity agreement between the two governments.

Even though all new legislation is not devoid of loopholes, some caution has to be exercised. In the state of California, for example, a producer can be registered in the state as an organic producer following a fairly simple process that does not actually certify him. This is a common source of misinterpretation in the U.S.

Certification in Costa Rica

The process of certification in Costa Rica is ruled by the Organic Agriculture Regulation (D.E. No. 26067-MAG), October 2000. It is clearly stated in this legislation that certifying bodies have to be accredited by the Ministry of Agriculture (Article 75, Organic Agriculture Regulation).

In Costa Rica there are three accredited certifying agencies which are: ECOLOGICA, AIMCOPOP and BCS OKO-GARANTIE, the last one being German. Under the new conditions set forth by the Costa Rican legislature, a non-accredited company cannot certify local products¹⁷. We're faced, then, by the following question: What is the motivation for foreign certification companies to undergo the process of accreditation in Costa Rica, if our market is relatively small?

In Box 1, we present a brief summary of costs associated with certification in Costa Rica. In the case of ECOLOGICA, the HIVOS pays between 50 and 70 percent of the net cost of certification (Delgado 2000). Additionally, some certification companies charge a percentage of total sales of the certified product. In the case of ECOLOGICA, this commission is 0.5 percent.

If we consider a small organic coffee farm as an example, we may find that the cost of certification amounts to 5 percent of total revenue when it is not subsidized, and up to 2.5 percent of total revenue when subsidized by HIVOS. We have even found cases in which the cost of certification raises to 10 percent of the exports value.

As for the size of the certified companies, as mentioned above, ECOLOGICA stated that "99.35 percent of certified producers are small and the rest are medium sized, where each producer administers an average of 2.5 hectares approximately" (Delgado 2000).

¹⁷ Regarding this, ECOLOGICA has stated that it has strategic alliances with US companies such as Oregon TILTH Certified Organic-USA (OTCO), WHS and WSDA in Washington State and ECOCERT in Europe. Data gathering is conducted locally and the foreign certification agency rules over the certification of the product (Jimenez 1999). Also, local producers have acknowledged to being certified by foreign companies such as BIO-LATINA, although under the new law this is not possible.

Box 1

Summary of certification costs in Costa Rica

- Careful analysis of certification costs in Costa Rica uncovers mixed results. For example, the National Organic Agriculture Program, which is the official agency in charge of this sector, presents the following certification costs for ECOLOGICA:

Estimated cost of certification for ECOLOGICA	
Number of producers	Estimated cost per producer (US\$)
500-2000	4.7
100-500	6.9
25-100	40.6
5-25	78.1
2-5	187.5
1	375

Source: National Organic Agriculture Program.

Note: Data estimated using the exchange rate as of march 2001

However, CEDECO (2000) presents a cost estimate significantly more elevated and with a different structure:

Annual membership ranging from US\$250 to US\$1,500, depending on the certifying agency.

Inspection and certification costs between US\$2,000 and US\$7,000

Commission for the use of the logo from 0.5% to 1.0% of sales

From the certification agencies point of view, ECOLOGICA through Mr. Geovanny Delgado stated the following cost of certification:

"...three items are charged: first, the inspection job which is charged at 85 to 125 dollars a day, since we charge according to the producer's expected investment. Second, the annual follow-up cost which amounts to 175 dollars and third, commission over sales, which the company uses to grow in order to give a better service". (Delgado 2000)

On the other hand, Bernal Gutiérrez from BCS OXO-GARANTIE said:

"Our prices are around 450 dollars a day plus expenses such as food and lodging, etc. According to testimony from clients in El Salvador and Guatemala, they have chosen to stay with us after hiring other companies, because the overall cost was lower considering the quality as opposed to the rest". (Gutiérrez 2000).

Are There Profits for Organic Producers?

There is an ongoing discussion on the subject. According to some publications, prices are higher because it "becomes more expensive since the yield is lower" in organic agriculture (SIDA 1995, Nieberg and Offerman 1999, Michelsen et al 1999). In plain words, conventional wisdom establishes that leaving aside agro-chemical inputs there is a decrease in costs, but yields are lower, and they may be the dominant factor. Therefore profits may be lower without price-premiums. The same publications states that the solution is to increase their volumes. But this is not as generalized as it seems to be. One of this authors showed that for three products in Costa Rica the opposite happens, comparing organic against conventional (broccoli, cassava and hearts of palm). The results seems contradictory but in our cases the author found that costs per hectare are higher in organic production, because the increase in workforce expenses is greater that the decrease in agro-chemicals. On the other hand, agricultural yields —in opposition to some pieces of conventional wisdom— are higher because these techniques are very intensive in the use of land. The final result being that the economic impact of higher yields dominate over greater costs, and profits per hectare are therefore higher (Cussianovich and Gitli 1997). The interesting case is that as most products were directed to domestic markets, there were not price-premium. We should be very careful not to generalize without sufficient information, but a provisional conclusion to be drawn is that organic production should be accompanied of good technical advice. In other terms, the productivity side of the equation is as important as the price-premium in this stage. In the future, we will rely mainly on productivity.

The Information Problem

In most cases evidence of success or failure is anecdotic. Prices are variables that in many cases answer to specific contacts or market niches. Nowadays there is more information than five years

ago, but it is still fragmented¹⁸. In conventional products a producer may pass along information concerning an "honest broker" to anyone, because they are commodities with known market prices, the differences being according to quality, steady supply, and mutual trust. In the case of organic food, producers are afraid of any increase in the supply that may alter market prices because they tend to see the buyer as a personal contact and part of a market whose size is unknown. Therefore, they don't want to encourage new entrants.

National export promotion organizations in Central America were not used to consider organic products of such importance to collect specialized information or to conduct or commission market studies. This situation is slowly changing, but they are not in condition to give specific advice to exporters. In the case of Costa Rica, the Ministry of Agriculture has a special program in support of organic farmers, but there is still little information available because of the lack of resources¹⁹. This shortage of information forces producers to incur in extra-costs, which affect adversely their profits.

We also detected the information gap through journals. In Costa Rica there is a serious problem with the lack of technical information. Sometimes journals seem to be more an environmental propaganda vehicle than dedicated to local producers. There is the need to share information among farmers, even in very small

18 This is true for every organic market, even for local producers. In exporting countries the problem gets worse.

19 Procomer, the Costa Rican organism for export promotion has recently designed a staff member to follow up these matters. The Organic Agriculture National Program in Costa Rica (PNAO) has a well organized work program covering 1.- Information and promotion 2.- Training, Research and Extension 3.- Production, transformation and commercialization 4.- Technical and normative framework 5.- Institutional framework. The PNAO has a two-three person staff, but is very conscious of this restriction and has been working on coordinating the efforts of several institutions (PNAO 2000).

details of the day to day for the combat of plagues, the improvement of transportation, the state of the markets and so on.

Policies in Favor of Organic Production

The rationale for the promotion of organic products is three-fold: on the one hand it may be part of a national effort to reduce the per capita weight of pesticides and the damage to persons and environment- attributed to it²⁰. On the other hand the organic goods are almost entirely free of damaging substances and therefore healthier for human consumption.

But besides these two important reasons there is a third one, which is quite relevant for development arguments: organic production is a labor intensive industry with higher incomes and this is a strong justification for its promotion.

Organic production represents the possibility of a substantial improvement for consumers' health and the long run yields of the soil. Therefore there are strong positive externalities in the promotion of such activity to give the step from an immature to a mature market.

An important bottleneck for domestic as well as for export markets is the small size of total supply²¹. This has been pointed out even for European countries (Michelsen 1999:106). Therefore, deliberate efforts to promote production will have a strong externality in favor of a profitable activity for the micro and the macro

20 Costa Rica is the highest per capita user of agrochemicals in Latin America. It is also one of the highest affected by gastric cancer, although a direct relationship between the two occurrences has not been formally established. It is worthwhile to notice that in some European countries (Germany and Denmark) it is no legal to advertise organic food with the food safety argument. This would imply that any other conventional products are health detrimental.

21 By size we also mean stability of the supply, through "high numbers". Scattered farmers have a transportation problem, because of the need to separate their products from conventional ones

level, and by profitable in this case we also mean additional welfare coming from healthier environment and consumption.

As was pointed out along the paper, further degree of processing, for example marmalades, juices, canning, etc. is negatively affected by a limited supply. Here we have another externality: more producers may enable the industrialization of the products, and therefore they may help stabilize the markets and reach far away places.

The problem with the design of promotion instruments is, how to induce efficiency all through the life cycle of the product. For example, in Spain and Italy, there is excess supply of organic products, which goes hand in hand with relatively high prices (Michelsen et al 1999:15). The explanation seems to be on the mix of direct subsidies for certified products and high intermediation costs in the organic segment of the market. Therefore it is easier to channel the products through conventional lines and collect the subsidies.

In several European countries systems were designed to promote, through state intervention, the development of organic products. Sometimes this may be done through the direct financing of certified producers, with the argument that to induce the opening of private marketing facilities you have to start with the supply. In other cases the state organized and paid for the certification infrastructures; in other situations the payment of subsidies was for conversion to the new techniques. From 1992 this is regulated through EC Reg. 2078/92, although this new general regulation in support of environmentally friendly farming, substituted other previous national programs.

A form of market failure arises when one starts thinking of diverse products with better market possibilities but the agro-industrial chain is incomplete or lacks an important link. For example, it is known that important problems with fruits and vegetables are the transportation requirements and other difficulties associated with durability. But industrialized agricultural products

may overcome these problems in the case of organic fruit beverages. Pure organic juices of tropical fruits are rare. The solution could be in government supported associated efforts between juice and organic producers.

As already seen in item 4.4 information is a very serious problem, which is being addressed by the producers' organizations and the Ministry of Agriculture. But there is still scant or nil information on prices, buyers, size of the market, elasticities, qualities, and so on. The history of export promotion efforts in conventional non-traditional food products has a lot of successes, which permitted the increase in general exports, but it has a lot of failures stories as well. In the case of the conventional non-traditional products offensive of the early eighties, information was available through international cooperation agencies (mainly USAID). In the current situation there is a lot more knowledge than in those times and this is a good starting point; on the other hand the lack of knowledge should be strongly addressed through research and the establishment of a bank of information.

Written information should be spread at least in two levels. A good scientific regional journal, and an easier to read journal dedicated to producers. There are complementary forms for the diffusion of information: through local newspapers and/or regional offices of the ministries of Agriculture²².

Good quality and readily available information runs parallel to the development of research and gathering of data. Also, the participation of universities and research organizations through government contracts should be encouraged.

As indicated before, the certification puzzle and the cost problem should be solved through a joint program between international

²² While the use of the Internet is a good complement, most farmers are not in condition of having a good access to it. Therefore, it is preferable to organize the distribution of information through sub-regional local existing networks.

cooperation and the Central American governments. Negotiation of reciprocity is very important for the outcome of the whole sector, as national certification should be less expensive.

The issue of incentives is important at the farm level. Without going deeper in this article, we should add that economic incentives may be based on market prices (domestic and international). But there is a number of investments which are not close to the possibilities of farmers. In the first place, risks during the transition period are quite serious; in second place, the issue of certification may represent a high economic barrier when the producer is only beginning (it may also become a non-tariff barrier but for now we are leaving this aside); in the third place for many farmers going into organic production exports are something new. It could be argued that this is an environmental issue and therefore there is not a subsidy problem that could affect foreign markets²³.

One last issue applies to all the agriculture in Central America, both organic and conventional: Physical infrastructure for production and development of exports is very important. Many producers interviewed by the authors complained of the lack of adequate roads connecting their lands to main highways. They pointed out that, as small producers, their properties were often not conveniently located near main transportation routes, and therefore have to traverse great distances through poorly maintained roads, which increases the costs of production. Since this is a generalized problem for conventional as well as organic farmers, national priorities and policies aimed at the development of rural areas should be reassessed.

Adding up, there is a situation potentially favorable to organic products, which we consider may be used for the advantage of Central American farmers, increasing efforts towards regional markets, but it is also necessary to prepare the basis to enter the world markets.

²³ That is, the Agreement on Subsidies accepts the possibility of subsidies for the transition to cleaner technologies.

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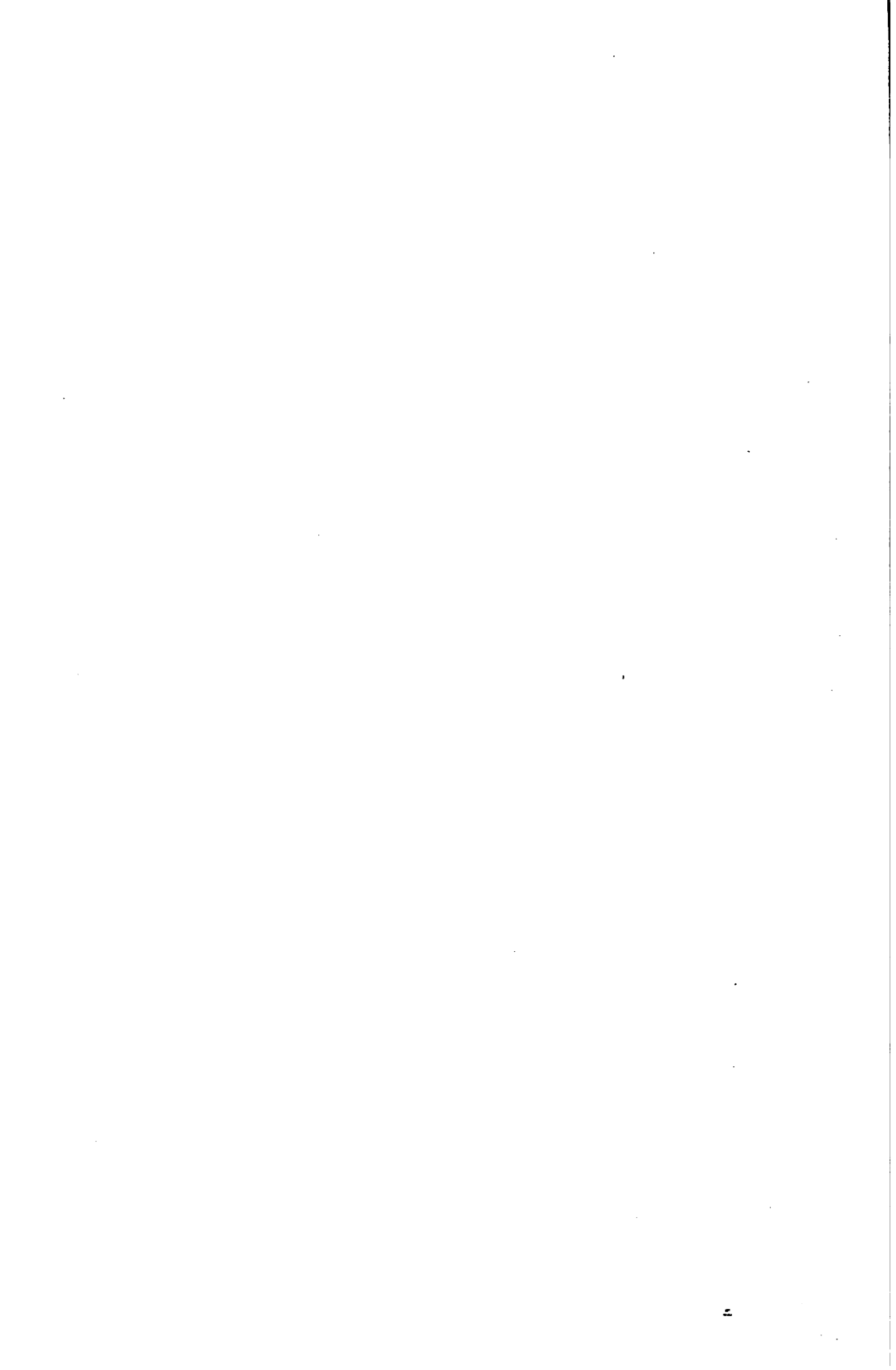
ANNEX

ORGANIC PRODUCTION IN COSTA RICA				
AGRICULTURAL ACTIVITIES	AREA (HECTARES)	PERSONS DIRECTLY INVOLVED	PRODUCTION VOLUME (Tons / year)	DESTINATION
Banana ¹	2773	1792	817.04	Intermediary and export
Frijol tapado (beans)	2294	445	1013	Self consumption and intermediary
Cacao	1489.5	317	613.5	intermediary
Coffee ²	891	277	31783	Intermediary and export
Blackberry	640	270	964	Agro-industry and export
Rice	225.8	185	191.7	Intermediary and export
Sugarcane	195.4	68	15692	Self consumption and intermediary
Cashews	193	1	61.3	intermediary
Mango	55	70	1297	Intermediary and export
Other organic products	224.57	223	n.d	Intermediary
Vegetables ¹				Intermediary and export
Mustard, sugar beet and lettuce			15800	
Small onion, beet, spinach, parsley, coriander and onion			34325	
Broccoli, carrot and cabbage	23	24	5.5	Intermediary and final sale
Agricultural production sub total	9004.2	3672		
Rural agricultural industry				
Organic fertilizer		121	16306	
Coffee processing		n.a	1500	
Granulated sugar		68	1397.8	Final sale
Jams		95	110	Direct export
Honey		51	53	Intermediary
Cheese ⁴		130	33	Intermediary
Achiote paste		n.a	30	Intermediary
Rural agricultural industry Sub-total		465		Final sale and intermediary
Total	9004.2	4137		Intermediary
Percentage of total cultivated land being farmed with organic products	1.8			

Notes:

- 1 Tons per fortnight
- 2 Fanegas per year
- 3 In the case of vegetables, production volumes are: Units per web (Mustard, sugar beet and lettuce), rolls per week (Small onion, beet, spinach, parsley, coriander and onion) and tons per week (broccoli, carrot and cabbage).
- 4 Kilograms per day

Source: CEDECO, 2000.



Section II

NATIONAL ARTICULATION AND THE REGIONAL MARKET AS AN EXPORT PLATFORM



ORGANIZING THE AGRIFOOD SECTOR AS A STRATEGY FOR ACCESSING MARKETS AND FOR CONTRIBUTING TO FOOD SECURITY IN CENTRAL AMERICA

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The present socioeconomic and political setting is characterized by a process of economic opening and globalization, and the agrifood sector is a part of this. The international market is becoming progressively more demanding in terms of technical, environmental, quality and intellectual property standards, which is modifying traditional patterns of competitiveness.

Organizations of the agrifood sector have a key role to play in helping their enterprises and producers adapt to this process. Their work will be successful to the degree that they can anticipate and adapt to new trends in market globalization, so as to be able to meet the commitments acquired under the negotiations of the WTO, the FTAA and other bilateral and multilateral agreements.

This new economic, social and political scenario is also characterized by a process of institutional change and State reform, including the transfer of public sector functions to the private sector. The new institutional framework requires ongoing dialog between the public administration and civil society organizations, with a view to fostering decision making in line with the general interests of each country, and the strengthening of the role of agrifood organizations as liaison with the public sector.

The purpose of this paper is to underscore the importance of organizing the agrifood sector as a means for Central American agri-industrialists to prepare for addressing the demands of national and international markets and to contribute to food security in the region. We will begin by referring briefly to certain characteristics of the sector, mentioning current agrifood market trends, and illustrating how the agrifood sector can become organized in order to respond appropriately to globalization and current consumer demands.

SOME CHARACTERISTICS OF THE AGRIFOOD SECTOR

A number of characteristics clearly differentiate the agrifood sector from other sectors and make it more vulnerable as a sector. First of all, it is made up of scattered, small- and medium-sized enterprises that are barely integrated into the economy, use a high percentage of the active population in the countries (primarily in developing countries), and consequently has strong economic, social and environmental implications. This results in a greater dependency on the public administration and its policy decisions; the environment is therefore more complex, requiring strong trade associations and representatives of producers' interests.

Secondly, it is a sector in which quality has an important role to play, because human health is at stake. Suffice it to mention the economic and social repercussions of cases such as bovine spongiform encephalopathy or "mad cow disease." The impact is the same in developed and developing countries because consumers want no food-borne risks and governments are willing to take the measures necessary to safeguard consumers' health.

Clearly, if there is one issue that the public and private sectors should address together it is quality. First of all, it is the public sector's responsibility to make sure that food products received by consumers are safe; secondly, for agrifood producers, it is key to maintaining their place in the market and avoiding serious losses

(if not bankruptcy) due to problems with quality. To this end, organizations must exist to protect the laws of competition, defend the image of the sector, and work harmoniously with government authorities.

The third issue is funding. The agrifood sector depends on natural cycles, and unlike other sectors, long periods of time, not applicable to other sectors, are often required for production, storage, and transformation. Farmers must wait for four to five years from the time they establish a mango plantation until they can market mangoes; a footwear or automobile industry does not have to wait this long and can be very responsive to client demands.

Financial problems develop due to the disequilibria existing in the agrifood chain, because the functions of trade and distribution are concentrated in a few enterprises. In this regard, the marketing strategies of large transnational distribution companies often contribute to under-capitalization of the production sector. Examples of this are the frequent deferral of payments and selling at a loss.

With regard to deferred payment, the Saxon legislation applied by Germany, Holland, Belgium, the Scandinavian countries and the United Kingdom, establishes that property cannot be transferred without payment. Merchants do not own a product until they have paid the producer or processor. If payment is not made, the product remains in bond.

In countries that use this system, average deferral of payment tends to equal the period it takes to replace the products; in the case of food products, this can mean 26 days.

In countries where legislation derives from Roman law (southern Europe, Latin America), the panorama is very different, because property can be transmitted with a pledge to pay. This model lets merchants establish conditions of deferred payment to their suppliers, which can range from 160 to 200 days, which has the direct effect of depleting the capital of food-producing and -processing companies.

MARKET TRENDS

As you are aware, many variables affect the demand for agri-food products; the first (the number of consumers) is obvious. While in the European Union some countries have already fallen below the population reproduction rate (two children per woman in Spain and Italy, it is slightly more than one), in Central America the population reproduction rate is more than four children per woman.

Thus, the European population is in clear decline (according to the United Nations' Population Division, Spain will have lost 22% of its present population by the year 2050), while the population of Central America is estimated to reach 50 million by the year 2015. Therefore, although an increase in the demand for food products is not expected in Europe, in the Central American region, demand will obviously rise.

In contrast to the model of developed countries with aging populations (for example, in 2050, the average age in Spain will be 55 years and in the 19 most developed countries, the segment of the population 80 years of age and older will be 10%), in Central America 41.3% will be under 15, with the weighted average age being less than 23 years. This should be kept in mind in the production strategy for the local market, which will be serving the needs of a population of youths and children.

In addition, European families consist primarily of couples or couples with one child, while in Central America, families have three or more children. Clearly, the food needs of the latter family are radically different from the former. In the first, the trend is to eat prepared foods; in the second, the trend is to purchase basic foods to be prepared at home. The following table contains some data on this variable in three countries of the European Union.

TYPE AND COMPOSITION OF FAMILIES (IN PERCENTAGES)						
	GERMANY		SPAIN		FRANCE	
	1985	1995	1985	1995	1985	1995
Household						
Single person	27.5	32.4	8.1	10.2	21.3	23.7
Couple	25.9	27.8	35.0	37.0	26.2	29.0
Couple with one child	16.5	6.3	17.0	17.6	16.0	16.7
Couple with two children	14.0	11.8	19.5	16.3	15.7	15.8
Pareja con tres hijos	7.7	5.3	17.0	15.1	14.3	9.5
Otros	8.4	6.5	3.4	3.4	6.5	5.3

Source: Eurostat and INE.

Single-person households in some European countries make up a significant part of the population: in the case of Sweden, it is 41% and in Germany it now stands at 35%. A high degree of private consumption and an older population are common characteristics of countries where many people live alone.

Incidentally, in all the countries of the European Union, sales of pet food are greater than sales of baby food; in some countries, the figure is three times as high.

Another trend in developed countries is the lower share of food in total consumption. While in Costa Rica an estimated 33% of total household expenditures is for food, beverages and tobacco (and in certain countries such as Nicaragua and Honduras it is over 40%), in the European Union it is around 20%, with important differences among countries.

Other variables which are better known and experienced in all countries, regardless of level of development, include the urbanization of the population and the incorporation of women into the work force.

Contrary to popular belief, the urban population of Central America is practically the same as its rural population (48%), and the trend toward greater urbanization is unstoppable. When people leave the rural milieu to live in cities, this increases the demand for food products simply because production for domestic consumption is replaced by production for the market. In addition, it is impossible to go home for lunch in large cities, which results in a greater consumption of prepared products and of restaurant food.

This trend is accelerated by the incorporation of women into the work force. With no time to prepare lunch and a late return to home, there is a tendency to use semi-prepared and prepared foods that require less cooking time.

These trends have brought about change, especially in increasing the hotel-restaurant-catering channel that in developed countries reaches the same levels as the consumption of agri-food products at home.

In addressing the markets of Central America, it is also necessary to take account of the particularities of ethnic foods in each country. For example, as Guatemala has an indigenous population of almost 50%, it is necessary to consider lactose intolerance when thinking of introducing and preparing dairy products for the rural setting, since the population is not accustomed to consuming fluid milk after infancy.

In addition to considering the evolution of variables that have a bearing on demand, agri-food businesses also need to know how to position themselves in a market characterized by a growing supply, both of quality and of quantity. Central American enterprises (primarily small-sized establishments) have to deal with the multinational strategies of big businesses, which have clear comparative advantages due both to their capacity to locate their industries elsewhere, and to the strength of their relations with the large food distribution chains and their investments in publicity.

SECTOR STRATEGIES

Given this situation, agri-food enterprises should adapt to the aforementioned trends by adopting the following strategies:

- Specialize in segments that, because of the aforementioned changes in the variables making up demand, will continue to increase.
- Continuously innovate products in order to recover the market lost to competition
- Become organized to defend the interests of the sector and establish joint actions vis-à-vis globalization.

With regard to the first two, enterprises must consider that the demand for one or more products can change. By way of example, and in order to provide updated information on current trends in developed countries, I will present the results of an opinion poll conducted of Spanish consumers to determine consumer trends vis-à-vis food products purchased by large families.

There was a notable increase in vegetables, fish and dairy products; a sharp decline in fats (margarine, cold cuts, butter), sugar, canned foods and bread.

According to psychologists, these trends in developed countries show a change from satisfying needs to satisfying desires. Since needs are always specific but desires can be infinite, agrifood enterprises should innovate in order to offer products that respond directly to consumers' desires.

A quick perusal of the innovations seen at the most important international agri-food fairs allows us to classify food innovations according to three trends: differentiation to address the standardization of products consumed in large quantities, health issues, and preparation time.

Over 60% of the food market consists of standardized products that are sold massively for daily use by transnational enterprises and merchants that use the mass media for their advertising campaigns. Advertising and the regular launching of products of this nature at a lower cost and under distributors' brand names trivializes them and reduces profit margins. To defend their market share, large companies constantly launch new products to differentiate them from the rest. The strategies they use are the following:

Changes in packaging: both for aesthetic purposes and for incorporating certain conservation-related properties. Packaging is promoted that facilitates easier selective collection after use; a green dot identification mark qualifies the producing enterprise as a member of an integrated waste management system.

Differentiation by taste or by aroma. Common examples of this trend is the incorporation of differentiating aromas into oils and vinegar, or new recipes for the new cuisine. There is also a trend to return to traditional aromas in dairy desserts, candies, jams and jellies, stewed fruit or pre-cooked dishes.

International flavors. This refers to including elements that characterize the ethnic cooking of China, India, Mexico, and which provide new flavors which serve to identify the products.

Fun food. This is one of the more innovative trends; it targets children, aiming to catch their imagination. This is done through the taste, shape and textures of cookies, pastas, candies and dairy products.

The second strategy promotes healthy foods. In developed countries, there is a marked interest in this subject, to the point of obsession, demonstrated by an alarming increase in disorders such as bulimia and anorexia.

In Europe, health products make up 20% of food sales; this percentage will continue to rise due to the alarm caused by recent sanitary crises that have generated considerable insecurity among European consumers. The trends observed in health food products are:

Products that contain or do not contain certain components: light products (low fat), having fiber, having calcium, low in cholesterol, added vitamins, etc. ... There is such a proliferation of this type of product that advertising has had to be limited by law to prevent deceiving consumers. At present, some of these products, called nutraceutical products, are borderline medication.

Foods that are energizing or relaxing. These foods target consumers who need to rapid energy recovery, additional amounts of mineral salts, or products that reduce stress. The beverages market is where most products with relaxing or energizing effects are sold. Examples are yogurt containing herb extracts or candies that reduce drowsiness.

Foods related to cosmetic products. "Bio"-yogurts or having other properties that hydrate the body or even reduce wrinkles.

Fresh produce. In Europe, there is a return to fresh products, primarily fruits and vegetables. Almost all-commercial establishments are opening sections for such products from all over the world. This includes a growing trend to consume environmentally friendly, sustainably produced organic products. The so-called Mediterranean cooking (characterized by a high intake of fresh vegetables and a low intake of animal fats) is emerging as one of the healthiest dietary models.

The last large trend in consumer preferences that I will refer to are foods that can be prepared rapidly. In North American supermarkets, the selection of prepared, ready-to-eat dishes has shown the most rapid growth in recent years. This includes ice cream, pre-

cooked dishes for microwave heating, and refrigerated products (pre-cut products that only require mixing, including fruits, vegetables, meats). In addition, more and more supermarkets are now including sections where prepared food can be eaten (10% of the area in the US). The same can be noted in European and Central American supermarkets.

The above describes several trends which evidently may not hold true for the entire world, Europe or Central America. Internationalization and innovation primarily target different times and places (pizzas, hamburgers) or marginal foods (sodas, breakfast cereals, potato chips, ice cream, liquid yogurt), and not main meals. Therefore, when launching products on the market it is very important to be familiar with the most deep-rooted food habits and particular tastes of the given country or region (for example, the most popular spices sold in Spain contain colorants, German cookies use salt, etc).

By and large, developing countries continue to consume traditional products or fairly unprepared products, such as basic grains (corn, rice and beans), beef and chicken, fruits and vegetables, but there is a growing trend to eat more and more processed products, preferably imported ones. In the developed countries, an interesting element of change is the move to return to valuing "local" products. For two decades, this trend has paralleled the phenomenon of globalization. While both trends seem to be contradictory, they are in fact consistent since the recovery of local value is part of the search for identity and roots in an increasingly globalized cultural world.

In this context, consumers become more and more subjective with regard to their food choices. During the past five years, the European Union has begun regulating products linked to an origin or a culture, with Denominations of Origin, Protected Geographic Indications, Food Specialties, and Biological Production Indications. The aim is to protect or encourage this type of product, normally associated with small-scale agriculture and agroindustry. More-

over, it contributes to the organization of private initiative, the standardization of production, and represents a distinctive element for promoting the product as a legally protected marketing tool.

In this same context, the food security strategies promoted by FAO's Special Food Safety Program (SFSP) value endogenous local resources for development. The Program supports development of local products by means of an approach that analyzes the constraints of the rural milieu, and then spurs and revitalizes all potential production at that level, in order to pave the way to what some authors refer to as the interstices of globalization.

In addition, according to the SFSP, in order for development to be real and effective, it is necessary that identification, participation and organization of local products be a priority for reducing food insecurity in the rural milieu.

For both developed and developing countries, we must always start with the idea that globalization is good for big businesses, but that for small farmers and agro-industrialists, the world is still as large as it used to be, if not larger, and that the only way to address the current situation is to develop local products and to strengthen trade associations. The agri-food sector should have strong organizations at the local and national levels that can help prepare businesses for the future and provide services that society does not (research and development, training, market research, etc.).

ORGANIZATION OF THE AGRI-FOOD SECTOR

As you all know, the difference between a higher organism and a single-celled organism or a group of undifferentiated organisms is that the latter do not have something that organizes and orients them, establishing specific functions for the group of individuals. The cells of higher organisms, on the other hand, are organized, some into muscle for motor function, others for nerves, bones, etc. Evidently, this differentiates the capacities of different organisms.

Similarly, a modern society must be organized, in some cases into business associations, in other cases into trade unions, etc.

In the agrifood sector, as in other sectors, there are different ways to organize. Here we will mention three. The first is what we can call a "business pool," which is a group of large businesses that organize to defend their particular interests. This model is lacking in one important area because it overlooks the many thousands of enterprises that constitute the business fabric of a country, and it is therefore not representative.

The second model is territorial, that is, organization by geographic area or region. In it, enterprises are joined only by an interest that has little to do with their business: that they are situated in the same given region.

The third model is the trade association, which at one time, was the basis for the movement from the medieval age to the Renaissance in Europe. This type of organization deals with common interests and is representative.

Regarding the representative nature of organizations, the legitimacy of a trade association is determined both by the number of member producers, associations and businesses, and by its economic strength.

However, we must not overlook the fact that they must have appropriate institutional means for bringing influence to bear on the agencies responsible for the decisions affecting the sector. Therefore, their position in the structure of the private sector of each country is of primary importance.

In this regard, an interesting prototype organization groups trade associations under a common umbrella, one that channels horizontal interests that converge from each of the production and processing subsectors.

Thus, in order to ensure positive fruits from its work, an umbrella organization should maintain balanced relations with participating trade associations. To do so, it must respect four basic rules: not to intervene in conflicts among parties; respect the autonomy of each member association; maintain suitable equilibrium between the interests of large and small members in decision making; and operate with total transparency.

In addition, there is also a second network of interests, one that establishes links for sectoral collaboration that provide a comprehensive view of the agrifood system (AFS) as a whole, from production to consumption.

Traditionally, the different positions of farmers as sellers, industrialists as transformers, and retail merchants as distributors of agrifood products, have given rise to very complex relations in the different stages of the AFS. With the passing of time, the sectoral organization of the AFS in developed countries has evolved by means of collaboration between stages, common interests, recognition by the State, and the assignment of specific functions vis-à-vis the formulation and application of agricultural policy.

At present, small- and medium-scale agrifood enterprises must organize to be able to deal with the comparative advantages of large firms, whose business strategies emphasize grouping for achieving economic interests.

In this regard, one of the most successful experiences has been the model of inter-professional agri-food organizations (organisation interprofessionnelle in France, productschappen in Holland, marketing boards in the United Kingdom, Organización Interprofesional Agroalimentaria, OIA, in Spain). The basic premise of an inter-professional system is that when a sectoral association handles more than a certain percentage of the output and transformation of a product, the decisions adopted by that entity are binding on the rest of the non-affiliated enterprises in the sector.

The objective of these organizations is to tap the synergy of production and processing organizations, achieving a greater economy of scale through coordination of certain aspects agreed to by the parties, including research and technology development (a task carried out by large companies to maintain a high level of competitiveness), market studies, statistics and information systems, and promotion of agri-food products.

The establishment of inter-professional organizations is completely compatible with the existence of grassroots and general trade associations that defend the common interests of several sectors. Inter-professional organizations strengthen the work of the associations and are mixed structures that do not prevent, hinder, or eliminate their constituent parts.

BUSINESS COOPERATION/REGIONAL INTEGRATION

I would not want to conclude this presentation without first referring to a very important part of the two-pronged strategy (market niches and regional cooperation) that UNCTAD has presented at this seminar, and it is business cooperation and regional integration which, in my view, are two very closely related topics in Central America.

Business cooperation is a response to the need to internationalize agri-food businesses, either because of the pressure of internal costs, market globalization, or the need to reach new consumers.

In this regard, an enterprise must be valued not just for the products it offers, but also for certain existing intangibles. Cooperation, then, is based on the following: technology transfer, know-how, machinery, training of technicians, assignment of patents, producing under franchise, crossed distribution and joint ventures.

To carry out these tasks, the business must engage in joint actions, often within the organization itself, and with the support of institutions specialized in this matter (Procomer in Costa Rica, Prochile in Chile, Icx in Spain, etc.). Actions generally include direct missions, investments, market studies, visits to fairs, etc., and the joint efforts of several companies makes it possible to handle such initiatives at a relatively moderate cost.

Actions of this kind tend to give rise to very diverse types of strategic alliances in which the strengths of one cooperating enterprise complement those of another. Often, if one enterprise is stronger, it can buy out the other, something that should be viewed as positive because this is normally accompanied by larger investments, more jobs and increased competitiveness of the new firm because of the synergy resulting from the alliance.

Promotion of an enabling business climate is one of the most important challenges in efforts to attract investors to Central American countries. In this connection, more than demanding subsidies and specific protection, agri-food organizations should request the State to make sure that basic infrastructure is functional and that the services necessary for business development are available. If guarantees do not exist for attracting enterprises that create stable employment, the door opens for hot money, something that does not contribute at all to bringing about economic and social development in a country.

At this point in time, certain factors must be overcome in Central America that can affect business activity, including:

1. Shortcomings in the quality and availability of infrastructure services for production
2. High interest rates and high requirements of guarantees
3. Discrepancy between supply and demand of training services for technicians

4. Insufficient public and private support services (both in quality and quantity), at international prices and standards, for the design of products, processes, standardization, laboratories, market studies.
5. Perception of insecurity by foreign investors
6. Particularities of the Central American business sector, which is composed primarily of family businesses with their individual management styles, scant international experience, and the difficulty of working with international partners.
7. The lack of regional integration, which affects transactions inside the Central American region itself.

The last point is a challenge for the countries, and not just the governments. The agrifood sector, through its representative organizations, must participate actively in these processes.

A society is advanced when its private sector is capable of organizing for its future and mapping its course action without depending on the State. For this reason, I find this workshop highly interesting, and I trust that the discussion of the working groups will enable us to propose actions that allow the producers of the countries represented here to gain access to markets and improve food security through the organization of the agrifood sector.

SMALL-SCALE PRODUCERS AND THEIR PARTICIPATION IN AGROEXPORT IN CENTRAL AMERICA

*Speaker: Carlos Pomareda
Consultant, Costa Rica*

INTRODUCTION

The theme of participation by small-scale agricultural producers in agroexport business is the subject of constant concern and analysis. Knowing, or at least assuming, that this is a good alternative for participating in foreign markets, the question is thus, "What can small-scale producers do to make this a better option than continuing to produce for the domestic market?" The other related question is, of course, "What to produce that is different from what is already being produced, that would be more profitable, make it possible to receive better prices and improve net income?" And finally, this question: "What conditions are necessary for export business to be viable for small-scale producers?"

This brief document discusses these aspects on the basis of two elements. First, a framework of reference indicating who they are and what they produce, making it possible to discern their potential and limitations. And second, revealing the experiences of small-scale producers when they have participated under different modalities, making it possible to appreciate real possibilities under different scenarios, depending on the differences and capacity of the people and their organizations. Based on these assessments,

suggestions are made concerning possible actions leading to the successful participation of small-scale producers in export.

It is important to recognize that for such success to be feasible, there may be a role for the State, trade associations and NGOs. They have participated in innumerable experiences, some failures and others successful. In some cases these were based on illusions and good intentions on the part of public officials, NGO technicians and leaders of trade associations who cheered small producers on in short races that ended up in debt and frustration for the central actors who had little to do with the decisions that were key to success or failure. On the hand, there are also some cases in which the challenges were faced with realism, a pragmatic attitude of not expecting gifts or concessions, and capacity for negotiation. In these cases, little by little the foundations were constructed for successful and lasting business. Both types of experiences leave important lessons.

This document refers briefly to the characteristics of small-scale producers in Central America; export of agricultural products, with special attention to nontraditional products; alternative forms of participation by producers in the business of export and exporting experiences that offer certain lessons. Reference is also made to the benefits generated from exporting agricultural products, and to the organizations that support this type of activity.

SMALL-SCALE PRODUCERS IN CENTRAL AMERICA

The term, "small-scale agricultural producers," is applied under a considerable variability of criteria, with one of the most widespread being the size of the property. Without pretending to have found "the" most correct definition in this respect, it is useful to examine the following characteristics assigned to this segment of the rural population:

- Property of a reduced size (less than 10 hectares), usually in degraded zones highly exposed to damage from climatic disasters and without irrigation

- **Very limited capital inventory (equipment, tools and animals) not amounting to 20% of the value of the land**
- **Fundamental dependence on personal and family labor; very occasionally with a hired worker, or exchange of labor force with other small-scale producers**
- **Limitations in education, culture, management capacity and technological knowledge, and aversion to risk, all of which keeps them from becoming involved in more demanding activities that are more profitable, but more risky**
- **Income from sale of crops and animal products is not sufficient to maintain a family and, as a consequence, the producer and other members of the family usually work as temporary hired help and receive remittances**
- **Membership in associative organizations, usually created by the government or NGOs, in which the cooperative vision is weak**
- **High transaction costs in obtaining services and inputs and trading products, which reduce profit margins in relation to other larger producers or those with greater operating capacity.**

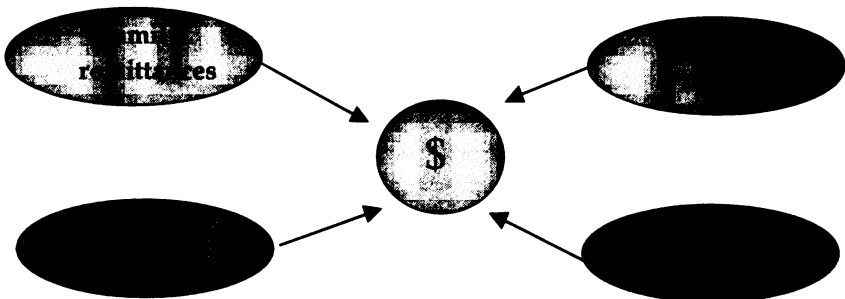
Given this synthesis of characteristics, two observations must be made. The first is that these conditions do not always occur simultaneously, and when they do, we would be looking at the case of small-scale producers with greater constraints. The second is that the less these characteristics occur simultaneously, the more potential there is for successfully producing for export. This is indeed revealed in the analysis of successful cases presented later in the document. Even more so, the greater part of the successful cases occurs among producers falling within the upper limit of the category of "small-scale producers."

With respect to the agricultural items common among small-scale producers, the most important are those comprising the basic family diet, and products with more or less established markets where, although prices may fluctuate, there is always someone who will buy. For example, items in the category of family diet in

Central America include the omnipresent corn and beans, while in the Andean region equivalent crops would be potatoes, barley and corn. Products with established markets in Central America include coffee and milk, versus cacao, coffee, coca and potato, in Andean countries. Smaller livestock with lower feeding costs (goats, guinea pigs, and sheep) are common among poor Andean families, while at least one cow and a pig are common among the small-scale campesinos of Central America. In both cases, they represent a source of food and highly liquid assets.

With regard to source of income, for most small-scale producers the sale of farm and livestock products is a decreasing proportion of total income. In the case of Central America, remittances from family members working in the cities of each country and overseas are particularly important. There is also a significant amount of income contributed by family members working on other farms, or in businesses or towns close to the farms. This aspect is important given that the family labor force of small-scale producers is not always comprised of the best quality human resources. Figure 1 shows the main sources of income for campesino families.

FIGURE 1
Sources of income for campesino families



Source: Pomareda, 1997.

The relative importance of the different sources of income varies among producers with properties of different sizes and different capacities for generating income. Table 1 presents information showing the averages of several countries. It is noteworthy that wages and family remittances can constitute almost the total income of the smallest producers. Clearly, direct participation in agroexport is not possible for them, although some have been incorporated in the production of crafts for export.

This diversification of income has at least three explanations. First, with reduced extensions of land, no irrigation and technological limitations, it is impossible to generate sufficient income. Second, diversifying income is a logical way of managing the risks that characterize agriculture. And third, work outside the farms and family remittances are a common characteristic of families whose sons and daughters do not want to live on a farm anymore

TABLE 1
Variation in the relative importance of sources of income for campesino families (percent of total)

Source	Size of property (has)	
	0.1 – 5.0	5.0 – 10.0
Sale of products	25	55
Wages	50	30
Other activities	15	20
Family remittances	50	20

Source: Jordan F. et al. Average of several studies in Mexico, Guatemala, El Salvador, Ecuador, Colombia and Peru.

AGRICULTURAL EXPORT PRODUCTS

This section refers to the main export products and those in which small-scale producers participate. It is important to keep in mind that different products are aimed at different markets. As a

consequence, reference is made to agricultural products exported to developed countries and to those of Central America.

The main agricultural exports in Central America are coffee and banana. The importance of other major products, such as beef and sugar, has declined. Others are growing, including nontraditional products, and reference will be made to these further on. All the products are aimed especially at the United States and Europe. Of these, coffee is grown particularly by small-scale producers, but only in exceptional cases are they directly involved in export, since this activity is controlled by a small number of transnationals.

The resurgence of intraregional trade has given way to a change in the composition of the portfolio of products traded in the region. Some of the most important are milk products, beef and agribusiness products. Milk products are varied, and include the home-style cheeses sent from Nicaragua and Honduras to El Salvador, and the UHT milk exported from Costa Rica to all the countries of the region, particularly Guatemala. Milk production to make cheese in Honduras and Nicaragua takes place entirely on small farms.

Traditional agricultural products have been partially substituted by the so-called Non-Traditional Agricultural Products (NTAPs.) In general terms, NTAPs in Central America are defined as those that do not qualify as having historical importance in terms of exports (basically sugar, coffee, banana, beef.)¹. Also included in the category of NTAPs are "traditional" products that incorporate some degree of processing or innovative methods of production and/or fabrication that differentiate the product from its customary state of export (i.e., organic products, preserved, etc.)

The importance of the NTAPs in exports from the Central American countries has increased notably during recent years. Comparative numbers for 1990 and 1995 are shown in Table 2.

1 Cocoa and cotton are not considered traditional products in all the countries of the Isthmus.

TABLE 2
Central America: Relative importance of exports of NTAPs
in terms of total exports
(US\$ millions and percents)

Year	1990				1995*					
	Total	Agricultural NTAPs	% of total	% of total ag.	Total	Agricultural NTAPs	% of total	% of total ag.		
GUA	1,163.9	739.4	169.2	14.5	22.9	1,568.6	786.6	270.2	17.2	34.4
HON	831.0	727.3	111.3	13.4	15.3	1,092.0	993.8	340.3	31.2	34.2
ES	582.2	nd	42.5	7.3	nd	1,661.3	nd	66.1	4.0	nd
NIC	330.5	280.4	68.8	20.8	24.5	497.3	497.3	178.3	35.9	35.9
CR	1,725.6	872.2	205.6	11.9	23.6	3,285.4	1,566.1	444.0	13.5	28.4
PAN	445.0	nd	22.1	5.0	nd	540.0	nd	36.0	6.7	nd
TOTAL	5,078.2	2,619.3	619.5	12.2	23.7	8,644.6	3,843.8	1,334.9	15.4	34.7

* Numbers for NTAPs correspond to 1994.

Source: Pomareda C. and J.M. Villasuso, 1997.

In each country, the number of products has varied over time, appearing and disappearing in the lists of exports according to the behavior of demand and production results. In 1995 there were around 40² products making up regional supply of NTAPs, not all of them significant. Seafood products, pineapple, melon, flowers and ornamentals, and fruits with some degree of processing have enjoyed the greatest relative share.

New products include the different types of vegetables (carrot, beet, green bean, garlic, asparagus, Brussels sprouts, cabbage, tomato, lettuce and others), the mini vegetables, roots and tubers, flowers and ornamental plants, essential oils, "bigger" fruits (mango, pineapple, melon, citrus fruits, avocado) and "smaller" fruits (blackberries, strawberries, raspberries and others), seafood (shrimp being the most significant, dried and smoked fish, fish fillets, shark fin), forest products, and others such as sesame seeds, cardamom and honey. Also, organic products (including coffee) have been received well in international markets.

² Of these, at least 15 are in the category of vegetables, 10 in the category of seafood and 15 in the category of fruit (fresh or processed to some degree).

Small-scale producers participate in the production of all these categories in different ways that are described later. As a general observation, it should be remembered that the dominant product in this portfolio of exports is coffee, which is primarily grown by small-scale producers. In almost all cases they sell their product to third parties, and the strong oligopolic structure of the international coffee trade should be kept in mind. However, in recent years several initiatives have been developed so that organizations of small-scale producers can export coffee directly.

Concerning each country's participation in total regional exports, Guatemala was the major exporter in 1985 (52.5%), maintaining this position until 1987. As of that year, Costa Rica has grown rapidly and now has the largest share of regional export. Guatemala also lost its second place ranking to Honduras in 1993. El Salvador has maintained a share of less than 10% since 1988, as has Panama. Nicaragua's participation has been growing rapidly since the early 1990s.

TABLE 3
Central America: Evolution of exports of NTAPs according
to country, 1985-1995
(millions of US\$ and percents)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GUA	83.4	86.1	120.6	133.4	149.5	169.2	192.8	222.3	225.1	236.5	270.4
HON				129.6	123.1	111.3	145.4	198.6	280.3	317.5	340.3
ES		34.3	41.4	35.0	29.1	42.5	56.7	52.8	55.7	57.3	66.0
NIC*				34.3	56.8	68.8	60.6	51.6	87.0	129.7	178.3
CR	75.4	91.0	111.7	155.6	188.3	205.6	220.4	287.3	389.6	382.3	444.0
PAN		20.6	24.3	25.9	21.5	22.1	22.8	25.1	32.4	36.0	
TOTAL CA	158.8	232.0	298.0	513.8	568.3	619.5	698.7	837.7	1070.1	1159.3	1299.0
GUA	52.5	37.1	40.5	26.0	26.3	25.3	25.8	25.9	20.2	20.1	20.2
HON	0.0	0.0	0.0	25.2	21.7	16.6	19.4	23.2	25.2	26.9	25.4
ES	0.0	14.8	13.9	6.8	5.1	6.4	7.6	6.2	5.0	4.9	4.9
NIC*	0.0	0.0	0.0	6.7	10.0	10.3	8.1	6.0	7.8	11.0	13.3
CR	47.5	39.2	37.5	30.3	33.1	30.8	29.5	33.5	35.0	32.4	33.1
PAN	0.0	8.9	8.2	5.0	3.8	3.3	3.0	2.9	2.9	3.1	0.0
Total %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* The base document from this country does not specify if data refers only to NTAPs.

Source: Pomareda C. and J.M. Villasuso, 1997.

The relative importance of an NTAP group or category varies according to country and period³. For example, in Guatemala the category of vegetables rose from 12.3%, in 1985, to 16.1%, in 1990, and to 16.8% in 1995. The relative weight of seafood products (shrimp, lobster and fish) in the total export of NTAPs has ranged from 10.9% in 1985, to 8.7% in 1990 and 9.6% in 1995. In Honduras, where exports of starches, citrus and banana have disappeared, the relative importance of shrimp has declined slightly in the total export of NTAPs, from 38.2% in 1988, to 26.1% in 1990 and 27.6% in 1995, but still the main nontraditional agricultural export product. In El Salvador, the seafood category (especially shrimp) has maintained a share fluctuating between 50% and 35% of all NTAP exports during the 1985-1995 period.

TABLE 4
Central America: Evolution of the portfolio of NTAPs for export 1988*, 1990, 1992* and 1995, millions of US\$**

Product	1988		1990		1992*		1995**	
	1000s US\$	% of total	1000s US\$	% of total	1000s US\$	% of total	1000s US\$	% of total
Vegetables	17.8	3.5	27.5	4.4	34.9	4.2	46.9	3.6
Roots and tubers	5.7	1.1	47.9	7.7	13.1	1.6	24.3	1.9
Seafood products	100.2	19.5	103.1	16.6	120.4	14.4	283.6	21.8
Fruits and preparations	43.7	8.5	66.2	10.7	101.8	12.1	185.5	14.3
Essential oils	11.7	2.3	4.5	0.7	7.4	0.9	6.7	0.5
Flowers, plants, bulbs	29.6	5.8	72.8	11.8	58.5	7.0	141.9	10.9
Tobacco (processed and crude)	59.0	11.5	66.4	10.7	132.5	15.8	213.6	16.4
Wood and manuf.	12.6	2.5	10.1	1.6	15.4	1.8	26.0	2.0
Sesame	18.1	3.5	38.8	6.3	29.5	3.5	41.6	3.2
Food products	9.1	1.8	12.9	2.1	18.2	2.2	27.4	2.1
Natural rubber	8.3	1.6	9.5	1.5	14.2	1.7	26.3	2.0
Macadamia	-	-	-	-	-	-	23.7	1.8
Subtotal	315.7	61.4	459.7	74.2	545.9	65.2	1,047.4	80.6
Others	198.1	38.6	159.8	25.8	291.9	34.8	251.6	19.4
Total regional NTAP	513.8	100.0	619.5	100.0	837.7	100.0	1,299.0	100.0

* As of 1988, when country reports became available.

** Data on Panama corresponds to 1994.

Note: The Nicaragua report provides a breakdown of non-traditional exports for 1995 only.

Source: Pomareda, C and J.M Villaluso, 1997.

- 3 The portfolio of each of the countries is continually diversified, and while two or three of the categories or products remain relatively constant, there are products that displace others, depending on market opportunities or in response to other factors.

FORMS OF PARTICIPATION BY SMALL-SCALE PRODUCERS IN EXPORT

Two concepts should be clarified as this section begins. The first is "to produce for export," meaning that the producer meets all product quality requirements and the logistical conditions established in contracts in terms of volumes, dates, etc., signed with third parties. This could be an agribusiness that transforms and then exports the product, or directly with an agroexport company. The second concept is, "to export," which also requires responsibility for all processes implied in export, including packaging, consolidation of supply, international transport, etc. Producers can carry out export directly (usually with the help of a broker) or through their organizations.

Forms of participation by organized small- and medium-scale producers and larger national and transnational companies vary greatly according to product and country.

In Guatemala there is a clearly defined specialization in production and agribusiness for export. On one side are the crops developed mostly by small-scale producers, such as Chinese pea pods, broccoli, sesame, and cardamom, and on the other, those associated with larger and more specialized producers, such as melons, flowers and ornamental plants. Often, producers of these crops are also exporters, or have well-defined arrangements with specific exporters. Participation is estimated at 104,230 producers (51,360 of vegetables, 1,400 of flowers and plants, 10,650 of larger fruits, 140 of smaller fruits and 40,410 of other products.)

In Honduras the nontraditional agroexport sector is mainly formed of a few medium-to-large-sized companies, with little participation by transnationals. This has limited the provision of services since, in addition to the fact that these agroexporters have limited resources, demand is also reduced due to the small number of actors and their specialization. Some sectors, such as the shrimp and cigar industries, have well-defined relations for the provision of specialized services.

The situation of Costa Rica is similar to that of Guatemala. In general, small-scale producers grow vegetables (as well as roots and tubers), while products such as pineapple, citrus fruits (and juice concentrates) and melons are in the hands of large producers or transnationals, as is the production of flowers and foliage.

The participation of small-scale producers in export business in Central America is abundant and takes place under different modalities that can be grouped as follows:

According to the degree of producer involvement, there are cases of:

- Producers who deliver their product (sometimes under a planting contract) to processor/exporter companies
- Products associated with cooperatives, where production and export is carried out in associative form
- Producers who produce on an individual basis and deliver their product to a processor/exporter company in which the producer is a shareholder

From the viewpoint of number of products exported, there are also many variations:

- Companies that export only one product, or where the basic primary product (i.e., coffee) is presented in several forms or final products for specific markets
- Companies exporting several products (i.e., mini vegetables)
- Companies that export products certified as organic

With respect to the degree of processing, these can be:

- Perishable primary products

- Non-perishable primary products
- Perishable processed products
- Non-perishable processed products

Variations with respect to agroexport dynamics, include:

- Companies that have diversified their product offering over time
- Companies that have expanded to several markets
- Companies that have maintained the same product(s) and market but have won space in that market

In terms of the market of destination, there are also variations:

- Companies that produce for the national market and for export markets
- Companies that export to several countries or to just one country
- Companies that export to less demanding markets (Central America) or to more demanding markets (Europe, Japan)

In the cases described in the next section, it will be noted that several combinations are possible within these four criteria. Also, there are no recipes for the best option. Each case must be analyzed for its own merit and each potential project requires an appraisal of the best options for organization and alliances with other actors.

EXPERIENCES OF SUCCESSFUL PRODUCERS

Agribusiness Transformation and Prices Tiered to Quality

The business strategy for export is particular to each company depending on its product(s) and market. For many agricultural

products, industrialization is an indispensable step (i.e., palm oil, beef, pork, fowl, milk products, etc.) Likewise, in the majority of cases, this industrialization can only take place at certain scales of operation in order to obtain the capacity necessary for generating a varied number of products based on a primary product (for example, cattle to generate different types of meats, and milk to generate milk products.)

In these cases, small-scale producers on their own have many constraints in developing industry with sufficient capacity. In other cases, although they acquire sufficient volume by uniting, things go better if they establish a contractual relation with an agribusiness. This is the case of Carnes de Coclé, a meat company in Panama. The company buys cattle from a certain number of producers (45), based on quality standards and a system of prices that award quality. The quality of the animals is reflected in the quality of the channel and the meat, and corresponds to the weight/age relation of the animals, with the best prices paid to animals with the most weight at the optimum age of 16-18 months.

The company has developed its production technology so as to generate a broad range of fresh and frozen meat products (no cold cuts are produced), which are sold in several Central American countries, the U.S. and Asia. The foundations for success in the growth of this company have been good relations with cattle raisers, who provide the raw material, especially in pay for quality animals. Other factors include technological innovation at the industrial plant (for development of products) and an aggressive search for markets for differentiated products. The company does not export industrial meat for hamburgers, but products with value added based on a detailed management of different parts of the channel, thus obtaining prices that are three times the average price for industrial meat in some cases.

Expansion and Consolidation

A company's market strategy can lead it to diversify its markets over time or to concentrate on just one with potential for becoming more competitive. The following case is not that of a small-scale producer, but it offers important lessons.

Flores Garcés, in Costa Rica, is a company located in the Central Valley, 25 km from San Jose, at an altitude of 1400 meters above sea level. The farm has 18 hectares, five of which are dedicated to the production of chrysanthemums (a product) in greenhouses, all year long. Production began in 1984 with three greenhouses, producing 10,000 boxes/year. This was a small company at the time. Fifteen years later the company continues producing only chrysanthemums, has expanded production area by 70% and has managed to increase production 350%. The annual value of sales is something more than a million dollars, compared with one hundred thousand a year during the first three years.

The decision to continue producing only chrysanthemums and only for the U.S. market was based on the following factors:

The American market for flowers is quite diversified (25 species and hundreds of varieties). Chrysanthemums occupy just 6% of that market and Flores Garcés has only 1% of that amount.

Flores Garcés has been able to dominate production technology. It produces 48 varieties and colors, and has acquired a knowledge of the market in terms of dates (Valentines Day, Mother's Day and Christmas) and consumer preferences.

In terms of production, the company has learned and developed technology, reduced production cycles, packaging and air shipping; established a very fruitful relation with suppliers of inputs and services and maintains a very harmonious relation with company employees (181 in the year 2000), assuring adequate working conditions, responsibility and salaries. Regarding relations with

the market, after many years of delivering generic product, thanks to the collaboration of brokers the company is now directly marketing its own brand.

One of the determining factors for success has been personnel management, from selection to discipline, motivation and incentives. The company stresses that the details are as important as the overall strategy.

Support from Trade Associations and Clear Responsibilities

The issue of direct producer participation in export has been the object of attention from NGOs, trade associations and ministries of agriculture. The central idea is that "at the beginning it is necessary to support them so they can develop the capacity to carry on alone." Experiences are varied and make it possible to assess cases of groups that rapidly acquired independence and are successful, and those that were never able to wean themselves and are maintained thanks to a State subsidy or management and technical assistance from an NGO.

The Trade Association of Exporters of Nontraditional Products (AGEXPRONT) supports a conglomerate of companies belonging to small-scale producers of blackberries and raspberries. AGEXPRONT is located in Guatemala City and has a special program of support for quality management systems, called the Comprehensive Program for Agricultural Protection (PIPAA). The companies associated are located in the central, western and eastern Altiplano.

Each company has a technician accredited by the PIPAA. This technician in turn has a modest technical team led by an agronomist. PIPAA promotes quality management systems (QMS) and certification of inoffensiveness. In the short term, the goal is to promote QMS and access to environmental certification. The PIPAA, which guarantees the QMS, is financed 90% by company

shareholders, with the remaining 10% financed by a support program with funds from IDB and MAGA.

The conglomerate includes 350 farms that produce berries on 500 ha (70% blackberry and 30% raspberry.) Export is carried out by 14 companies that must be certified by the USFDA when the product reaches its destination in the American market. From 1995 to 1998 production ranged from 2,000 to 2,500 metric tons annually. One hundred percent of production is for export and represents foreign currency earnings of some US\$ 20 million.

The success achieved in this case is due to many factors, but one of the most noteworthy is the explicit concept that it is a project of producers and that the trade association and State offer support in specific aspects. The group's motivation and the fact that producers receive direct benefits are another important factor.

The Cooperative Effort

The possibility of achieving successful projects in associative and cooperative organizations depends to a great degree on the strength of the organization. A large number of projects that could have been successful were not because they were implemented by organizations without the necessary capacity. However, there are very valuable experiences.

The Gaspar García Cooperative is located in the Municipality of Telpaneca, San Juan de Río Coco, Comarca Santo Domingo, Madriz, Nicaragua, and is comprised of 269 members: 181 men and 88 women. The cooperative has a total production area of 127 ha. for organic coffee. The coffee is sent to the U.S. market, with buyers contacted through the company, Trading S.A. Currently certification has been obtained for 42 ha. The rest of the area (85ha) is committed to export through another institution in order to resolve certain debts the cooperative took on in order to acquire material goods.

There is a contract signed and fully understood between the producers and Trading S.A. in order to formalize the commitments of both parties. There is also a contract with the coffee processing plant, "La Esperanza," belonging to Asisclo Laguna, which will provide exclusive services to Trading S.A. for the Gaspar García Cooperative and a community group in Santo Domingo.

Servicios Orgánicos S.A. was contracted to assist the cooperative in organizing farm information and follow-up on auditing systems. Training was also begun on the process of certification and its requisites. In previous years the cooperative had requested and obtained certification from OCIA International, passing the inspections required (Certified Producer No 30011 G023-93). For economic reasons, certification was requested through a member of the cooperative, since there was not enough liquidity to pay the fees for the entire certification process. In addition, this year Servicios Orgánicos S.A. was contracted to help with external control (Trading S.A. Member No: 13716).

It should be clarified that while the cooperative is dedicated to the commercial production of certified organic coffee, in individual areas members plant other crops not directly related with the production of the cooperative. These individual areas are not the responsibility of the cooperative, since they have been allocated at a personal level. However, the plan is for individual producers to apply for certification for their areas of organic coffee. An association of individual producers will be formed for this purpose, called Orgánicos de Santo Domingo.

The cooperative is a beneficiary of the CLUSA project, which provides direct technical assistance. Regular visits are made by a team of agronomists (2 or 3 times a month, depending on the need) to provide guidance on organic practices. Training is on a group basis and recommendations are left in the hands of the person in

charge of cooperative production, who is also responsible for ensuring compliance with these recommendations. These are left in writing and both the person in charge of production and the technician responsible sign off to prove that the document was left. This also makes it possible to follow up on recommended tasks.

The determining factors for the success of the cooperative are the solidity of the internal organization and the responsibilities acquired by each producer on an individual basis. In relation to the first of these factors, this includes the quality of the management, the rotation of producers in the board of directors, and transparent financial management. The second factor involves the effort to comply with norms of organic production.

Exportation with Certification

The certification of products, processes and companies for export is drawing an increasing amount of attention given evidence of the benefits it generates. Many successful experiences have been documented in this area (SIDE, 2000).

Casa Blanca Farm is located in the canton of San José, Municipality of San Sebastián Santa Ana, in El Salvador. Extending 40m manzanas, its main product is ecological coffee. Eighty-five percent of its production is exported and 15% is sent to local markets, altogether generating income of 400,000.00 colons annually. The farm has ten permanent employees, has existed for ten years and does not receive any kind of subsidy.

In 1998 the company was able to obtain environmental certification. Innovations incorporated in order to obtain this certification include: an environmental impact assessment; coverage of the social component (all the workers' houses have flooring, drinking water, electricity and toilets); minimal use of agrochemicals (certification

allows only the use of chemical fertilizer); protection of flora and fauna (there is an armadillo farm and various types of trees in danger of extinction.) Rainwater tanks have been constructed to supply the entire plantation, and housing, as well, when there is no access to drinking water. Significant investment has been made in training human resources about the reasons for protecting the environment and about bans legislated in the Law of the Environment.

Certification is supervised by Rainforest Alliance, the seal of certification is called ECO-OK and it is supervised nationally by the organization, SalvaNATURA. This certification guarantees coffee production with a low level of toxicity. It requires compliance with national legislation, the formulation of an environmental policy and environmental audits. These are made each year and can take place without previous notice. The certification is valid only for one harvest and must be renewed every year. The company makes sure that employees are aware of all aspects of certification and that they work directly with auditors during the audits.

Benefits from certification include better prices. For the 2000 harvest the farm obtained \$ 10.00 more than prices for coffee without certification. They have been able to market their product thanks to the ECO-OK seal, opening new markets such as Japan, Taiwan, and recently, Canada. The goal is to sell in the European and U.S. markets. The main obstacles to certification have included, first, the community's attitude, given the absence of an environmentalist culture. The neighbors have killed birds and mammals, cut down trees during the night, etc. For this reason, the property has been fenced in to protect the efforts being made there to preserve the environment. Another obstacle was that there is no specialized financing available for the investments required, and the certification process is expensive.

The most important factor in this case is the will to carry out the productive process under strict standards. This aspect is considered indispensable for maintaining quality and thus obtaining a better price.

Distribution of Benefits

One of the factors that has most motivated small-scale producers to participate directly in the export of what they produce is that they are running the greatest risks and carrying out the most work, but in most cases receive only a negligible portion of the income that the consumer pays at the end of the chain. This is a general rule, since the primary product goes through long processes of handling and transformation and in some cases receives more value added. Fresh fruits and vegetables do not acquire this value added, but milk does if it is transformed into cheese, or tobacco leaves into cigars, etc.

In the zone of Esteli, in Nicaragua, there are 17 companies that produce cigars for export. They obtain their supply of tobacco leaves in the region, produced by farmers who plant from 1 to 20 hectares. All in all they plant some 2000 ha. The tobacco produced locally is used for the insides (the center of the cigar) while the band and covering are usually made of imported tobacco leaves.

Tobacco production is very labor intensive, requiring some 175 day workers, and from 50% to 60% of this is in the harvest. The total cost per ha ranges from US\$2500 to US\$3000 per hectare. A laborer's wages are US\$2/day. The production of cigars in the factory is also highly labor intensive, and worker output is elevated, ranging from 100 to 200 units a day, depending on the type and size of the cigar. Cigar production also requires cellophane, seals, wooden boxes, packing material, etc., as well as special infrastructure for storage.

In addition to the factories, the cigars pass through several hands in the trading process until they reach consumers, with the best cigars sold in specialty stores and others sent to dispatch centers. Some are produced as special orders for individuals and companies that use them as gifts. Each actor in the chain incurs costs for registering brand names, publicity, storage under special conditions, etc.

The factories in Estelí produce some 70 types of cigars for 27 brands. There are 500 brands of cigars, and registering a brand costs US \$ 250,000. A full-page ad in the specialized magazine, *Cigar Aficionado*, costs US\$ 14,000.

Table 5 shows the distribution of value added throughout the process of production and trade. As explained previously, those responsible for trading incur considerable responsibilities and costs. This does not, however, explain why such a negligible proportion of benefits is received by the tobacco producers in Nicaragua.

TABLE 5
Formation of value of a box of 25 cigars (US\$)

Stage	Value added		Acumulated value	
	US\$	%	US\$	%
Raw material	7.4	8.4	7.4	8.4
Inside	4.4			
Outer layer	3.0			
Manufacture	10.9	12.4	18.3	20.9
Box	4.0			
MO and other materials	4.0			
Gross margin	4.0			
Trade until final sale	69.3	79.1	87.5	100

Source: SIDE: Studies on the competitiveness of agriculture in Central America. made for INCAE.

This example points out one of the most serious problems encountered in encouraging small-scale producers to participate in export. if the relation among the actors in the chain is not equitable, neocolonialism under the guise of export does not make much sense.

FACTORS THAT ENCOURAGE AND LIMIT THE PARTICIPATION OF SMALL-SCALE PRODUCERS

Factors to consider for the success of export-oriented businesses with the participation of small-scale producers include efforts of technological innovation and product development, short- and long-term strategy for growth and consolidation of relations with actors in the system of distribution. Also, in all cases harmonious relations among all parties are fundamental. The relations between exporting companies and producers are particularly important.

In relation to the technological theme, this includes many aspects for achieving costs of production and product quality that make it possible to be competitive. Unfortunately, the scarce participation of small-scale producers in export has been adduced to the lack of "appropriate technology." In most cases, the technology is available in the market, and it is impossible to demand an ad hoc technology for every producer. This does not take away from the fact that each and every producer is committed in a continual process of technological innovation.

Economic and financial incentives play an important role in motivating export, especially to encourage the assumption of risk. In Central America these incentives have been used with some variations among countries in terms of modalities. Magnitude and the amount of time in effect have varied considerably among the countries.

In Guatemala these incentives were created through decree 29-89, the "Law to Foment and Develop Export and Drawback Activity," and Decree 65-89 of the "Free Trade Zones,"⁴ offering reductions in import tariffs for machinery, equipment and inputs for production and export, and freeing exporters from income tax payments for a period of 10 years.

4 Part of the policies implemented in the country as of the mid-1980s

In El Salvador the Law on Reactivation of Exports (1990) provided a return of 6% of the FOB value of exports in compensation for the indirect taxes generated by export activity for the exporters of goods and services outside the Central American area. The Law on the System of Free Trade Zones and Tax Havens (1990) provides for total exemption from taxes on the importation of machinery, as well as from income taxes (10 years) and municipal taxes.

In Nicaragua, the objective of the Law for Promotion of Exports (1991) is to foment traditional and nontraditional exports outside of the Central American area. Incentives for exports include exoneration from tariffs on machinery and parts, raw material, inputs, semi-manufactured articles, and packaging material. It also exonerates exporters from paying the general sales tax on national inputs or raw materials. Exporters of nontraditional merchandise that sign an export contract with the National Commission for the Promotion of Exports also enjoy exoneration from income tax for a period up to 6 years as of 1992, a benefit that is reduced each year until the law expires. Likewise, legislation concedes the right to the Certificate of Tributary Benefit (CBT), equivalent to a percentage of the FOB value of the goods exported. This is granted for a six-year period, beginning at 15% (% of the CBT) and falling to 5%.

In Costa Rica, coverage of the 1972 Law to Foment Exports was broadened and was known as the Law of Incentives for Exporters, for which export contracts were created. Taxes on imports of raw materials and capital goods, and profits were exonerated. The law also provided for a subsidy ranging from 15 and 25 % on the FOB value of nontraditional exports.⁵

It has been pointed out that in all cases, the main beneficiaries of these incentives have not been the smallest producers. On the contrary, those who export the greatest volumes benefit most.

5 The Tax Credit Certificate had to be reexamined due to the adverse effects on the State when the supply of nontraditional exports from the country expanded at the end of the 1980s and beginning of the 1990s.

Cases of corruption in the administration of these contracts have also been demonstrated.

One of the most significant limiting factors for the participation of small-scale producers is the dispersion of production in one or more regions of the country. In the case of Guatemala, production is located in the Altiplano zone for vegetables. In Honduras, production is concentrated on the Atlantic coast and Yojoa, for pineapple, the Gulf of Fonseca for shrimp, and in the southeast for the cigar production industry. Production in Costa Rica is also dispersed, although there is a certain concentration of products in different regions: melons in Guanacaste, pineapple in San Carlos and the Southern Zone, and foliage and flowers in the Central Valley.

Both the type of producers and dispersed production also have implications for demand and supply of services. Services have been considered indispensable for achieving competitiveness. Especially when those who demand them are small-scale producers, their access to some services is limited since they must belong to organizations with the capacity to contract or offer the service directly, and in general they have a lower capacity of negotiation with businesses offering services. The largest companies usually provide the service for themselves or create subsidiaries to carry out that function. And when that is not the case, they contract the service on the outside, with an evidently strong negotiating capacity given the volume of production and the general conception that the largest companies are more serious.

From the viewpoint of geographical dispersion, this is usually not an attraction for the different input and services businesses, since they must mobilize equipment and/or technicians between several places. However, dispersion can also be an advantage if production takes place at different times among regions. The concentration of production of a product in a given region and at a

reasonable scale represents an incentive for all producers in that region to establish their service companies, or make them sufficiently attractive to be attended by a specialized company.

BENEFITS OF AGROEXPORT

In general terms, many benefits are ascribed to agroexport, especially the generation of employment and greater income for producers, whether small-, medium-, or large-scale. A close analysis of these benefits can be made in concrete cases for which information is available over a period of time. It is also possible to refer to benefits known in different cases.

The magnitude of the benefits varies widely among projects and businesses, and in any case, the impact of benefits depends on the size of the project and its durability. It is also necessary to assess direct effects on producer income and workers, as well as indirect effects derived from the development of their businesses. Not everything is a benefit, of course, since there are also costs, such as environmental costs, when businesses do not internalize environmental management. And last, some impacts are transitory while others are lasting.

To analyze benefits, an understanding of the process of establishing an agricultural export initiative is useful. The establishment of a pioneering initiative is often carried out by a leading business in this activity. It could be a transnational, a private company, or a progressive producer or group of producers. Other companies imitate the process, businesses are created to provide inputs, equipment and services, and with time a conglomerate is formed in a defined geographic sphere. Other parts of the conglomerate can extend outside of the region as part of the trade process.

In the case of Central America, there are several of these conglomerates in determined geographic areas that have grown up

around projects and companies that produce and export. Some of these include shrimps in the Gulf of Fonseca, in Honduras; cigars in Estelí, in Nicaragua; pineapple, in San Carlos, Costa Rica; and the sugar conglomerate of El Salvador. In all of these cases, conglomerates become the energizing force of regional economy. In it, small-scale producers are part of the machinery that moves into place when all the private actors find a suitable position for their interests. In other cases, the incorporation of other actors in addition to the pioneer company does not occur, and once established, the company remains alone and has little multiplier effect.

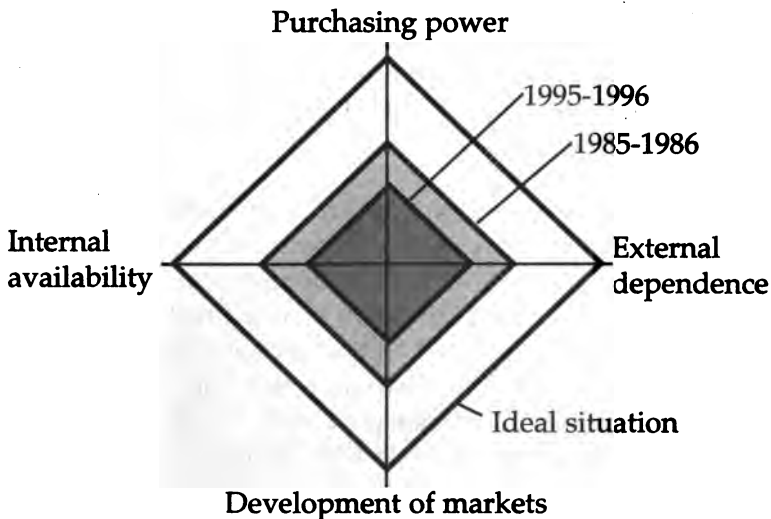
The development of conglomerates makes it possible to generate direct positive effects, as well as indirect effects, on the income of all participating businesses and for their workers. When one of the parties does not assume responsibility for the environment, there are negative effects that become very apparent due to incorrect management of solid waste and wastewater, smells, dust, etc. This is worsened when the density of operations increases and each party focuses only on "its" business. Another adverse effect from the unplanned development of conglomerates is the lack of labor. On the one hand, this leads to higher wages, which is positive, but on the other, the costs of production are increased. Competition among businesses for the best workers is a beneficial aspect, although it also causes friction among companies.

Often it is pointed out that there is a trade-off between the generation of greater income for small-scale producers through export of nontraditional items, and a reduction in the production of essential foods. It is also claimed that the market for the former is more risky, making income unstable. The concern is valid for both producers and countries. In the national context, export generates foreign earnings that can be used to buy basic food crops whose production does not generate enough income for those who produce them. At this last level, there is also a notion that those who export and earn more are not those who produce basic food crops, and as a consequence, the latter do not improve their economic situation.

It is necessary to assess the benefit to food security as a result of changing the pattern of products, taking several factors into consideration. As we saw previously, production of basic crops has fallen significantly in Central America, at the same time that non-traditional agroexports have risen considerably. To assess the effect on food security from change in cultivation patterns between 1985 and 1995, several indicators were developed and measured, and included as components in four criteria. The results are shown in Figure 2. It is possible to note that while the region is far from having optimum conditions of food security (defined as the edge of the outside rhombus), the indicators reveal that food security conditions have improved, especially due to the development of markets and the population's greater purchasing power. This does not mean that poverty has not worsened.

Another factor to consider in analyzing benefits for small-scale producers from agroexport is the risk associated with exporting. Risk in agriculture usually has three components: a) instability of

FIGURE 2
Progress toward food security in Central America, 1985-1995



Source: Pomareda Carlos, Food Security in Central America. IFPRI/IDB, 1998.

product yields and quality due to plagues, diseases and climactic disasters; b) variations in production costs associated with the measures taken to control the former events; and c) instability in the prices for products. All these risks are generally greater for export items than for traditional categories, although beans are an exception.

Added to these risks is the fact that export items require greater investments and costs are variable, so products incur greater indebtedness. The risk of loss of patrimony is an important factor to assess. There are abundant experiences of projects that arose with much enthusiasm and ended with debts that could not be paid. Just as bad are the cases of State-supported projects that fail, with producers demanding that their debts be pardoned.

While the success or failure of an agroexport project is the responsibility of those who implement the project, it is important to recognize the factors that explain whether benefits are obtained or not and the magnitude of these benefits. In terms of internal factors within the company or organization, some of the most important include the commitment to the project, the company's management capacity, the use of qualified and disciplined personnel, knowledge of technology for production, packaging and distribution, compliance with regulations on health, inoffensiveness and environment, knowledge of the market and capacity for negotiating with other actors.

Within the conglomerate, it can be expected that the business will be successful and generate benefits if all the actors exercise principles of competition that is honest and based on mutual respect. In addition, there must be service businesses for all those actions that producers need to contract, including technical and managerial assistance; information; water, soil, tissue and product laboratories; refrigerated transport with controlled environment, etc. In a 1997 study (Pomareda and Villasuso, 1997) it was found that agroexport businesses had prospered most when a sector of related services had developed, and to the degree that the private sector participated in offering these services.

The role of the State is essential as a promoter of the market for services, but also in offering some of these, such as sanitation, information and efficient export procedures. Its greatest contribution to a flourishing agroexport and ensuring that benefits reach small-scale producers is the systematic reduction of transaction costs. These tend to be highest for the producers with the greatest limitations. Currently, the guarantees that a State can offer with respect to security and the absence of crime have become increasingly important in promoting a favorable climate for foreign investment, as well as investments by producers themselves.

ORGANIZATIONS FOR AGROEXPORT PROMOTION

It is useful to recognize that an important factor in the increase of agricultural exports in Central America has been the creation of a public-private institutional base promoting the process.

There are a large number of organizations supporting agroexport (Table 6) and almost all of their mandates include attention to microbusiness, including small-scale farmers, but two aspects are evident. First, cooperation between public and private (trade association) sectors is insufficient in each country, and second, there is an absence of regional programs of inter-institutional cooperation. Considering the relatively small size of the region and the need for integration, this situation should be changed.

A summary of these organizations in each of the countries follows.

In Guatemala, the National Council for Promotion of Exports (CONAPEX) constitutes the first level of coordination between the public and private sectors. Its main objective is to "propose to the President of the Republic national policy for the promotion, diversification and increase of exports and ensure that corresponding instrumentalization and implementation takes place." The National Coordinating Commission for Export (CONACOEX) is the second level of coordination between the private and public sectors, created at the same time as CONAPEX. The One Stop

TABLE 6
Central America: Number of trade and public organizations
connected with the NTAP sector

Country	Public	Trade	Mixed	Total
Guatemala	2	2	2	6
Honduras	2	1	1	4
El Salvador	3	1	3	7
Nicaragua	4	1	1	6
Costa Rica	5	2	1	8
Panama	2	3	1	6
Total	18	10	9	37

Export Window is a dependency of the Ministry of the Economy, in coordination with delegates from the public and private sectors. Its main objectives are to facilitate and expedite export procedures, centralize through delegations the specific functions of public and private institutions that are involved with procedures related to the authorizations of export licenses, certificates and permits; and inform and guide users concerning legislation and technical instruments in effect. The Association of Exporters of Nontraditional Products (GEXPRONT): Its objective is to promote exports from the country and provide services for exporters. It has three fields of action: strategies and policies (with CONAPEX as its operational instrument); support and advisory assistance for businesspeople involved in export (with activities supported in commissions of exporters); and collateral services (operating through specialized entities.)

In Honduras there are trade associations at both the level of specific producers (melon growers, shrimp cultivation, etc.) and for agroexporters (Federation of Agroexporters of Honduras.) However, these do not have the level of trade representiveness their name would suggest. There are different NGOs that support the NTAP sector through numerous mini-projects for small-scale

6 In addition, in all the countries there are specialized trade associations according to product and/or region, not included in this document.

producers, to help them become agroexporters. The problem is that when these projects conclude, so do the inexpensive services they have provided for the small-scale producers. A project of the Honduran Foundation for Agricultural Research promotes nontraditional export by small producers or producer associations. For the first time, a project is focussing on support for agroexport in aspects exclusively related to marketing, as opposed to the emphasis on agronomy or technology, as has been the norm previously.

In El Salvador, the Central Reserve Bank of El Salvador provides direct support for export promotion through the administration of the Center for Export Procedures (CENTREX), an entity that centralizes all of the country's export procedures. The Ministry of the Economy also promotes actions for the opening or expansion of markets for products and services in the country, through the Department of Trade and Investment. The Law for Reactivation of Export and the Law on the System of Free Trade Zones and Tax Havens provides advisory assistance and support for foreign investment and the development of free trade zones and for industrial parks. Export and Investment Promotion provides current and potential exporters with support for placing their products in international markets and serves as a direct partner for the European Union regarding technical and financial assistance through the Program for the Development of Crafts in less developed zones. The objective of the Corporation of exporters in El Salvador (COEXPORT) is to foment exports of Salvadoran products and diversify its export markets, obtain and facilitate information concerning export, and serve as the State consultative body in all matters related to export. Other organizations in El Salvador are the Chamber of Commerce and Industry of El Salvador, the Salvadoran Foundation for Economic and Social Development (FUSADES), and the Salvadoran Association of Industrial Plants (ASI).

In Nicaragua the institutional base of support for agroexport is newer and includes the National Commission for Export Promotion (CNPE), whose function is to administer the Law to

Foment Export. The Nicaraguan Association of Producers and Exporters of Nontraditional Products (APENN) promotes and foments the production and export of nontraditional products. The Export Procedures Center is the one-stop window for exports. The Export and Investment Center provides technical support and information on markets, and foments foreign and national investment.

In Costa Rica, principal organizations include PROCOMER (previously the Center for Export Promotion – CENPRO), which offers professional services on export and market information. It is funded by the government and offers services at both the national and international level through commercial attaches. The Costa Rican Coalition for Development Initiatives (CINDE) is a national institution that offers professional services for production, export and information on markets. It provides market intelligence, supports exports and attracts foreign investment. The Costa Rica Chamber of Exporters (CADEXCO) is a trade organization providing exporters with information on the prices of products in international markets, export procedures, trade fairs, alternatives for transport of merchandise, trade treaties and agreements and promotion of the export offering.

In Panama the institutional foundation for agroexport is more limited than in other countries. There is the Union of Panamanian Agricultural Cooperatives for Export (UCAPE), which was originally created through the union of four cooperatives; the Trade Association of Nontraditional Exporters (GREXPAN), FUNDIPA (an NGO), TECHNOSERVE (NGO), and the Federation of Multi-Service Cooperatives (FECOSEM).

All together, the organizations identified could play a very significant role in a future strategy aimed at the development of agroexport, and particularly in seeking greater participation for small-scale producers. An effort must be made in each country to encourage these organizations to define explicit actions in keeping with their mandates so that small-scale producers will have greater participation in whatever modality makes it possible for them to improve their current conditions.

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THE CENTRAL AMERICAN FOOD INDUSTRY AND THE ROLE OF THE REGIONAL MARKET

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INTRODUCTION

In recent years, the intra-regional food trade defined as the sum of all agricultural and agroindustrial exports, has experienced major growth. While total exports from the Central American countries have shown an average annual growth rate of 4.5%, intra-regional exports of agricultural and agroindustrial products have shown an average annual growth rate of 14.2%. Thus, the trade in those products has more than doubled from US\$ 330.9 million in 1994 to US\$ 736.4 million in 1999.

In terms of their relative share of regional trade, agroindustrial products are of major importance: in the case of El Salvador, they account for 82.7% of total food exports to the region; this percentage is 74.2% for Honduras, 72.9% for Costa Rica and 65% for Guatemala. However, in the case of Nicaragua, exports of agroindustrial products represent less than 20% of the country's total food exports to the region, which together with the fact that these exports represent only 16.4% of total food exports, reflects its low level of industrialization.

The composition of the intra-regional food trade is highly concentrated in relatively few products. In the case of agricultural products, 65% of this trade is concentrated in vegetables and root crops, meat, dairy products and fruits. In the case of agroindustrial products, the dominant items are food preparations in their different forms, plus oils and fats, which together account for 77.8% of the regional trade in those products.

With respect to the different countries' share of regional trade, the main suppliers of agricultural products are Nicaragua and Guatemala, while the major suppliers of agroindustrial products are Guatemala, El Salvador and Costa Rica. Honduras has managed to substantially increase its exports to the regional market, but its relative share in the trade of agricultural and agroindustrial products remains fairly small.

Finally, with regard to trade flows between countries, there is a clear emphasis on import substitution, whereby companies supply local markets and designate their surpluses, or a certain proportion of their production, to intra-regional trade. However, this situation is changing as food companies in these countries begin to regard the region as their natural market.

Although at present it only represents 5.3% of the region's total exports, the expansion of the intra-regional food trade undoubtedly responds to significant improvements in the region's business environment, resulting from the regional peace process and the increased liberalization of regional trade - particularly in agricultural products, which was liberalized around 1994.

Nevertheless, the regional food trade, especially in agricultural products, could be further strengthened if additional steps were taken towards liberalizing regional free trade, by consolidating the integration process and harmonizing regional standards and regulations to facilitate, rather than hinder, regional trade. Some of the existing obstacles include brand registration rules, different plant and animal health standards in each country, delays in plant inspections and the arbitrary application of safeguard clauses and tariff quotas allowing the import of certain products from outside the area, to the detriment of regional production. In addition, the establishment of a conflict resolution mechanism would help eliminate arbitrary practices in regional trade, such as the restricting the trade of a particular product in reprisal for the application of non-tariff barriers to the trade in other products.

The region's economies face two major challenges in their attempts to improve their competitiveness in the context of increased free trade and the creation of the Free Trade Area of the Americas (FTAA) in 2005: 1. The need to consolidate the economic stability achieved to date by eliminating the distortions that still persist, (which limit the competitiveness of companies in a more competitive environment), such as high interest rates, the high cost of public services and, in general, the high costs of business transactions in the region; and 2: Achieving convergence through the definition and application of a single body of technical regulations in the various aspects of trade. These factors, together with the overall process of improving the productivity of companies, through technological and productive modernization, will enable regional trade to serve as a platform to increase extra-regional food exports.

THE INTRA-REGIONAL FOOD TRADE

The Relative Importance of the Intra-Regional Food Trade

As a starting point for analyzing the food trade¹ within the Central American region, we must first place that trade within the context of the value of total exports. In 1999, the Central American countries exported a total of US\$ 13,909 million in goods; of these, US\$ 4,826.5 million (34.7%) were food exports, both agricultural and agroindustrial. In turn, food exports to member countries of the General Agreement on Central American Economic Integration totaled US\$ 736.4 million (5.3% of total exports), while food exports to the rest of the world totaled US\$ 4,090.1 million (29.4% of total exports). The relative weight of the intra-regional food trade, within total exports, varies according to the different countries of the region: it is of greatest importance to Nicaragua (20%) and of least importance to Costa Rica (2.5%) (Table 1).

1 For the purposes of the definition of foods used in this document, the information includes agricultural commodities, tariff chapters 1 to 14, and agroindustrial goods, tariff chapters 15 to 24.

TABLE 1
Central America: Exports in 1999
(millions of dollars)

Country	Food Exports			Total General
	Central America	Rest of the World	Total	
Guatemala	248.0	1,225.1	1,473.1	2,410
Honduras	64.3	407.6	471.9	1,820
El Salvador	149.9	351.2	501.1	2,457
Nicaragua	110.3	313.8	424.1	530
Costa Rica	163.8	1,792.5	1,956.3	6,593
Total	736.4	4,090.1	4,826.5	13,909

Percentage Structure

Country	Food Exports			Total General
	Intra-regional	Rest of the World	Total	
Guatemala	10.3	50.8	61.1	100.0
Honduras	3.5	22.4	25.9	100.0
El Salvador	6.1	14.3	20.4	100.0
Nicaragua	20.8	59.2	80.0	100.0
Costa Rica	2.5	27.2	29.7	100.0
Total	5.3	29.4	34.7	100.0

Source: Own compilation based on information provided by the Secretariat for Central American Economic Integration (SIECA).

Total food exports (US\$ 3,697.5 million in 1994 and US\$ 4,826.5 million in 1999) show an average annual growth rate of just 4.5%. This contrasts with the intra-regional food trade, which showed considerable dynamism during the period 1994-1999, with the five countries more than doubling their total exports, from US\$ 330.9 million in 1994 to US\$ 736.4 million in 1999. This implies an average annual growth of 14.2% (Table 2). Diagram 1 shows the evolution of growth rates for each one of the countries of the region during the period analyzed. As a result of the sequels of Hurricane Mitch, the total food exports of Honduras decreased by 1.3%, despite a 33.4% increase in sales by that country to the region; El Salvador's performance was also poor in terms of its total food exports throughout the period under consideration, with a growth of 2.5%.

Despite the above, the structure of each country's share of food exports has remained fairly stable during the period 1994 – 1999. Guatemala is the most important economy in terms of its share of the intra-regional food trade, with around 35%, followed by El Salvador and Costa Rica, which together have just over 40% of the trade; Nicaragua has a 15% share and Honduras, despite a substantial growth in its sales to Central America, does not even reach 9% (Table 2).

If we analyze the overall agricultural and agroindustrial exports of the Central American countries, considering both regional and extra-regional sales, Costa Rica emerges as the leading exporter with a 40% share, followed by Guatemala with 30%. The remaining 30% is made up by Honduras, El Salvador and Nicaragua, with approximately 10% each (Table 2).

TABLE 2
Central America:
Agricultural and agroindustrial exports
(millions of dollars)

Country	Intra-regional exports		Total exported	
	1994	1999	1994	1999
Guatemala	118.2	248.0	964.4	1,473.1
Honduras	11.4	64.3	511.8	471.9
El Salvador	70.8	149.9	433.0	501.1
Nicaragua	53.6	110.3	283.1	424.1
Costa Rica	76.9	163.8	1,505.2	1,956.3
Total	330.9	736.4	3,697.5	4,826.5

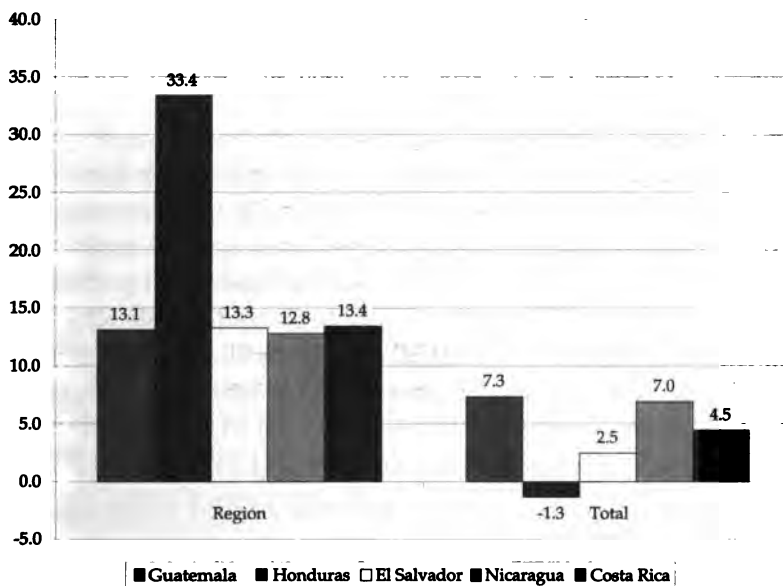
Relative share of exports by country

Country	Intra-regional exports		Total exported	
	1994	1999	1994	1999
Guatemala	35.7	33.7	26.1	30.5
Honduras	3.4	8.7	13.8	9.8
El Salvador	21.4	20.4	11.7	10.4
Nicaragua	16.2	15.0	7.7	8.8
Costa Rica	23.2	22.2	40.7	40.5
Total	100.0	100.0	100.0	100.0

Source: Own compilation based on information provided by SIECA.

If we consider agroindustrial exports only - in other words, the sales of the Central American food processing industry - we see important differences between countries. Guatemala is the leading supplier of these types of products (34%) to Central America, followed by El Salvador and Costa Rica, which together have around half the market. However, El Salvador's food industry is the largest in the region, in relative terms, with nearly 83% of its total agricultural and agroindustrial exports going to Central America. This contrasts with Nicaragua, whose agroindustrial exports barely account for 20% of the total (Table 3).

GRAPH 1
Central America:
Development of the food trade, 1994 - 1999



If we analyze total Central American exports, both regional and extra-regional sales, we see that Guatemala is the leading exporter of food industry products with 38.1%, followed by Costa Rica with 32.3% and El Salvador with 16%. Honduras and Nicaragua are the countries with the lowest levels of industrial development, in relative terms. Together they do not even account for 15% of Central America's production of food industry products (Table 3).

TABLE 3
Central America: Exports of the food industry
(percentages 1999)

Country	Central America		Total exports	
	Food industry	Share of total food exports	Food industry	Share of total food exports
Guatemala	34.0	65.0	38.1	30.2
Honduras	10.1	74.2	7.6	18.7
El Salvador	26.1	82.7	16.0	37.3
Nicaragua	4.6	19.9	5.9	16.4
Costa Rica	25.2	72.9	32.3	19.3
Total	100.0	64.4	100.0	24.2

Source: Own compilation based on information provided by SIECA.

The exchange of agroindustrial products in the region represents 64.43% of the total trade in agricultural and agroindustrial goods (total food trade). With regard to the regional exchange of food processing industry products, Guatemala is clearly the leader with 34.0% of the market, followed by El Salvador with 26.1% and Costa Rica with 25.2%. Honduras represents 10.1% of the region's exportable production and Nicaragua represents just 4.6%, reflecting its low levels of industrialization, at least in terms of the products designated for regional trade (Table 3).

ANALYSIS OF THE COMPOSITION OF THE INTRA-REGIONAL FOOD TRADE

In 1999, exports of agricultural goods to the region (Tariff chapters 1 to 14) were US\$ 261.9 million (35.6% of the regional food trade), and exports of agroindustrial products to the region (Tariff chapters 15 to 24) were US\$ 474.4 million (64.4% of the regional food trade). This shows that the main concentration of the intra-regional food trade is in the industrial sector.

In terms of the trade in agricultural products, the main concentrations are found in vegetables and root crops (8.94% of the total intra-regional food trade), dairy products (5.82%), meats (5.46%) and fruits (3.0% of the total intra-regional food trade); those products account for two-thirds of that category - in other words a total of 23.22% of the 35.56% (65%) representing the trade in agricultural products within the total Central American intra-regional food trade. (Table 4).

With respect to the trade of agroindustrial products, this is dominated by food preparations in their different forms (41.8%) and oils and fats (8.4%), for a total of 50.2% of the regional food trade, which during the period analyzed represented 77.8% of the industrial category, or, in other words, 50.2% of the 64.43% (77.8%) (Table 4).

The figures in Table 4 shows the amounts exported and the percentage share for the years 1994 and 1999 for each one of the 24 tariff chapters that make up the regional food trade. It is important to note that in order to standardize the analysis, all relative market shares have been calculated on the basis of the accumulated value of agricultural and agroindustrial intra-regional exports, which are US\$ 330.86 million for 1994 and US\$ 736.37 for 1999.

COUNTRIES' SHARE OF THE INTRA-REGIONAL FOOD TRADE AND DIRECTION OF THE TRADE FLOWS

Countries' Share of the Intra-Regional Food Trade

As mentioned earlier, the exchange of agricultural products in the region represents 35.56% of the total trade in agricultural and agroindustrial goods (total food trade) within the region. Nicaragua and Guatemala are the leading suppliers with 12% and 11.7% respectively; in other words, a total of 23.7% of the 35.56% that this trade represents within the total is supplied by those two countries, which in turn represents 67% of the region's exportable

TABLE 4
Central America:
Development of the intra-regional foods trade by tariff chapter
(1994 and 1999)

Chp	Description	Exports in millions of \$		Percentage share	
		1994	1999	1994	1999
01	Livestock	16.90	21.43	5.11	2.91
02	Meat	13.46	40.20	4.07	5.46
03	Sea products	3.78	3.16	1.14	0.43
04	Dairy products, eggs, natural honey	11.61	42.87	3.51	5.82
05	Other products of animal	0.64	0.13	0.19	0.02
06	Live plants and flowers	0.50	5.50	0.15	0.75
07	Vegetables, roots and root crops	16.17	65.82	4.89	8.94
08	Fruits and fruit rinds	4.47	22.11	1.35	3.00
09	Coffee, tea, mate and spices	2.09	9.14	0.63	1.24
10	Grains	8.61	18.71	2.60	2.54
11	Mill products	7.83	19.99	2.37	2.71
12	Seeds and grains	8.53	11.95	2.58	1.62
13	Gums and resins	0.31	0.83	0.09	0.11
14	Plaiting materials	0.09	0.09	0.03	0.01
	Agricultural products	94.99	261.93	28.71	35.56
	Total foods	330.86	736.37	100.0	100.0
Chp	Description	Exports in millions of \$		Percentage share	
		1994	1999	1994	1999
15	Fats and oils	30.11	62.04	9.10	8.43
16	Prep. meat and seafood	8.89	16.79	2.69	2.28
17	Sugars and sweets	27.41	30.45	8.28	4.13
18	Cacao and its preparations	4.38	9.57	1.32	1.30
19	Grains & pastry preparations	48.71	93.90	14.72	12.75
20	Prep. fruits and vegetables	15.47	37.55	4.68	5.10
21	Assorted food preparations	68.49	149.53	20.70	20.31
22	Drinks, liquors and vinegars	11.26	27.81	3.40	3.78
23	By-products & concentrates	10.30	13.64	3.11	1.85
24	Tobacco and prepared substitutes	10.85	33.16	3.28	4.50
	Agroindustrial products	235.87	474.44	71.28	64.43
	Total foods	330.86	736.37	100.0	100.0

Source: Own compilation based on information provided by SIECA.

supply of this type of products. Honduras and El Salvador are the economies with a lower relative share of the intra-regional trade in agricultural goods, with 2.26% and 3.52% respectively; Costa Rica has a relative share of 6.02%; together those countries represent 33% of the region's exportable production (Table 5).

TABLE 5
Central America:
Structure of regional trade in agricultural goods by country
(1999 percentages)

Chp	Description	GU	HO	ES	NI	CR	CA	%
01	Livestock	7.1	0.4	22.3	66.4	3.8	100	2.91
02	Meat	11.5	3.8	3.1	69.5	11.9	100	5.46
03	Sea products	1.5	7.8	22.4	61.0	7.3	100	0.43
04	Dairy products, eggs, natural honey	3.5	4.6	17.0	36.4	38.4	100	5.82
05	Other animal by-products	42.8	1.9	44.3	3.1	7.9	100	0.02
06	Live plants and flowers	17.5	7.2	0.3	3.9	71.2	100	0.75
07	Vegetables and root crops	59.6	12.3	2.4	22.2	3.5	100	8.94
08	Fruits and fruit rinds	65.4	9.5	0.4	15.9	8.7	100	3.00
09	Coffee, tea, mate & spices	19.5	10.3	38.2	0.5	31.5	100	1.24
10	Grains	79.6	2.9	4.5	2.8	10.1	100	2.54
11	Mill products	32.2	1.6	26.8	4.6	34.8	100	2.71
12	Seeds and grains	6.5	2.0	3.6	72.7	15.2	100	1.62
13	Gums and resins	50.8	7.9	2.0	.2	39.1	100	0.11
14	Plaiting materials	69.7	8.4	18.7	2.0	1.2	100	0.01
	Agricultural products	11.78	2.26	3.52	11.99	6.02		
	Percentage	33.1	6.4	9.9	33.7	16.9	100	35.57

Source: Own compilation based on information provided by SIECA.

In Table 5, the percentage represented by each one of the chapters included in the agricultural and agroindustrial trade - 2.91% in the case of livestock - has been distributed in terms of the relative share² of each country of the region in this trade, which must necessarily add up to 100% in horizontal terms.

² In the case of Nicaragua, 66.4% is obtained by dividing that country's share of the Central American food trade (1.93%) by 2.91%, representing the livestock category in that trade

In analyzing the information shown in Table 5, we can appreciate a certain degree of specialization in the regional exchange of agricultural goods. For example, Nicaragua is the main supplier of live cattle (66.4%), meat (69.5%), sea products (61.0%) and seeds and grains (72.7%). Guatemala is the leader in vegetables and root crops (59.6%), in fruits (65.4%) and in grains (79.6%). Costa Rica is the regional leader in live plants (71.2%) and in dairy products (38.8%), followed by Nicaragua, (36.4%). Finally, El Salvador is dominant in coffee (38.2%). It is important to emphasize that there are important differences in the relative size of the different tariff chapters, therefore a country's leadership should be analyzed very carefully, given that Guatemala's 59.6% in vegetables and root crops represented only 5.33% of the total flow of the region's food exports in 1999, while Costa Rica's 71.2% in live plants represented only 0.53% of the total of that trade. The CA column (Central America) shows the scale of these flows in regional terms.

In relation to the supply of exportable foods of industrial origin, Guatemala is dominant in cereal preparations (43.7%), fats and oils (39.5%), tobacco (44.3%) and in by-products and concentrates (32.1%). El Salvador is dominant in sugars and sweets (42.2%), cereal preparations and pastry (31.8%) drinks and liquors (55.0%). For its part, Costa Rica is the regional leader in meat and seafood preparations (65.4%), cacao and its preparations (53.3%) and in various food preparations (35.2%). Honduras is only dominant in preparations of fruits and vegetables (34.5%).

Once again, these figures should be analyzed very carefully, given that Costa Rica's 35.2% share of assorted food preparations, (the most important tariff chapter in the regional food trade), represents just 7.2% of the region's exportable food supply. The same is true of Guatemala in grain and pastry preparations, since its 43.7% share of the market represents only 5.6% of total sales in the region. At the same time, Guatemala's 32.1% share of by-products and concentrates is not very significant in regional terms, given that it represents just 0.6% of the value of the exports that the five countries send to Central America³.

3 To calculate each country's share of regional trade, by category, we must multiply the last figure in the line by the percentage that appears for that country. For example, Guatemala's share of the trade in fats and oils is multiplied by 8.43% (importance of oils and fats in regional trade). Therefore, within this category Guatemala's share is 39.5%, and from this we see that this category represents for Guatemala 3.33% of the region's exportable production of agricultural and agroindustrial commodities.

TABLE 6
Central America:
Structure of regional trade of food industry goods by country
(1999 percentages)

Chp	Description	GU	HO	ES	NI	CR	CA	%
15	Fats and oils	39.5	19.3	21.5	1.1	18.5	100	8.43
16	Meat and seafood prep	22.5	0.3	9.6	2.2	65.4	100	2.28
17	Sugars and sweets	22.6	6.4	42.2	9.4	19.5	100	4.13
18	Cacao and its preparations	14.7	4.6	25.6	1.7	53.3	100	1.30
19	Prep. grains & pastry	43.7	2.6	31.8	3.9	18.0	100	12.75
20	Prep. fruits & vegetables	31.1	34.5	14.2	0.1	20.1	100	5.10
21	Assorted food preparations	29.6	4.2	26.6	4.3	35.2	100	20.31
22	Drinks, liquors and vinegars	30.8	0.3	55.0	1.4	12.4	100	3.78
23	By-products and concentrates	32.1	2.9	24.9	12.2	27.9	100	1.85
24	Tobacco and prepared substitutes	44.3	33.4	0.5	17.2	4.5	100	4.50
	Agroindustrial products	21.90	6.48	16.84	2.99	16.22		64.43
	Percentage	34.0	10.1	26.1	4.6	25.2	100	

Source: Own compilation based on information provided by SIECA.

Products Exchanged and Direction of the Trade Flows

Tables 7 and 8 are based on information provided by the Secretariat for Economic integration Central American (SIECA). These tables indicate the principal products and the direction of the trade flows in the region, identifying the leading suppliers and buyers at country level. It is important to note that this table covers the period 1994 - 1999, and tries to eliminate specific distortions in the figures, such as the case of Hurricane Mitch in 1998.

The selection of the main tariff items is based on the Central American Harmonized System (SAC) to four digits; however, the products are identified with the maximum separation, in other words, with tariff items to ten digits. For each one of the products selected, the region's main exporter was identified along with its

market share⁴, as well as the relative importance of that item within the Central American trade⁵ (percentage region) and the country's importance within the trade of that commodity (percentage sample). Although the information shown in the tables constitutes a sample of the products traded at regional level, its representativity⁶ is 94.8% of the total of tariff items to four digits (SAC4), 92% in agricultural commodities and 97.8% for food industry products.

Table 7 provides a fairly comprehensive overview of the kinds of agricultural products exchanged in the region and the direction of the trade flows. In the case of Guatemala, most of its vegetables and root crops are exported to Nicaragua, particularly potatoes, garlic, cabbage, carrots and bell peppers. Costa Rica imports from Guatemala, avocado, oatmeal and corn starch. Guatemala exports tomato, plantain, papaya, white corn and corn flour to El Salvador. Although it is not possible to know the exact size of the market by country, due to the above-mentioned lack of data, it is not difficult to conclude that El Salvador is the main market for Guatemala, given that it is the leading importer of products in which Guatemala dominates the regional market, such as white corn, which is an important product within Central American trade.

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- 4 A country's share of the region's total exportable supply is of great importance to pinpoint the direction of trade, given that, for a product in which the region's exports are highly concentrated in one country, for example, skimmed milk in Costa Rica (95.1%), it is relatively simple to conclude where most of the trade is directed by simply locating the main importer. At the same time, in those products where a country does not hold a dominant position, such as coffee (26.4%), chicken portions (36.6%), sugar (34.7), among others, it should be remembered that exportable production is shared by several countries, and therefore the relation of the trade flow between countries is not one to one.
 - 5 The way in which SIECA presents the information shows how much each of the five countries exported to the region for each tariff item, but it does not permit a breakdown of distribution by country. The same is true of imports.
 - 6 When trade is analyzed by product (tariff item to 10 digits), the coverage is 72.51% for agricultural commodities and 55.86% for food industry goods, providing an excellent sample for the purposes of evaluating trade flows.

TABLE 7
Central America:
Direction and scale of the main agricultural trade flows in the region
(1994 - 1999)

SAC 4	Products	Leading supplier		Market share		Leading buyer
		Country	% mkt.	Region	Sample	
0701	Potato	Guatemala	93.33	0.45	0.42	Nicaragua
0703	Garlic	Guatemala	83.33	0.42	0.35	Nicaragua
0704	Broccoli, cabbage	Guatemala	94.59	0.37	0.35	Nicaragua
0706	Carrots	Guatemala	83.33	0.18	0.15	Nicaragua
0709	Bell peppers	Guatemala	75.86	0.29	0.22	Nicaragua
0705	Lettuce	Guatemala	82.35	0.17	0.14	Honduras
0702	Tomato	Guatemala	64.81	0.54	0.35	El Salvador
0803	Plantain	Guatemala	71.60	0.81	0.58	El Salvador
0807	Papaya	Guatemala	52.63	0.19	0.10	El Salvador
1005	White corn	Guatemala	77.92	2.31	1.80	El Salvador
1103	Corn flour	Guatemala	91.18	0.34	0.31	El Salvador
0804	Avocado	Guatemala	55.56	0.18	0.10	Costa Rica
1104	Oatmeal	Guatemala	74.19	0.62	0.46	Costa Rica
1108	Corn starch	Guatemala	86.36	0.22	0.19	Costa Rica
	Subtotal	Guatemala	77.86	7.09	5.52	
0805	Orange	Honduras	84.62	0.26	0.22	Nicaragua
	Subtotal	Honduras	84.62	0.26	0.22	
0306	Shrimp larva	El Salvador	53.57	0.56	0.30	Honduras
0407	Eggs	El Salvador	77.42	1.24	0.96	Honduras
0105	Day-old chickens	El Salvador	79.00	1.00	0.79	Guatemala
0901	Coffee	El Salvador	26.39	0.72	0.19	El Salvador
0902	Tea	El Salvador	68.18	0.22	0.15	Costa Rica
	Subtotal	El Salvador	55.58	4.30	2.39	
0202	Frozen Meat	Nicaragua	66.67	0.75	0.50	Guatemala
1207	Sesame	Nicaragua	36.59	0.82	0.30	Guatemala
1208	Soybean seed	Nicaragua	42.59	0.54	0.23	Guatemala
0102	Live cattle	Nicaragua	93.15	1.46	1.36	El Salvador
0201	Fresh meat	Nicaragua	91.71	3.62	3.32	El Salvador
0406	Cheese	Nicaragua	90.10	1.92	1.73	El Salvador
0713	Small red beans	Nicaragua	68.63	2.04	1.40	El Salvador
1007	Sorghum	Nicaragua	53.85	0.26	0.14	El Salvador
1202	Bean seed	Nicaragua	95.16	0.62	0.59	El Salvador
0708	Beans	Nicaragua	50.00	0.24	0.12	Costa Rica
	Subtotal	Nicaragua	78.97	12.27	9.69	

Table 7 (continued)

SAC 4	Products	Main supplier		Participation		Main buyer
		Country	% market	Region	Sample	
1006	Rice	Costa Rica	40.00	0.70	0.28	Nicaragua
1101	Wheat flour	Costa Rica	59.09	0.22	0.13	Nicaragua
1102	Corn flour	Costa Rica	42.11	1.52	0.64	Nicaragua
0207	Chicken portions	Costa Rica	36.62	0.71	0.26	Honduras
0402	Milk and cream	Costa Rica	78.63	1.31	1.03	Honduras
0401	Skimmed milk	Costa Rica	95.05	1.01	0.96	Guatemala
0602	Trees and shrubs	Costa Rica	73.53	0.34	0.25	Guatemala
	Subtotal	Costa Rica	61.10	5.81	3.55	
	<i>Total agriculture</i>		72.51	29.47	21.37	

Source: Own compilation based on information in Annex 1.

In the case of Honduras, the only export product with a dominant position in the market is oranges, with the main buyer being Nicaragua. El Salvador is another small agricultural exporter with little diversification; its most significant exportable production includes shrimp larva and eggs, which it exports to Honduras, day-old chickens, which it sells to Guatemala and tea, which it sells to Costa Rica. With regard to coffee, the direction of the trade flows is not clear, nor are the positions of exporter or net importer at country level, given that during the year surpluses are traded in accordance with the requirements of the coffee roasting industry and therefore the flows are two-way.

Nicaragua is an important exporter of agricultural products to the region, selling frozen meat, sesame and soybean to Guatemala, live cattle, fresh meat, cheese and sorghum to El Salvador and beans to El Salvador and Costa Rica.

On the other hand, Costa Rica, which is not a major exporter of agricultural products, sells rice, wheat and corn flour to Nicaragua, chicken portions and milk to Honduras, skimmed milk and live plants to Guatemala.

As mentioned previously, there are certain products in which no country holds a dominant position, in terms of the scale of the region's export flows and this aspect requires more careful analysis. Table 8 shows that although Guatemala has 55.6% of the regional market in avocado and papaya, Honduras and Nicaragua also have exportable production. In the case of shrimp production, Nicaragua is important, after El Salvador, while all the countries of the region have coffee exports. For those products in which Nicaragua was the major exporter, such as beans and sorghum, Guatemala also has a major exportable production, as does Honduras in sesame. Finally, the products in which Costa Rica is the leading exporter, there is also an important regional production, by Guatemala and El Salvador in chicken portions, and by Guatemala in rice, corn flour and wheat flour.

TABLE 8
Central America:
Main agricultural products where no country has
a dominant position in the region, 1994 - 1999
(percentages of market share)

SAC 4	Products	GU	HO	ES	NI	CR
0804	Avocado	55.6	16.7	0.0	16.7	11.1
0807	Papaya	55.6	33.3	0.0	11.1	0.0
0306	Shrimp larva	1.8	10.5	52.6	22.8	12.3
0901	Coffee	19.4	13.9	26.4	20.8	19.4
0708	Beans	30.4	17.4	0.0	52.2	0.0
1007	Sorghum	42.3	3.8	0.0	53.8	0.0
1207	Sesame	8.5	1.2	30.5	36.6	23.2
1208	Soya seed	16.4	0.0	1.8	41.8	40.0
0207	Chicken portions	26.8	1.4	23.9	11.3	36.6
1006	Rice	36.2	1.4	7.2	14.5	40.6
1102	Corn flour	30.3	2.6	23.0	2.0	42.1
1101	Wheat flour	22.7	0.0	4.5	13.6	59.1

Source: Own compilation based on information in Annex 3.

TABLE 9
Central America: Direction and scale of the main trade flows
in the region's food industry, 1994 - 1999

SAC 4	Products	Main supplier		Share		Leading buyer
		Country	% mkt.	Region	Sample	
1701	Sugar	Guatemala	34.67	0.75	0.26	Honduras
1904	Cereal preparations	Guatemala	54.87	5.54	3.04	Honduras
2309	Concentrates	Guatemala	54.22	1.66	0.90	Honduras
2401	Tobacco	Guatemala	57.89	2.28	1.32	Honduras
1902	Pasta products	Guatemala	37.78	0.90	0.34	Guatemala
2009	Juices & concentrates	Guatemala	40.97	2.27	0.93	Guatemala
2403	Reconstituted tobacco	Guatemala	87.50	0.16	0.14	Guatemala
1512	Sunflower oil	Guatemala	65.38	1.56	1.02	El Salvador
1516	Vegetable fat	Guatemala	45.88	1.70	0.78	El Salvador
1517	Margarine	Guatemala	61.90	1.68	1.04	El Salvador
1602	Hams	Guatemala	56.90	0.58	0.33	El Salvador
1901	Mixes and pastas	Guatemala	87.10	0.93	0.81	El Salvador
2102	Yeast, baking powder	Guatemala	80.77	0.52	0.42	El Salvador
2104	Preparations soups	Guatemala	92.73	5.23	4.85	El Salvador
2208	Liquor (vodka, rum)	Guatemala	70.67	0.75	0.53	El Salvador
2402	Cigarettes	Guatemala	49.77	2.19	1.09	El Salvador
2005	Canned vegetables	Guatemala	86.15	0.65	0.56	Costa Rica
	Subtotal	Guatemala	62.55	29.35	18.36	
1513	Other oils	Honduras	60.87	0.23	0.14	Nicaragua
1511	Palm oil	Honduras	43.17	2.27	0.98	El Salvador
	Subtotal	Honduras	44.80	2.50	1.12	
2105	Ice-cream	El Salvador	39.71	0.68	0.27	Honduras
1704	Chewing gum	El Salvador	39.34	3.66	1.44	Guatemala
2202	Carbonated drinks, colas	El Salvador	67.62	2.81	1.90	Guatemala
	Subtotal	El Salvador	50.49	7.15	3.61	
2002	Tomato concentrate	Nicaragua	61.90	0.21	0.13	Honduras
2101	Extracts and essences	Nicaragua	48.00	0.50	0.24	El Salvador
2302	Wheat bran	Nicaragua	90.91	0.33	0.30	Costa Rica
	Subtotal	Nicaragua	64.42	1.04	0.67	
1507	Soybean oil	Costa Rica	75.25	1.01	0.76	Nicaragua
2304	Soybean oilcakes	Costa Rica	66.67	0.39	0.26	Nicaragua
2007	Jelly and marmalades	Costa Rica	81.31	1.07	0.87	Honduras
1905	Biscuits, wafers	Costa Rica	40.19	6.27	2.52	Guatemala
2106	Prep. drinks & bread	Costa Rica	46.25	10.68	4.94	Guatemala
1601	Sausages	Costa Rica	48.78	0.41	0.20	El Salvador
1604	Tuna and sardines	Costa Rica	98.80	1.66	1.64	El Salvador
1806	Cocoa prep., candies	Costa Rica	57.28	1.03	0.59	El Salvador
2103	Sauces	Costa Rica	36.48	3.07	1.12	El Salvador
	Subtotal	Costa Rica	50.41	25.59	12.90	
	<i>Total agroindustrial</i>		<i>55.86</i>	<i>65.63</i>	<i>36.66</i>	

Source: Own compilation based on information of the Anex 2.

Table 9 quantifies the food industry trade at the level of the countries of the region and shows the direction of the trade flows among countries. The Guatemalan food industry sells sugar, concentrates, tobacco and cereal preparations to Honduras. It is important to emphasize the scale of the trade flow for this last product, given its relative importance within Central America's total trade. While Guatemala is the leading exporter of pasta products, juices and concentrates and reconstituted tobacco, at the same time it imports these goods to supply both industrial and internal consumption requirements. El Salvador is one of the most important markets for the Guatemalan food industry, given that it buys sunflower oil, vegetable fat, margarine, hams, mixes for pastas, yeast, preparations for soups, liquor and cigarettes.

Honduras exports crude (unrefined) oil to Nicaragua and palm oil to El Salvador. For its part, El Salvador sells ice cream to Honduras chewing gum and carbonated drinks to Guatemala. Nicaragua has a little developed industrial base and exports tomato concentrate to Honduras, extracts and essences to El Salvador and wheat bran to Costa Rica.

Finally, Costa Rica sells soya oil and soyacake to Nicaragua; jellies and marmalades to Honduras, biscuits and preparations for the beverage and bread industries to Guatemala; sausages, tuna and sardines, cacao preparations and sweets and sauces to El Salvador.

Once again, as with agricultural products, the food industry trade flows must also be analyzed with special care when there is no dominant country in the region. This is essential in the case of El Salvador, since it would otherwise appear to have an insignificant agroindustrial sector at regional level, if the analysis is based only on leading exporter⁷. As shown in Table 10, although Guatemala is the leading exporter of vegetable fat, sugar, pasta products, cereal

⁷ Country with the highest percentage share in the region, without considering whether the second or third positions are held by countries with market quotas similar in size to the first.

preparations and concentrates, El Salvador holds second place in terms of regional exports. It should be emphasized that many of these tariff items are significant within total exports. Costa Rica also holds an important position in the region in vegetable fat, hams and pasta products, as does Honduras in juices, concentrates and cigarettes.

At the same time, the leading regional exporter of palm oil is Honduras, but Costa Rica is also important. Among the products in which El Salvador holds first place in the region, Guatemala and Costa Rica are important in chewing gum, as are Nicaragua and Costa Rica in ice cream. In extracts and essences Nicaragua and El Salvador share the regional leadership.

Finally, Costa Rica is a major exporter of a group of products that are also important in other countries of the region. For example, Guatemala is the second exporter of sausages, cocoa preparations and

TABLE 10
Central America: Principal food industry products in which no
country has a dominant position in the region, 1994 - 1999
(market share percentages)

SAC 4	Products	GU	HO	ES	NI	CR
1516	Vegetable fat	45.9	1.8	27.1	1.2	24.1
1602	Hams	55.9	0.0	11.9	0.0	32.2
1701	Sugar	34.7	0.0	33.3	28.0	4.0
1902	Pasta products	37.8	0.0	34.4	0.0	27.8
1904	Cereal prep.	54.9	2.2	42.2	0.0	0.7
2009	Juices & concentrates	40.8	25.0	19.7	0.0	14.5
2309	Concentrates	54.2	3.6	27.1	0.0	15.1
2401	Tobacco	57.6	6.1	7.0	17.9	11.4
2402	Cigarettes	49.5	27.3	16.4	6.4	0.5
1511	Palm oil	17.5	43.0	1.8	0.9	36.8
1704	Chewing gum	25.1	5.7	39.3	0.5	29.2
2105	Ice-cream	1.5	0.0	39.7	33.8	25.0
2101	Extracts and essences	4.0	0.0	48.0	48.0	0.0
1601	Sausages	29.3	0.0	17.1	4.9	48.8
1806	Cacao prep., sweets	23.1	1.9	18.3	0.0	56.7
1905	Biscuits, wafers	30.3	1.0	21.4	7.2	40.2
2103	Sauces	23.8	19.5	18.2	2.0	36.5
2106	Prep. drinks & bread	10.5	0.4	42.8	0.1	46.3

Source: Own compilation based on information del Annex 4.

biscuits; El Salvador is an important exporter of preparations for beverages and for the baking industry; and in terms of sauces, the market is fairly evenly distributed among all the countries, with the exception of Nicaragua.

PECULIARITIES OF THE INTER-REGIONAL FOOD TRADE

Although the Central American economic integration process has been going on for many years, the regional market is far from being a real free trade zone, where there is not only free trade among the countries participating, but also a standardization of regulations.

Some of the characteristics observed by the Costa Rican Food Industry Chamber (CACIA) in relation to the intra-regional food trade are as follows:⁸

- Little economic integration of the regional market, non-standard legislation; there are still no conflict resolution mechanisms, and decisions on trade matters are often arbitrary, particularly those related to technical standards of quality and health.
- In relation to the previous inspection and approval of plants by the Agriculture Ministries, there are no established periods. This limits the opportunities in the regional market. There have been cases of companies that have had to wait 14 months to be able to export due to delays in plant inspections.
- It is necessary to improve regional competitiveness by focusing on production chains.

8 CACIA does not have counterpart organizations in Central America. Only Guatemala has the Association of Food Manufacturers. This situation makes it difficult to improve conditions for the regional food trade by the region's organized private sector.

- Problems of shortages in local markets lead to calls for the protection of imports of raw materials or supplies that temporarily lower the tariffs for the company, to the detriment of other regional suppliers.
- Difficulties in tracing trade flows in the region due to problems with statistics (there is a lot of unregistered trade in the region).
- A strategy is needed to strengthen regional capacity in the area of food safety and food regulations, particularly the standardization of labeling and food registration procedures.
- Lack of information on food production in the all the countries.

Table 11 offers a brief summary of the peculiarities of the food trade in the region in some selected sectors. Table 12 describes the perceptions of those sectors of the Central American food industry concerning the integration process. Table 13 shows the main companies in the selected sectors and Table 14 shows the region's leading sectoral associations and their actions.

TABLE 11
Peculiarities of the food trade in the regional context

Oils	Poultry	Sweets and biscuite	Dairy products
<p>Costa Rica and Honduras are self-sufficient in the production of oils and fats.</p> <p>Honduras exports palm oil to El Salvador and Nicaragua.</p> <p>The Costa Rican market pays for quality, not so the other markets (problem of quality definition).</p>	<p>Costa Rica is the region's leader in animal health standards.</p> <p>Costa Rica trades with Honduras because of shortages after Hurricane Mitch, rather than market transparency.</p>	<p>Agreements among regional sugar producers to sell only in their own markets, fix prices and negotiate locally with industrialists of their country.</p> <p>Key raw materials in these activities, such as sugar and milk pay high tariffs, which makes the regional industry less competitive.</p>	<p>Central America is not self-sufficient in dairy products.</p> <p>Problems with the cost of overland transportation. It costs more to send a container from Costa Rica to Guatemala (US\$ 1300) than from Chile to Guatemala (US\$ 900).</p>

Table 11. (continued)

Oils	Poultry	Sweets and biscuite	Dairy products
<p>This activity is highly automated and investment in new technology is decisive for competitiveness. However, the prevailing high interest rates hinder the modernization process.</p> <p>Problems with rules of origin for oil. Refined oil is obtained from imported crude oil, while other countries such as Costa Rica use soybean oil.</p> <p>Though there has been progress on rules of origin and the prevailing definition allows a substantial transformation from the extraction process to the refined product, plant regulations and brand registration rules are lacking.</p> <p>No conflict resolution mechanism.</p>	<p>The closing of borders is more of a reciprocal trade measure than a public health directive, for which reason animal health rules are often perceived as a mechanism to close the market.</p> <p>Commercial barriers are applied to one product to counteract the closure of markets to other products.</p> <p>In Costa Rica there are trade problems with soybean flour as an intermediate product for the poultry sector. The tariff should be zero, not 5 per cent, as has been established. Honduras and Guatemala have applied protection measures and the tariff for soy flour is 1 per cent in Honduras and zero in El Salvador, which reduces the competitiveness of the Costa Rican food industry.</p>	<p>Rules of the game change, so that companies with business in different countries of the region constantly plan their production strategy and continually negotiate differentials in the price of sugar. At present, they pay between 70% and 80% above the international market price.</p> <p>Imported products represent 50% of what is consumed in the area.</p> <p>Costa Rica, in particular, has major customs problems de classification of products, procedures to import exempt raw materials.</p> <p>There are no regional suppliers of high quality packaging (including glass, due to the existing monopoly).</p>	<p>With the exception of Costa Rica and Guatemala, multinationals run the milk market. Nicaragua, Honduras and El Salvador import powdered milk and dairy products from New Zealand.</p> <p>The international price of milk is \$0.17 per liter, which is the cost at which New Zealand sells to its trading partners. In Costa Rica el cost of production is \$0,30. An implicit subsidy is said to operate in New Zealand, but this is not proven.</p> <p>Nicaraguan trade reprisals against milk from Costa Rica are a response to the closure of CR borders to onions from Nicaragua.</p>

Table 11. (continued)

Oils	Poultry	Sweets and biscuits	Dairy products
<p>Non-compliance with regional tariff agreements (Nicaragua cut tariffs to 10 per cent).</p> <p>Problems of quality control, classification and labeling in Guatemala and El Salvador in production of tallow/suet (a waste material in EU).</p> <p>Lack of standardization of environmental regulations means that companies in certain countries must invest in environmental aspects that are not required by other countries, thereby affecting those companies' competitiveness at regional level.</p> <p>Governments should contribute to the competitiveness of producers by reducing interest rates, electricity costs and through other measures that would really facilitate regional trade.</p>	<p>Trade conflicts in the region over compliance with poultry health regulations.</p> <p>Arbitrary suspension of regional trade. Inspections of agricultural plants are slow and animal health controls are perceived more as an obstacle to reciprocal trade.</p> <p>Absence of a conflict resolution mechanism.</p>	<p>No companies available to subcontract as co-packers")</p> <p>Sugar tariff is 55 per cent.</p> <p>Purchase agreements for milk and sugar are valid for one year. After that, there is uncertainty about what will happen</p> <p>Sugar tariff is 55 per cent.</p> <p>Purchase agreements for milk and sugar are valid for one year. After that, there is uncertainty about what will happen.</p> <p>Security problems with overland transportation of goods, especially in El Salvador. This implies additional costs for the custody and distribution of products.</p> <p>Cost of financing is higher than in industrialized countries.</p> <p>Price differential of milk is 40 per cent above the international price.</p>	<p>El Salvador levies an arbitrary tax on milk imports from Costa Rica, to favor a company that imports powdered milk.</p> <p>Due to lack of controls, cheese is imported from Europe, cut up and sold as cheese produced in the region.</p> <p>Milk consumption in Costa Rica is the highest in the region (155 liters per capita, per year). This is a highly developed market in terms of hygiene, quality and packing.</p> <p>The Dos Pinos company supplies 72 per cent of Guatemala's milk market. However, the future is uncertain with the negotiation of the Maya Triangle with Mexico. Meanwhile, Chile imports powdered milk, adds water to it and exports it to Guatemala.</p>

Table 11. (continued)

Oils	Poultry	Sweets and biscuits	Dairy products
<p>The process for filing a complaint is very long. The authorities know of an oil-bottling firm that imports refined oil and declares it to be crude. However, it has taken nine months to resolve this problem.</p>		<p>Transnational corporations operate at regional level, taking advantage of their plant size to access extra-regional markets with exclusive products with high added value, seizing opportunities of the same group in other countries.</p>	<p>Problems with the negotiation of quotas (case of preferential importers, registration of foreign companies in Costa Rica).</p> <p>There is triangulation in the milk market due to poor local controls. Plant inspections by the Agriculture Ministry to export within the region have become a major barrier to trade.</p> <p>Arbitrary trade policies are creating great uncertainty in the region (closure of borders as a form of pressure, problems of shortages local, trade reprisals, etc).</p> <p>Application of trade measures to the detriment of the milk sector, application of a 3% tariff quota.</p>

TABLE 12
Business people's perceptions of the Central American food industry

Oils	Poultry	Confectionery and biscuits	Dairy products
<p>Disregard of trade regulations, especially tariffs.</p> <p>Industry is propped up through protection from the extra-regional market.</p> <p>It is not true that regional trade has been made easier, since the application of arbitrary protection measures hinders regional trade.</p> <p>Transportation costs are very high. A truck from Costa Rica to El Salvador costs US\$ 77 per metric ton, but from New Orleans to Acajutla a ship with soy flour costs US\$ 33 per metric ton.</p> <p>Industrialists and Governments should work together to find solutions to the problems, instead of governments simply opening up trade and leaving businesses to figure out how to achieve international competitiveness.</p>	<p>Costa Rica has opened to trade, but not with regional markets. In fact there is very little trade in poultry in the region and the animal health situation is fairly worrying, except in Costa Rica.</p> <p>Possibility that the tariff quota may be activated in the regional trade in soy-bean flour with the presence of new local buyers.</p> <p>Costa Rica maintains the 5% tariff on soy-bean flour, not so in other countries.</p>	<p>Negotiations take place without considering production chains (end-products are liberalized, but not the purchase of raw materials at international prices).</p> <p>Informality and arbitrary practices in commercial decisions in all the countries.</p> <p>Uncertainty among manufacturers whose processes involve sugar, especially confectionery and powdered drinks, in relation to trade agreements, since sugar might be sold at international prices. This is the case in Mexico and Chile.</p> <p>Central American industries dependent on sugar are losing their markets to external competitors, because the latter buy their sugar at international prices. Customs should give preferential treatment to larger industries in relation to the import of exempt raw materials.</p> <p>Large companies are unable to subcontract the services of smaller companies to increase production by outsourcing a part of their production process.</p>	<p>"Central American integration exists, but not for the producers."</p> <p>The multinationals are moving into the area strongly with the weakening of the local industry.</p> <p>Some countries import powdered milk from outside the region and then produce products that are then sold in the regional market.</p>

TABLE 13
Leading companies in selected sectors of the
Central American food industry

Oils	Poultry	Confectionery and biscuits	Dairy products
<p>The Costa Rican firm Inolasa is the region's largest producer of soy flour and oils. It is integrated with other commercial groups in the region. However, Costa Rica works at 60 per cent of its capacity.</p> <p>Other major players in the region are Olmeca in Guatemala and Hondupalma and Coopeagropal in Honduras.</p> <p>Carguil in Honduras is interested in selling to the regional market.</p>	<p>Corporación Pipasa in Costa Rica and Grupo Villalobos in Guatemala are the leading firms in the region's poultry market.</p>	<p>Phillip Morris has five plants in Central America, three in Costa Rica, one in Nicaragua and one in Guatemala. Most of its regional operations are in Costa Rica and 45% of its confectionery sales go to Central American markets.</p> <p>In the last three years its market share has not increased, even though population growth is around 5 or 6 per cent.</p> <p>In powdered drinks, Phillip Morris is the leader with a 65% share of the regional market.</p> <p>Market share is smaller compared to extra-regional markets. The Central American industries that require sugar are considered uncompetitive.</p> <p>The region's leading biscuit manufacturers are Riviana Pozuelo in Costa Rica, Nabisco in Nicaragua, Lido in El Salvador and Gama in Guatemala.</p> <p>Riviana Pozuelo has its own distribution network in Nicaragua, El Salvador and Guatemala.</p>	<p>The company with the highest volume of sales in the region is Dos Pinos of Costa Rica, which exports 15 per cent of its production to Central America.</p> <p>Milk production in the other countries is incipient with very inferior levels of quality.</p>

TABLE 14
Main associations in the Central American food industry

Food Sector	Oils	Poultry	Confectionery and biscuits	Dairy products
<p>In Costa Rica CACIA represents the interests of the food industry.</p> <p>Only Guatemala has a similar organization, the Food Manufacturers Union. There is no formal integration among associations or trade organizations at Central American level.</p>	<p>Central American Oil Producers Association.</p> <p>Efforts have been made to make the regional oil trade function properly but many problems still persist due to lack of cooperation by Governments.</p>	<p>Federation of Poultry Producers of Central America and the Caribbean.</p> <p>There is good coordination on extra-regional trade issues (issue of subsidies in the WTO), but not on matters of regional trade.</p>	<p>There is no formal sugar producers' organization; rather it is an ad-hoc organization.</p> <p>There are no business associations in this industry.</p> <p>"The competition does not speak to each other".</p>	<p>FECALAC, but not very effective.</p> <p>Federation of Agriculture Chambers of Central America, less effective than FECAICA in the industrial area.</p>

ASPECTS OF CONVERGENCE IN ECONOMIC POLICIES IN CENTRAL AMERICA

Principal Convergences of the Regional Economies

Since the signing of the peace accords, the Central American countries have made major efforts to achieve macroeconomic stability and a convergence in their economic policies, especially in aspects that are considered essential to improve the business climate and attract investment. It is not surprising, then, that the region has embarked upon processes of open trade, deregulation, and transferring the functions of the State to the private sector, development of regulatory frameworks on investments as well as efforts to improve efficiency and competitiveness. However, these

changes have differed in terms of speed and extent in each country, and the region still faces major challenges if it is to achieve a greater rate of sustained growth and higher levels of economic and social development.

In this sense, the economic, social, environmental and institutional demands are a real challenge for the Central American economies. The region's backward infrastructure, low levels of per capita income, high levels of poverty and incipient institutional development, among other factors, impose major limitations on efforts to address the problems of economic growth and human development. It is also essential to achieve stability and consolidate a favorable environment for investment, guaranteeing the legal security of those investments, as well as citizen security, in order to generate more trade and commercial exchange in the region.

The rate of progress in Central America's efforts towards economic integration has been slow, particularly in areas such as the harmonization of economic policies and customs union⁹, where so far no concrete initiatives are under implementation, such as the projected the Central American Logistical Corridor. While much remains to be done in the region on many issues, such as the free movement of people and goods, monetary union, standardization of financial legislation, consolidation of the free trade area, the facilitation of business, harmonization of regulatory frameworks and improvements to the regional infrastructure, one of the issues of greatest concern to regional trade, particularly agricultural products, is the non-tariff barriers, which are discussed below.

It should be noted that in Central America, the tariff problem has been virtually resolved. Indeed, we could say that this is a functioning free trade zone that is being perfected, where the obligations

⁹ Understood as a common external tariff, at least for the main items of trade, the free circulation intra-regional of goods coming from third countries, and a regional distribution of tariff revenues. The need to negotiate internal rules of origin since 1994 shows how far the MCCA system is from being a unified customs area.

acquired by countries in the multilateral context – FTAA and WTO – require a review of the export strategy of the Central American countries based on the eventual elimination of some of the benefits of the customs-free areas¹⁰, a scheme that has been particularly important for the region in its trade relations with the world, not necessarily at intra-regional level. Similarly, it is important to assess the dynamism of the small and medium companies in the region, since these bear a major burden in the regional production structures, which demand a substantial improvement in the performance of these companies to meet the challenge of globalization from a regional perspective.

It is important to note that intra-regional trade has always subsisted, even in the worst moments of the armed conflict. Now, in the wake of the regional peace processes, this has increased significantly. It is hardly surprising, then, that many companies are taking important steps towards regionalization, as perceived in different spheres: commercial (supermarkets), industrial (foods, drinks, construction materials), the services sector (airlines, hotels, restaurants), and the financial sector (banking, financial investments). Similarly, a number of regional institutions are working to promote the creation of a unified and interconnected electricity market, the integration of hydrocarbons markets and the construction and maintenance of infrastructure and transport services, among other things.

In conclusion, a better business climate has developed in the region during the nineties, and although some major risk factors persist, everything indicates that the Central American countries intend to complete the reform process and consolidate their stability, though at different rates. As evidence of this, we see an important growth, both in direct foreign investment and in intra-regional investment, in response to the opportunities offered by free trade

¹⁰ While some countries of the region are categorized as less developed countries (LDCs), this only means a longer period for the elimination of subsidies, 2006 instead of 2003.

and the processes of greater participation by the private sector in economic activity. However, the region faces enormous challenges in terms of the substantial investments that must be made, both in terms of infrastructure and in aspects related to human development.

Convergences at Macroeconomic Level¹¹

One of the main challenges facing the region has to do with the overall performance of its economies, whose production growth rates have not been satisfactory. In 1999, the regional average stood at 3.7%, below the levels for the beginning of the decade. In per capita terms, in 1999 the Central American region recorded an average income of \$1,518. However, there was a substantial gap between Costa Rica, with an annual per capita income of nearly \$2,900, Guatemala and El Salvador, between \$1,600 and \$2000, and Nicaragua and Honduras, below \$900. This poses major challenges for the future in terms of opportunities for economic growth and social stability.

In terms of economic convergence, the real growth rates in production in the region's countries show no clear growth trend. Instead, we observe an erratic behavior, fluctuating between 2% and 6%, throughout the nineties decade.

In relation to inflation rates, in 1999 these showed lower levels than those recorded for the previous year, and the lowest average for the region during the decade of the nineties, of 6.1%. This indicates a trend towards lower average inflation levels, greater efforts to control internal prices and greater monetary discipline and credit controls in each one of the countries. It is important to emphasize that during 1999 no negative interest rates were recorded in real terms, as had occurred in previous years in Guatemala

¹¹ Based on the Annual Report on the Central American Market: Evolution, Advances and Challenges of Regional Economic Integration, prepared for INTAL by Eduardo Alonso, November 2000.

and Honduras, reflecting a certain level of relative progress in terms of the financial consolidation of the Central American markets.

We also observe convergence in foreign exchange policy, with Guatemala and Honduras adopting a free exchange rate regimen and achieving stability through the active intervention of the central banks. In Nicaragua and Costa Rica, the exchange rate is managed by the Central Bank under the system of mini-devaluations ("crawling peg"). In El Salvador, the sustained influx of family remittances has enabled the country to maintain a fixed exchange rate for a long time and to accumulate international reserves. More recently, in January 2001, El Salvador has allowed the free circulation of the dollar, alongside the local currency. The trend towards greater convergence and less annual variation in the exchange rate is also related to adjustment processes in the economies that lead to lower inflation rates and, in general, to the use of more transparent exchange systems that are less influenced by government intervention in the foreign exchange markets and therefore offer much more credible foreign exchange prices.

In taxation matters, the Central American countries' taxation policies have focused more on improving the levels of revenue collection than on the imposition of new taxes. In this area, major macroeconomic imbalances persist, because Honduras, Nicaragua and Costa Rica have experienced difficulties in reducing their fiscal deficit. This is the result of expanded spending policies in the past, financed with external or internal debt, and these impose a heavy burden of interest payments that ultimately prevents the reduction of public spending. Although Guatemala and El Salvador show no significant fiscal problems to date, they need to continue with efforts to improve tax collection, improve efficiency in the assignation of public funds and increase the tax burden, given the need to fulfill the commitments established in the peace accords.

The fiscal deficit in the region shows a clear reduction and a certain degree of convergence among countries in terms of the

direction of the deficit, in the sense that there are years, such as 1994, in which the region in general, with the exception of Honduras, showed low fiscal imbalances, unlike in 1996. This is the result of the countries' taxation structures, which are strongly dependent on the results of external trade.

With respect to tariffs, the tariff harmonization and tariff reduction efforts in the Central American region show lower absolute levels and relatively less dispersion of the tariff. Nevertheless, there are still certain products, mainly agricultural ones, with high protection tariffs, reflecting the region's difficulties in creating a free trade zone under a common external tariff. The Tariff Reduction Programs apply only to the goods originating from each Part involved in the trade agreement. This issue is particularly important in Agreements that involve several countries (for example the agreement signed by Mexico with the Northern Triangle), given that rules of origin are fundamental to avoid possible triangulation, such as in the levels and schedules for tariff reduction being different among countries.

ANNEX 1
Central America:
Leading agricultural exporters of the region
by product and market share, 1994 – 1999

SAC 4	Products	Principal supplier		% export.	Principal buyer
		Country	Market		
0102	Live cattle	Nicaragua	93.15	1.46	El Salvador
0105	Day-old chickens	El Salvador	79.00	1.00	Guatemala
0201	Fresh meat	Nicaragua	91.71	3.62	El Salvador
0202	Frozen meat	Nicaragua	66.67	0.75	Guatemala
0207	Chicken portions	Costa Rica	36.62	0.71	Honduras
0306	Shrimp larva	El Salvador	53.57	0.56	Honduras
0401	Skimmed milk	Costa Rica	95.05	1.01	Guatemala
0402	Milk and cream	Costa Rica	78.63	1.31	Honduras
0406	Cheese	Nicaragua	90.10	1.92	El Salvador
0407	Eggs	El Salvador	77.42	1.24	Honduras
0602	Trees and shrubs	Costa Rica	73.53	0.34	Guatemala
0701	Potatoes	Guatemala	93.33	0.45	Nicaragua
0702	Tomato	Guatemala	64.81	0.54	El Salvador
0703	Garlic	Guatemala	83.33	0.42	Nicaragua
0704	Broccoli, cabbage	Guatemala	94.59	0.37	Nicaragua
0705	Lettuce	Guatemala	82.35	0.17	Honduras
0706	Carrots	Guatemala	83.33	0.18	Nicaragua
0708	Beans	Nicaragua	50.00	0.24	Costa Rica
0709	Bell peppers	Guatemala	75.86	0.29	Nicaragua
0713	Small red beans	Nicaragua	68.63	2.04	El Salvador
0803	Plantain	Guatemala	71.60	0.81	El Salvador
0804	Avocado	Guatemala	55.56	0.18	Costa Rica
0805	Oranges	Honduras	84.62	0.26	Nicaragua
0807	Papaya	Guatemala	52.63	0.19	El Salvador
0901	Coffee	El Salvador	26.39	0.72	El Salvador
0902	Tea	El Salvador	68.18	0.22	Costa Rica
1005	White corn	Guatemala	77.92	2.31	El Salvador
1006	Rice	Costa Rica	40.00	0.70	Nicaragua
1007	Sorghum	Nicaragua	53.85	0.26	El Salvador
1101	Wheat flour	Costa Rica	59.09	0.22	Nicaragua
1102	Corn flour	Costa Rica	42.11	1.52	Nicaragua
1103	Corn flour	Guatemala	91.18	0.34	El Salvador
1104	Oatmeal	Guatemala	74.19	0.62	Costa Rica
1108	Corn starch	Guatemala	86.36	0.22	Costa Rica
1202	Bean seed	Nicaragua	95.16	0.62	El Salvador
1207	Sesame	Nicaragua	36.59	0.82	Guatemala
1208	Soybean seed	Nicaragua	42.59	0.54	Guatemala

Source: Own compilation based on information provided by SIECA.

ANNEX 2
Central America:
Principal exporters of the region's food industry
by product and market share, 1994 - 1999

SAC 4	Products	Principal Supplier		% Export.	Principal Buyer
		Country	Market		
1507	Soya oil	Costa Rica	75.25	1.01	Nicaragua
1511	Palm oil	Honduras	43.17	2.27	El Salvador
1512	Sunflower oil	Guatemala	65.38	1.56	El Salvador
1513	Other oils	Honduras	60.87	0.23	Nicaragua
1516	Vegetable fat	Guatemala	45.88	1.70	El Salvador
1517	Margarine	Guatemala	61.90	1.68	El Salvador
1601	Sausages	Costa Rica	48.78	0.41	El Salvador
1602	Hams	Guatemala	56.90	0.58	El Salvador
1604	Tuna and sardines	Costa Rica	98.80	1.66	El Salvador
1701	Sugar	Guatemala	34.67	0.75	Honduras
1704	Chewing gum	El Salvador	39.34	3.66	Guatemala
1806	Prep. cacao, sweets	Costa Rica	57.28	1.03	El Salvador
1901	Mixes & pastries	Guatemala	87.10	0.93	El Salvador
1902	Pasta products	Guatemala	37.78	0.90	Guatemala
1904	Cereal prep.	Guatemala	54.87	5.54	Honduras
1905	Biscuits, wafers	Costa Rica	40.19	6.27	Guatemala
2002	Tomato concentrate	Nicaragua	61.90	0.21	Honduras
2005	Canned vegetables	Guatemala	86.15	0.65	Costa Rica
2007	Jellies & marmalades	Costa Rica	81.31	1.07	Honduras
2009	Juices & concentrates	Guatemala	40.97	2.27	Guatemala
2101	Extracts and essences	Nicaragua	48.00	0.50	El Salvador
2102	Yeast, baking powder	Guatemala	80.77	0.52	El Salvador
2103	Sauces	Costa Rica	36.48	3.07	El Salvador
2104	Prepared soups	Guatemala	92.73	5.23	El Salvador
2105	Ice-cream	El Salvador	39.71	0.68	Honduras
2106	Prep. drinks & bread	Costa Rica	46.25	10.68	Guatemala
2202	Carbonated drinks, colas	El Salvador	67.62	2.81	Guatemala
2208	Liquor (vodka, rum, others)	Guatemala	70.67	0.75	El Salvador
2302	Wheat bran	Nicaragua	90.91	0.33	Costa Rica
2304	Soycake	Costa Rica	66.67	0.39	Nicaragua
2309	Concentrates	Guatemala	54.22	1.66	Honduras
2401	Tobacco	Guatemala	57.89	2.28	Honduras
2402	Cigarettes	Guatemala	49.77	2.19	El Salvador
2403	Reconstituted tobacco	Guatemala	87.50	0.16	Guatemala

Source: Own compilation based on information provided by SIECA.

ANNEX 3
Central America:
Relative size of exports agricultural exports
by product and country, 1994 - 1999

SAC4	Product	GU	HO	ES	NI	CR
0102	Live cattle	0.04%	0.00%	0.00%	1.36%	0.06%
0105	Day-old chickens	0.18%	0.00%	0.79%	0.00%	0.02%
0201	Fresh meat	0.21%	0.03%	0.00%	3.32%	0.06%
0202	Frozen meat	0.08%	0.08%	0.00%	0.50%	0.08%
0207	Chicken portions	0.19%	0.01%	0.17%	0.08%	0.26%
0306	Shrimp larva	0.01%	0.06%	0.30%	0.13%	0.07%
0401	Skimmed milk	0.00%	0.05%	0.00%	0.00%	0.96%
0402	Milk and cream	0.01%	0.03%	0.04%	0.20%	1.03%
0406	Cheese	0.02%	0.10%	0.01%	1.73%	0.07%
0407	Eggs	0.14%	0.03%	0.96%	0.05%	0.06%
0602	Live plants	0.02%	0.06%	0.00%	0.00%	0.25%
0701	Potato	0.42%	0.01%	0.00%	0.00%	0.02%
0702	Tomato	0.35%	0.07%	0.00%	0.10%	0.02%
0703	Garlic	0.35%	0.00%	0.00%	0.04%	0.03%
0704	Broccoli, cabbage	0.35%	0.00%	0.01%	0.00%	0.02%
0705	Lettuce	0.14%	0.02%	0.00%	0.00%	0.00%
0706	Carrots	0.15%	0.00%	0.00%	0.00%	0.03%
0708	Beans	0.07%	0.04%	0.00%	0.12%	0.00%
0709	Bell peppers	0.22%	0.00%	0.00%	0.00%	0.06%
0713	Small red beans	0.15%	0.34%	0.09%	1.40%	0.07%
0803	Plantain	0.58%	0.05%	0.00%	0.12%	0.06%
0804	Avocado	0.10%	0.03%	0.00%	0.03%	0.02%
0805	Oranges	0.00%	0.22%	0.00%	0.04%	0.01%
0807	Papaya	0.10%	0.06%	0.00%	0.02%	0.00%
0901	Coffee	0.14%	0.10%	0.19%	0.15%	0.14%
0902	Tea	0.05%	0.01%	0.15%	0.00%	0.00%
1005	White corn	1.80%	0.14%	0.14%	0.22%	0.01%
1006	Rice	0.25%	0.01%	0.05%	0.10%	0.28%
1007	Sorghum	0.11%	0.01%	0.00%	0.14%	0.00%
1101	Wheat flour	0.05%	0.00%	0.01%	0.03%	0.13%
1102	Corn flour	0.46%	0.04%	0.35%	0.03%	0.64%
1103	Corn flour	0.31%	0.00%	0.02%	0.00%	0.00%
1104	Oatmeal	0.46%	0.00%	0.00%	0.04%	0.12%
1108	Corn starch	0.19%	0.01%	0.00%	0.01%	0.00%
1202	Bean seed	0.01%	0.00%	0.02%	0.59%	0.00%
1207	Sesame	0.07%	0.01%	0.25%	0.30%	0.19%
1208	Soy seed	0.09%	0.00%	0.01%	0.23%	0.22%

Source: Own compilation based on information provided by SIECA.

ANNEX 4
Relative size of food industry exports
By Product and by Country, 1994-99

SAC4	Product	GU	HO	ES	NI	CR
1507	Soya oil	0.00%	0.23%	0.01%	0.01%	0.76%
1511	Palm oil	0.40%	0.98%	0.04%	0.02%	0.84%
1512	Sunflower oil	1.02%	0.00%	0.53%	0.00%	0.00%
1513	Other oils	0.03%	0.14%	0.06%	0.00%	0.00%
1516	Vegetable fat	0.78%	0.03%	0.46%	0.02%	0.41%
1517	Margarine	1.04%	0.00%	0.56%	0.00%	0.08%
1601	Sausages	0.12%	0.00%	0.07%	0.02%	0.20%
1602	Hams	0.33%	0.00%	0.07%	0.00%	0.19%
1604	Tuna and sardines	0.00%	0.00%	0.01%	0.00%	1.64%
1701	Sugar	0.26%	0.00%	0.25%	0.21%	0.03%
1704	Chewing gum	0.92%	0.21%	1.44%	0.02%	1.07%
1806	Prep. cacao, sweets	0.24%	0.02%	0.19%	0.00%	0.59%
1901	Mixes & pastas	0.81%	0.00%	0.03%	0.02%	0.06%
1902	Pasta products	0.34%	0.00%	0.31%	0.00%	0.25%
1904	Cereal prep.	3.04%	0.12%	2.34%	0.00%	0.04%
1905	Biscuits, wafers	1.90%	0.06%	1.34%	0.45%	2.52%
2002	Tomato concentrate	0.03%	0.04%	0.01%	0.13%	0.00%
2005	Canned goods vegetables	0.56%	0.06%	0.02%	0.00%	0.01%
2007	Jellies & marmalades	0.09%	0.10%	0.00%	0.00%	0.87%
2009	Juices & concentrates	0.93%	0.57%	0.45%	0.00%	0.33%
2101	Extracts & essences	0.02%	0.00%	0.24%	0.24%	0.00%
2102	Yeast, baking powder	0.42%	0.00%	0.01%	0.00%	0.09%
2103	Sauces	0.73%	0.60%	0.56%	0.06%	1.12%
2104	Prepared soups	4.85%	0.02%	0.24%	0.00%	0.12%
2105	Ice-cream	0.01%	0.00%	0.27%	0.23%	0.17%
2106	Prep. drinks & bread	1.12%	0.04%	4.57%	0.01%	4.94%
2202	Carbonated drinks, colas	0.47%	0.00%	1.90%	0.03%	0.41%
2208	Liquor (vodka, rum, etc)	0.53%	0.00%	0.09%	0.11%	0.02%
2302	Wheat bran	0.01%	0.01%	0.01%	0.30%	0.00%
2304	Soycake	0.01%	0.00%	0.02%	0.09%	0.26%
2309	Concentrates	0.90%	0.06%	0.45%	0.00%	0.25%
2401	Tobacco	1.32%	0.14%	0.16%	0.41%	0.26%
2402	Cigarettes	1.09%	0.60%	0.36%	0.14%	0.01%
2403	Reconstituted tobacco	0.14%	0.02%	0.00%	0.01%	0.00%

Source: Own compilation based on information provided by SIECA.

FOSTERING COMPETITIVE CLUSTERS IN AGRIBUSINESS: INCAE AND THE PROCESS TO DEVELOP AND STRENGTHEN CLUSTERS

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INTRODUCTION

The new and difficult conditions on the world agricultural market make the creation and development of industrial conglomerates (hereafter clusters) a competitive response for small-scale agricultural producers in Latin America.

In the understanding that "strength lies in numbers," this document explains the main advantages offered to enterprises, especially small-scale agricultural enterprises, that operate in this fashion.

This document proposes a practical methodology for undertaking the process to develop and strengthen competitive clusters; it also presents the principal lessons learned by INCAE in several Latin American countries in this regard, and what, in our judgment, are the critical factors of success for undertakings of this nature.

This effort began in 1995 when INCAE collaborated in facilitating a dialog among the Presidents of the Central American countries, which culminated in the signing of an agreement by the five heads of state to draw up a "Central American Agenda for the Twenty-first Century." For the first time, that document proposed a vision of Central America's position in the world economy.

The Central American Agenda for the Twenty-first Century addresses two basic concepts: clusters and business climate. The first introduces a new way to envisage national and regional economies and is at the core of this document.

Initial Considerations

The conditions faced by an enterprise can be looked at from four angles: global, national, industrial-sectoral, and business. In each of these contexts, managers have different degrees of control, from very little to almost nothing (global) to one where control is much higher (the business practices of one's own enterprise).

All of these perspectives are important, but unfortunately an enterprise can make a difference in only one of them. Working as a cluster is one thing that an enterprise can do to become more competitive.

Global Setting

Many agribusinesses are immersed in a difficult competitive world context, especially in the markets of generic products. In terms of demand, these markets show signs of maturity; their growth rates are similar to those of the population, but supplies are growing and volatile, which has spurred a downturn in price trends amidst considerable irregularity.

In Central America, banana, coffee and sugar exports alone represent 18% of total exports¹ and more than 60% of agricultural, agroindustrial and forestry exports from the region. In other words, exports are concentrated in three markets for generics, which are frequently subject to price and other types of crises.

1 Authors' calculations, based on 1998 SIECA and World Bank figures.

Generic markets are very liquid and easy to access, and the problem there is not one of selling, but rather of the sale price. The minimum scale necessary for producing, distributing and promoting at the world level reduces the individual possibilities of small producers who, additionally, come from poor countries that have little influence on international markets. For example, it is serious business to compete directly with Colombian coffee, a country that for decades has invested millions of dollars annually in promoting and positioning its product abroad, and which has important economies of scale because it is the world's second-largest producer and exporter.

In addition, even with global trends toward trade liberalization, we can continue to expect sharp distortions in world agricultural markets, especially with regards to tariffs and subsidies, and even more so in the case of products normally termed "sensitive" (grains, livestock, oilseeds and sugar, and others).

Under the agreements of the World Trade Organization (WTO), the rules of world agricultural trade are being redefined and negotiated, but considerable differences continue to exist. Very poor countries are able to generate extraordinarily low costs in the short term, through overexploitation and unsustainable management of human and natural resources. In rich countries, direct subsidies and international trade barriers distort prices and costs. This is what we have to compete against.

Nonetheless, not everything is gloomy. There are also great opportunities in Latin America that have barely been explored. For example, environmental market niches still show relatively low demand, but this demand is growing rapidly, offers greater profitability and less volatile prices. However, penetrating these market niches is very costly and is a task for the medium and long term, which is a strong disincentive for small, individual enterprises.

National Setting

In the national setting, the maneuvering room is shrinking. The influence of the world setting on national economic policies, especially trade policy, and the reduction of fiscal resources earmarked for the agriculture restrict the possibilities of traditional support for the sector.

While traditional assistance (such as subsidies) is being eliminated at the local level due to restrictions imposed by WTO agreements, in the best of cases, other non-restricted types of assistance (such as public investment in research and development, infrastructure, generic promotion) are applied only timidly. For example, the United States and the European Union invest 1% of their agricultural GDP in research and development², which is in line with international guidelines. According to some experts, the investment in Central America is much lower, between 0.2% and 0.5%.

Thus, Latin American agricultural producers increasingly face international markets characterized by sharp distortions, increasingly competitive local markets, less support, and more regulations. But they must continue to compete, regardless.

The Situation of Industry: Operating as a Cluster

We have said that maneuvering room at the global and national levels is very limited. However, improvements can be achieved at the industry level if enterprises join efforts with those of other activities, aiming for common objectives and shared benefits. Much can be achieved as a cluster, but first agreement must be reached.

2 Source: 1999 OECD figures.

In order to achieve and maintain such agreements, clear rules must be established for raising the business platform of all the activities of the cluster, or at least a large part of them.

Operation of the Enterprise

This document focuses on the effective operation of clusters, and assumes that individual businesses are reasonably well managed. We must underscore that no cluster, government or business environment can get a poorly managed enterprise to survive over the long term.

Clusters and Competitive Advantages

Let us take a moment to define a cluster. Dr. Michael Porter³, from Harvard University, defines it as a geographically close group of interconnected companies and associated institutions working in a particular field, and linked by common and complementary characteristics. This includes companies of final products or services, providers of inputs, components, machinery and specialized services, financial institutions, downstream related enterprises such as channels of distribution, clients, etc., enterprises of complementary products, suppliers of specialized infrastructure, public and private institutions providing training, education, information research and technical support, supervisory and regulatory agencies, trade associations.

This new way of viewing the economy suggests that a good part of competitive advantage is found outside the business, even outside its traditional industrial sectors, and lies in the quality of the relationship between its members, and in the way businesses, government and other institutions work in an ongoing and active way to upgrade competitiveness.

The principal competitive advantages obtained from operating in this way are the economies of scale obtained for business

3 Porter, Michael E. "Competitive Advantage of nations".

activities, such as for the purchasing of materials, investment in research and development, information systems, distribution and storage infrastructure, expenditures for publicity, and sales.

When operating as a cluster, the efficiency of the businesses and the quality of the cluster's products improve due to specialization; moreover, the sector's capacity to respond at the trade-association and institutional levels rises considerably.

In sum:

The global context is a given, especially for small producers in poor countries. The global setting, and the shortage of resources, have a bearing on the national context; therefore, a country's capacity to maneuver at the domestic level is also very limited. As far as the industry's situation is concerned, working as a cluster can bring about many improvements in competitiveness, but for this to happen the key players must reach agreement.

Clusters are a good competitive option for small agricultural producers, since they allow them to tap economies of scale in certain business activities including purchasing, distribution, etc. In addition, joint action or investments in promotion, the consolidation of brands and product lines, etc., facilitates a differentiation of small-scale agricultural enterprises for small but profitable market niches.

THE PROCESS TO DEVELOP COMPETITIVE CLUSTERS: THE METHODOLOGY AND ROLE OF INCAE

The Initiative

The process INCAE fosters for promoting, developing and strengthening competitive clusters comprises three stages: 1) assessment of competitiveness, 2) benchmarking, and 3) support for reaching agreement and implementation.

Normally, the process begins with a call to meeting of entrepreneurs, government agencies, private trade organizations and other related institutions, at which the initiative is presented, the process explained, and participants are consulted as to their interest in participating.

The objective is to bring about a positive change in the country's business sector, and in the cluster in particular, by identifying the principal limitations existing at the institutional and policy levels and comparing best practices at the local and international levels, in order to come to agreement on the measures needed for improving the competitiveness of the given cluster.

Assessment of Competitiveness

This stage begins with a methodological training workshop for assessing competitiveness. It targets groups of leaders and other representatives of each particular cluster, and includes entrepreneurs, public officials and technicians from supporting institutions. The aim is to actively involve the most important institutional and entrepreneurial actors in the study and throughout the rest of the process.

After the workshop, each of the work groups or teams created goes on to plan and develop the assessment, based on the methodology learned in the workshop. This is done under the supervision of a member of the INCAE faculty.

Three subjects are examined, as follows: a) position, definition and composition of the cluster; b) evaluation of the industry; and c) analysis of the business climate.⁴

4 An exhaustive description of the framework for analyzing the dynamics of competitiveness, as well as of the process and thematic structure of this type of investigation, can be found in the aforementioned book "Competitive Advantage of Nations"

The key questions that guide the competitiveness studies are listed below.

Regarding the definition of the cluster:

- What are the limits of the cluster?
- How does the cluster compete in the country?
- What industries (the most important) should the assessment focus on?
- What are the structure and role of public and private sector agencies that have a direct bearing on the cluster?

Regarding the position of the cluster:

- How important is the cluster from the national perspective?
- How strong is the cluster from the global perspective; what drives it?
- What is the position of the cluster in terms of the product, the client and the investor?
- Does the cluster have a well-defined, differentiated position in the global market?

Regarding the assessment of the industry:

- How competitive is this industry?
- What is the industry like?
- What is the level of local interrelationship in the industry?
- Who are the key / most important participants?
- What are the strengths and weaknesses of the industry?
- What is the impact of the government on the industry?

Regarding the business climate:

- What is the quality of the national business environment?
- What are the key points of influence for change?
- What are the critical problems to be solved and obstacles to be overcome?
- What possible solutions can be derived from public sector measures? Private sector measures?

Benchmarking

As above, the examination of benchmarking begins with a training workshop for the work teams created for each of the clusters under study, where they receive training on a practical benchmarking methodology designed by INCAE. The outcomes of this effort are studies that make it possible to establish new performance goals for the industrial sectors under study.

In this stage, three key questions are addressed:

- What potential measures can be used for addressing the main obstacles?
- What practices and policies of clusters in other regions can serve as models for improvement?
- What specific recommendations should be implemented to bring influence to bear on public policy or on private-sector initiatives?

Support for Consensus Building and Implementation

The last stage of the process consists of supporting efforts to build consensus among the main protagonists of the cluster. This stage is critical. In effect, more than the quality of the assessment of competitiveness, the benchmarking studies, or the suitability of the recommendations made by the teams, what is required is determination, commitment and agreement among the different protagonists, in implementing the recommendations of the work groups that carried out the investigation.

To foster an environment conducive to dialogue and consensus-building, INCAE conducts a third workshop, at which the plan for implementing measures for improving competitiveness is formulated. Participants in the earlier process of investigation and analysis receive training in this workshop on: a) policy analysis; b) processes of change; and c) negotiation and social dialog.

INCAE, the working groups, and the principal leaders of the public and private sectors, present a comprehensive view of the results of the investigation of each of the clusters studied. This includes the outcome of the assessment, the benchmarking, and a first agenda for upgrading each of the sectors.

On this basis, a revised agenda is formulated for subsequent presentation to broader, specialized forums of representatives of each of the sectors studied and the government agencies and institutions involved with each cluster. Next, the findings are more broadly disseminated, the work plan is launched, and implementation committees are created.

The mixed implementation committees are made up of government officials, business leaders, members of the team of analysts, as well as representatives of sectoral institutions. Their purpose is to review, complete and implement the work plans.

At this point, after having contributed to developing a process led primarily by local leaders, INCAE concludes its participation. It is involved again, however, when it is asked to periodically evaluate the process based on bi-annual reports prepared by the teams of the mixed committees as part of their working methodology.

CRITICAL FACTORS OF SUCCESS

A very valid concern that is frequently voiced at the outset of these processes is the following: Who will guarantee that we will achieve something through all of this? The truth is that there are no guarantees. In undertaking these processes, there is the possibility of achieving something: sometimes it is achieved, sometimes not. However, if no attempt is made, we can be sure that nothing will be achieved.

What factors make some processes end in achievements and others not? What are the critical factors of success for implementing processes of this kind? Our experience has shown us that some

elements are key to achieving results. The critical factors of success in the process to develop and strengthen clusters are as follows:

- Confidence in the model
- "Democratization" of benefits
- Degree of institutional development of critical actors
- Coordination and cooperation among the parties
- Existence of a local leader
- Discipline in follow up
- Crisis or threat
- Availability of resources
- Experience of vulnerability

Following we will explain each of these points:

Confidence in the Model

Participants in the process must have a clear understanding of what it means to function as a cluster and be reasonably convinced of the potential benefits of coordination and joint efforts. If there is total distrust of competitors, suppliers and clients, and if it is perceived that there are no opportunities for cooperation, then nothing can be done. The process will fail due to a lack of confidence in the model.

If there is extreme skepticism, it would be better to start again, re-explaining the process and the potential benefits. This kind of doubt usually surfaces when the process has not been explained and communicated adequately.

One of the countries where we believe the operation of clusters has been best understood and accepted is El Salvador. In that country, efforts to create clusters fostered by the Ministry of the Economy have been very well received by a private sector convinced of the benefits of the model. Such is the case of the process

carried out with that country's export fisheries industry, represented by the Chamber of Fisheries and Aquaculture (CAMPAC) and related institutions.

In that case, specific results included joint purchases of fuel for fishing vessels (representing an average 5% savings in this large budget item) and the progressive implementation of a safety plan to reduce theft and other crimes on vessels. This can be attributed to a high confidence in the model, as well as the effort and discipline of the working group, which we discuss further below.

"Democratization" of the Benefits

Having a conceptual or general understanding of the model and confidence in its benefits is part of the equation, but one must also believe that it is applicable in one's country, in one's sector, in one's circumstances. We are often told, "I know this cluster business works in Holland and in Italy, but here ... never!"

One of the greatest reasons for doubt in the local effectiveness of these processes stems from a mistrust of the supposed "democratization" of benefits. In other words, there is doubt that the process will benefit all or at least a wide range of the participants in the cluster, and not just a few; even worse, it is sometimes thought that the process will benefit a few at the expense of the rest.

When small- and large-scale producers work together, a common fear often surfaces that the large ones will appropriate all the benefits, at the expense of the small. Thus, however, it is important to insist, from the outset, that the basic objective is to improve the competitive business platform for all members of the cluster, and to respond to the needs of the sector as a whole and not to the particular problems of one or a few firms.

For example, improving the efficiency and operations of a local port will benefit all who intend to export or import goods by sea, regardless of the size of their operations. While a large exporter will use it more intensively, a better port will benefit all.

An ethical approach to work must be maintained. While it is normal to seek individual benefit within the interests of a group, this should not involve an intentional injury to other participants in the process or to the cluster as a whole.

Degree of Institutional Development of Critical Actors

A high degree of institutional development is necessary, both in the public sector and in the private sector. Functional organizations that fulfill their responsibilities are widely recognized as useful players in the process.

Responsive and effective government institutions, and a private sector organized through chambers, associations, cooperatives or other associated bodies, are very useful, especially in the case of small farmers, given their large number and geographic dispersion.

Institutional shortcomings become evident when one sees the rudimentary conditions under which some organizations work. In a town in the interior of Ecuador, a small chamber of exporters did not even have a computer, much less access to Internet. In this specific case, perhaps the most profitable action it could take to develop its activities would be to invest several thousand dollars in buying suitable equipment, and in designing a simple but functional web page that would enable its members to sell products or, at least, to furnish and receive information.

Coordination and Cooperation Among the Parties

Coordination between all relevant government institutions, and between all relevant private sector institutions, is the first step, dividing responsibilities in logical fashion and avoiding an unnecessary duplication of functions. Once this level of efficiency has been achieved in each sector, then it makes sense to talk about coordination between the government and the private sector, but not before. It is difficult to reach agreement with a third party if we have not reached agreement among ourselves. Moreover, if the third party is fragmented, which of all of the fragments is the most relevant third party?

Coordination between the government and the private sector, which is indispensable in this process to develop clusters, sometimes means conceding in areas where it makes sense to do so. For example, if the government is going to invest money in promoting a (generic) product abroad, representatives of the private sector should have some say in how that money is invested.

Existence of a Leading Local Actor

In the processes INCAE has participated in, the existence of a local actor who takes leadership, convenes and moves the rest of the group has been an important factor of success. INCAE serves as an advisor and facilitator for a limited time only; therefore, the representatives of the sector must assume the task of bringing about the changes agreed to as part of the process.

Therefore, the existence of a key local actor that coordinates actions and keeps the group together is fundamental; otherwise, the natural tendency is for nothing to happen and the proposed projects to remain at the level of proposals.

In Ecuador, the Export and Investment Promotion Corporation (CORPEI) was the local actor that led several processes in that

country, with very encouraging results in most cases. These projects include development of a seal of quality and origin for Ecuadorian flowers, standardization of export boxes, and attendance at international fairs and expositions. Processes in other countries where no institution was able to effectively assume this local leadership usually remained on paper.

Discipline in Follow Up

Having a key local actor that assumes leadership of the process is necessary but not sufficient. To achieve the expected results, it is also necessary for the entire team to have firm working discipline.

In general, a process of this nature begins with a high level of enthusiasm among all participating parties; this gradually declines until it practically disappears. This is when disciplined follow up and maintenance of a long-term vision of objectives is vital.

The most successful teams meet periodically (weekly or twice monthly), strictly carry out the tasks assigned and distributed among their members, maintain strong group cohesion, effectively manage conflicts and differences, and understand that it may take months or even years to achieve results.

Crisis or Threat in the Sector

In an interview with flower entrepreneurs in Colombia, one of their executives said, "alliances are built when there are problems, not when everything is going well." This is very true: almost every time we have been called in to cooperate, the given sector was in a situation of crisis or at least under serious threat.

We have also seen the interest of a given sector rise and fall according to the fluctuations in the international price of its products. Once again, a long-term vision is necessary in undertaking a job of this nature.

Availability of Resources

The projects resulting from these processes generally require an investment of resources for the improvement of infrastructure, international promotion, research and development. If at least some of the resources are not available at the outset, sufficient to allow for a rapid launching of some of the identified projects, the exercise will lose momentum rapidly.

The process itself should also be a mechanism for securing funds, either from the government, from private-sector associations, or from international sources. Ideally, however, at least a small, discretionary amount co-administered by the government and cluster representatives should be available to finance some of the projects.

In a recent effort in Ecuador, an executive of an international institution said, "In the end, everything comes down to the funding. We had identified the priority projects; what we need now is for someone to fund them." There is a certain degree of truth in that, because a process can not grow out of nothing. Normally, important prior efforts have been made to investigate, analyze and identify problems and to design the respective projects for solving them. In this case, the process serves both to validate the information and also to unite sectoral forces with the aim of securing funding that will enable them to launch those projects as soon as possible.

Even the most skeptical become motivated when they see concrete actions and results. If a project is launched, this produces a multiplier effect in the enthusiasm of all participants and becomes a strong motivating force for achieving more results within the process, in the medium- and long-terms.

Experience of Vulnerability

When entrepreneurs of the agribusiness sector have been affected by a natural disaster, such as a flooding river, a storm, hurricane, earthquake, volcanic eruption, drought and even the not so infrequent social or political catastrophes of their countries, they capitalize on the experience of their vulnerability, recognizing that addressing same alone would be unproductive and normally impossible from the financial point of view.

This experience with the vulnerability of their individual businesses in the face of natural and social phenomena facilitates the adoption of decisions by an association or by a more complex grouping such as a cluster.

Especially in the Central American isthmus, this type of experience is common in the agribusiness world. Although unfortunate, it serves as a very effective incentive for fostering cooperation among the members of a cluster.

PROGRESS IN THE STUDY AND DEVELOPMENT OF CLUSTERS: CONCLUSIONS, LESSONS AND CHALLENGES

The following synthesizes the key lessons learned by a group of INCAE staff members who participated in the studies and in supporting the development of clusters in some countries of the Central American isthmus and in Ecuador.

The lessons are two-fold. First are those essentially of an academic nature, and which have to do with improving the competitiveness of a group of local firms. Second are those related to the application of the concept of competitiveness as a new way of doing business. These derived from observations of the process to conduct the studies and the support provided for developing clusters in different countries, in different sectors of the economy, and

therefore in different global, political, trade association, cultural and business contexts.

Next we will address the first aspect:

A New Concept of Competitiveness

Following are four of the basic changes made by a key group of business persons of the region, based on the “Central American Agenda for the Twenty-first Century” and their deliberations on the actions to be taken vis-à-vis the analysis of the competitiveness of their clusters: a) Greater awareness on the part of the business community and key public officials of which key sectors of each country can become motors of competitiveness. There is evident emphasis on the opportunity for agribusiness. b) A greater understanding of the best practices for achieving competitiveness in key sectors. Although not involving substantial transformations, the introduction of best practices in some clusters, such as in the case of fisheries in El Salvador, clearly demonstrates the potential of efforts by participants in a cluster. c) After formulating a specific agenda for improving the performance of a sector, it is necessary to formulate a plan of action immediately after the key participants in a cluster have reached agreement. d) It is necessary to begin implementing the best proposals of the corresponding agendas, sometimes vigorously, sometimes timidly.

We can now affirm that the first three of these were prerequisites for the process to implement measures to improve the degree of competitiveness of a given cluster. In our opinion, these elements create confidence in the model, which we referred to as a critical factor of success.

Training in the Analysis of Competitiveness

The identification of clusters having a high potential for competitiveness in a country requires that analysts be trained in

this matter, analysts who will be immediately available, full time, to conduct the studies and present a set of useful recommendations and proposals for improving the competitiveness of each cluster. At the time this report was written, some 200 persons, including officials, business persons, and members of trade associations, had participated in the training workshops on the analysis of competitiveness. Thus, the countries have access to a valuable resource for deepening, disseminating and expanding their information on competitiveness in other sectors of their economies.

The main challenge in this field is to tap this installed capacity for study and analysis and to apply it to sectors other than those that have already been studied.

As mentioned above, the second aspect of the lessons learned derived from the participation in and observation of the processes of study and later the process to reach agreement and implement new management practices at the cluster level. Again, these lessons can be grouped into two sections. The first consists of identifying key factors or requirements for success in strengthening clusters.

Improving Competitiveness: Requirements

The analysis of clusters and the benchmarking studies are not sufficient for making a cluster competitive. The process of study and implementation itself has proven to be as important as the contents and results of the studies. In the section of this report on the critical factors of success we referred to those requisites.

We will mention those factors again to underscore their importance: confidence in the model; democratization of the benefits; institutional development of critical actors; existence of a leading local actor; discipline in follow up; availability of funds; the existence of a crisis in or a threat to the sector; and recognition of the vulnerability of isolated efforts.

The fact that so many factors are critical for success (nine, as we see it) demonstrates the difficulty of bringing processes of this nature to a satisfactory conclusion.

National Competitiveness Committees

The national competitiveness committees already set up in each of the countries of Central America should be used even more as a key resource in efforts to strengthen local clusters. The role of these committees has been primarily to serve as a center for meeting, exchange, discussion and for monitoring commitments associated with the Central American Agenda for the Twenty-first Century. The potential of these committees to reaffirm and ensure implementation of the specific agendas of the clusters should not be overlooked.

The Challenge of Equity

Strictly speaking, the analysis and promotion of clusters targets and benefits, by definition, a few sectors in a country's economy, those that have the greatest potential of becoming competitive at the global level. A key challenge facing all the countries of the region will be to apply the model, the instruments and the practices of competitiveness in sectors that have been overlooked to date, in the knowledge that not to do so will irremediably widen the poverty gap.

We must recognize that focusing exclusively on competitiveness, especially within the agribusiness sector, is only one part of reality and does not apply to the entire sector. Other important elements related to the broader concept of rural development must be taken into consideration.

The challenge is how to increase the competitiveness of the agricultural sector without overlooking pressing social needs in rural areas, where about half the population of Central America lives.

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Section III

ASPECTS OF RISK ADMINISTRATION AND FINANCING FOR BASIC PRODUCTS

OVERVIEW OF RISK MANAGEMENT AND NEW FINANCING MECHANISMS IN THE COMMODITY AND FOOD-PROCESSING SECTOR

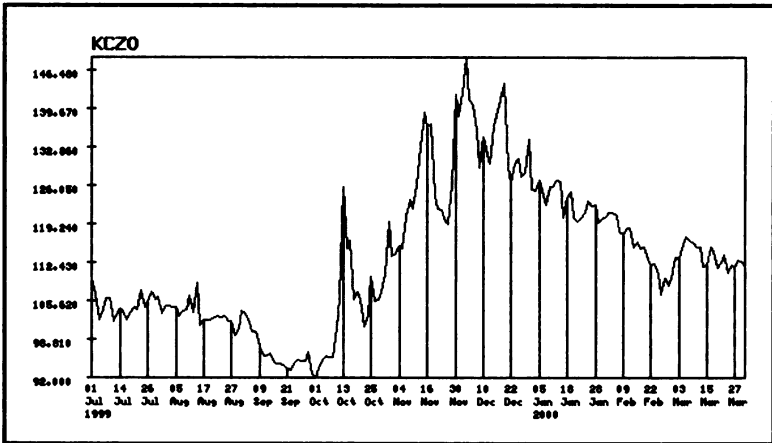
Speaker: Olivier Matringe
UNCTAD

It is a great honour for me to start off the third day of this regional workshop focusing on structured commodity finance and risk management issues. I do hope that innovative thoughts and challenging ideas regarding market-based instruments and strategies will improve awareness and favourably impact the ongoing development of Latin American markets.

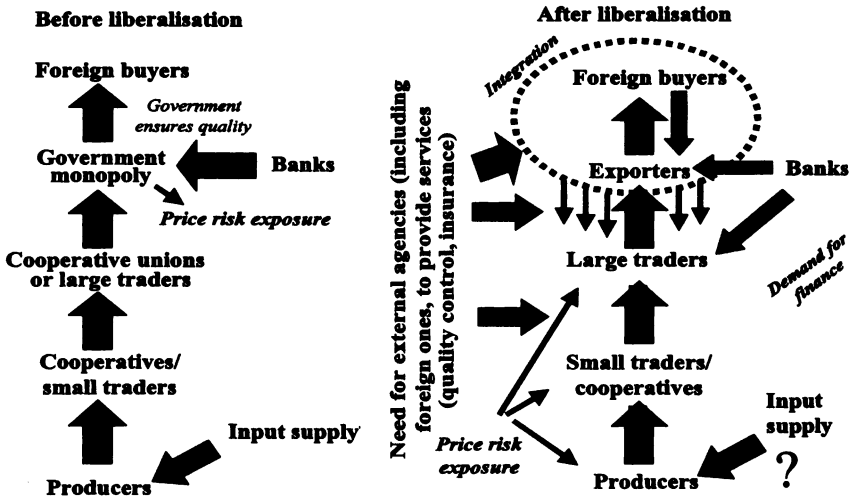
In fact, as pointed out in the above graph - showing price development in the arabica coffee sector in 1999 and 2000 - significant price instability, which is generally observed in the commodity sector, give rise to a large number of risks for the different actors involved in the sector and leaves producers, exporters, the processing industry and governments fully exposed to changes in world market conditions

The last few years have witnessed drastic changes in commodity market structures. The role of the public sector in commodity trade and financing has changed and instead of direct intervention we now have an open market dominated by the private sector. Therefore, risks engendered by the above-mentioned instability have a direct effect on producers and on other domestic operators involved in the commodity marketing chain.

Coffee arabica



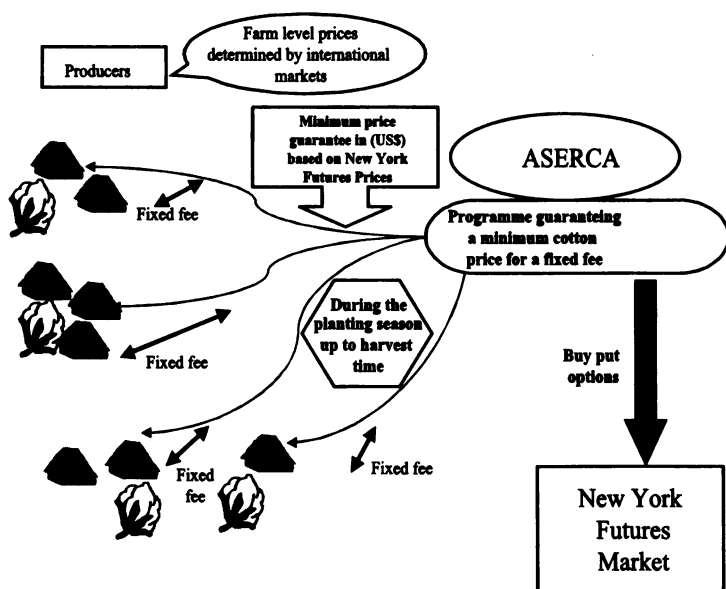
Changing domestic market structures



In such a situation, it seems important to explore the different market-based schemes which can be used to cope with these intrinsic negative effects and to identify reliable and relevant solutions for each country and each commodity market.

Similarly, in a liberalizing and “globalizing” environment, risks have also made it more difficult for producers and local operators to access finance at low cost. Indeed, the central purchasing agencies that were once convenient reimbursement mechanisms for loans have largely disappeared and producers' access to credit has deteriorated markedly. Modern and innovative financing structures, based on the use of commodities as collateral, can be seen as a great potential since they provide opportunities to obtain affordable credit, stimulating the development of an effective commodity and food-processing sector.

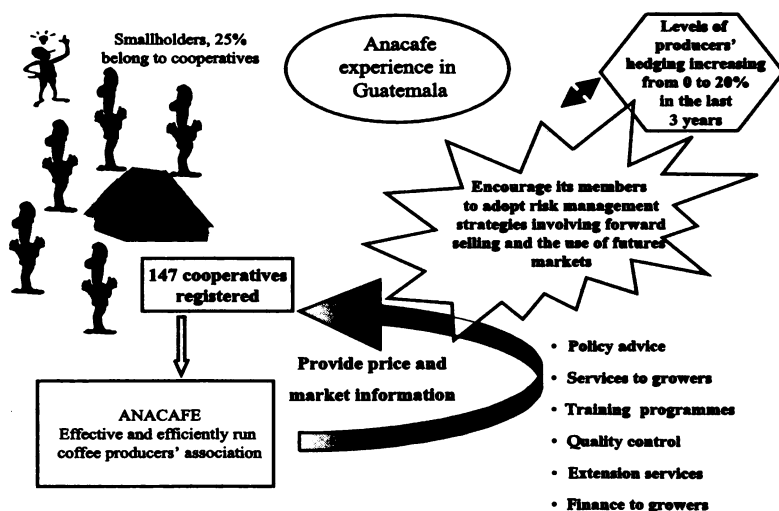
During one day, we are going to examine different examples and cases illustrating how some countries are successfully managing their risks and which are the criteria to be met when one wishes to apply structured finance mechanisms.



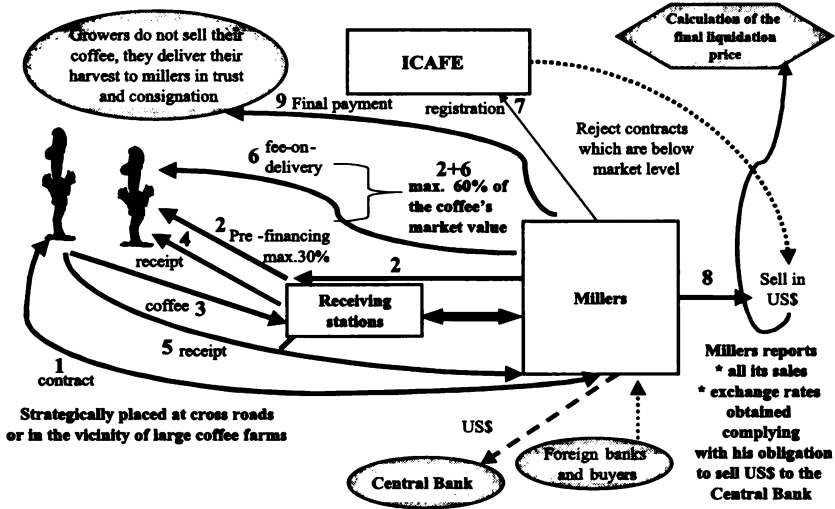
First of all, we will have great pleasure starting this session with the presentation of Mr. Miguel Yoldi Marin, General Director of Financial Operations, ASERCA, Mexico, who will describe the experience of Mexico in setting up a programme to provide a price minimum guarantee to farmers for seven commodities; a very interesting case to study since it provides some of the key elements for assisting commodity producers in using market-based instruments as a safety net mechanism.

Secondly, we will examine the issue of financing structures in the rural area, focusing particularly on case studies in Latin America such as schemes developed in Guatemala by Anacafe – a producer’s association which is assisting its members in integrating price risk management strategies – or innovative credit systems based on commodity as a collateral in Argentina illustrated by the presentation of Dr. Fernando Fravega who will share his experience with us.

Thirdly, my colleague, Ms. Leonela Santana-Boado, will discuss new financing mechanisms developed in countries such as Cuba and Colombia as well as ways and means for securizing financial transactions.



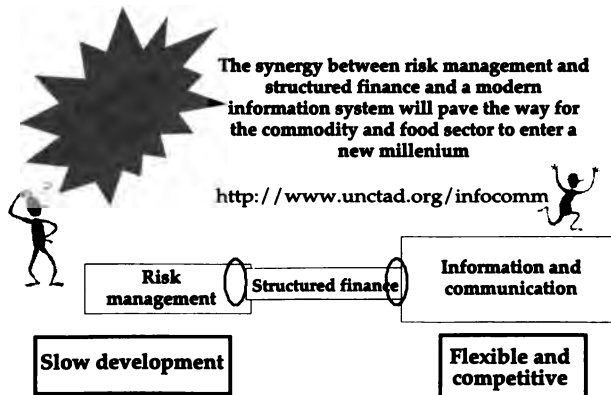
The coffee sector in Costa Rica



Fourthly, we will also have the presence of Mr. Juan Bautista Moya, Director of ICAFE, who will talk about the coffee sector in Costa Rica and explain the views of ICAFE and the role of intermediaries, in particular regarding pre-financing structures.

Finally, an overview of the missions of the Central American Bank for Economic Integration (CABEI) in financing exportation of non-traditional commodities will be presented by Mr. Patricio Rueda, Department of Sustainable Development of CABEI.

There are many ways of using new financing instruments. However, they are still underutilized. Thus, to fully under-



stand the potential of these tools, more awareness and exchange of views and experiences are needed, in particular for senior executives of companies/institutions and for policy makers in governments.

Increasing the synergy between risk management and structured finance, enriched by a modern system of information and communication, will undoubtedly pave the way for the commodity and food-processing sector to enter a new era.

**HEDGING AGAINST PRICE VARIATIONS IN
TRADE OF COMMODITIES USING FUTURES
MARKETS, AND THEIR CONTRIBUTION TO
REDUCING POVERTY**

A: THE CASE OF ASERCA IN MEXICO

**B. FINANCING MECHANISMS IN
THE AGRIFOOD SECTOR:
SOME EXAMPLES FROM
LATIN AMERICA**



THE CASE OF ASERCA¹ IN MEXICO

*Speaker: Miguel Yoldi Marin
ASERCA, Mexico*

INTRODUCTION

The development of risk management mechanisms is the result of the instability of the environment in which companies of all types operate. This not only applies to the agricultural or livestock sectors: there is also volatility in the exchange rates, the interest rates, in the stock markets and in the prices of basic commodities or raw materials. Advances in information technology have also been decisive factors in its development.

The growth of derivatives markets —contracts whose value is determined by that of another asset and include futures, options, swaps and an enormous range of hybrid products— has enabled producers and consumers of a great variety of materials to reduce the impact of unfavorable price variations.

The financial crisis in Southeast Asia and its subsequent spread to other countries, led to a fall in demand and to a generalized surplus that had repercussions in the prices of agricultural and industrial raw

1 ASERCA – Support and Services for Agricultural Marketing – is a decentralized body of the Ministry of Agriculture of Mexico; among other functions, it is responsible for three Programs: the Direct Support Program, PROCAMPO, the Marketing Support Program and the Hedging Program for Agricultural Prices.¹

materials. The grain harvests in particular, which in the last four cycles had developed in optimum conditions in nearly all the world, created an accumulation of inventories in the countries that are leading exporters.

The collapse of market prices unfortunately had extremely negative consequences for the countries where risk management instruments, or hedging mechanisms, are not in general use.

Last year, the accelerated growth of the United States economy prompted a recovery in the prices of some products. Despite the fact that in the final months of 2000 the prices of raw materials, as measured by the Bridge Index of the CRB (Commodity Research Bureau), began to recover due to worldwide economic growth, and that at present the CRB is at its highest level since February 1998, the increases in market prices have occurred essentially in the energy sector (oil and natural gas) and in industrial products. However, the prices of cacao and coffee, so important for the economies of the less developed countries (LDCs), are at their lowest levels for many years.

In the case of Mexico, higher oil prices provided the country with a foreign exchange surplus. At the same time, the increase in the international prices of natural gas had a negative impact on its industry, which despite being in a better financial situation than the agricultural sector, also lacks a risk management culture.

In the coming months, the evolution of the international prices of agricultural and industrial products will be determined by the slow-down of the US economy. Although long-term projections point towards slightly higher price levels, it should be remembered that the trend in terms of the relative prices of raw materials is downward.

ANTECEDENTS

In an open trade environment, and with the gradual withdrawal of the State from the marketing of staple grains, Mexico's agricultural sector has had to transform itself.

Mexican producers now face the free play of supply and demand, with open borders. In this new scenario, their incomes have been cut by falling prices on the international markets and by the downward pressures of the bear market in harvest times, with the temporary saturation of the national market. They have also had to compete with products from other countries, which have greater support mechanisms and better production infrastructure and services.

Thus, the qualitative changes experienced by Mexico's agricultural sector in recent years have made it indispensable to use hedging strategies to manage, as far as structural deficiencies will allow, the volatility of basic grain prices.

Since its creation in 1991, ASERCA has been responsible for implementing support policies in the agricultural sector through direct support programs (PROCAMPO) and support for marketing and risk management. The common objective is to temporarily compensate for disparities in the support mechanisms and the conditions of production of foreign competitors.

ASERCA's experience in risk management dates back to 1992-1993, when it carried out its first transactions in the futures markets of grains and used the mechanism of swaps to protect both the prices of the national harvests of maize, wheat, sorghum, soybean and cotton, and the budget that had been assigned to it by the Federal Government for market support for grains and oilseeds. This gave rise to the Price Hedging Program for Agricultural Products in International Markets.

It is important to note that ASERCA's Programs are essentially directed at producers of basic food staples. PROCAMPO, the direct support program, includes maize, wheat, sorghum, soybean, cotton, rice, beans, safflower and sesame. Of these products, The Hedging Program covers those that are traded on the international futures markets. The production of grains and oilseeds in 2000 (in terms of year/supply) is estimated at 30.5 million tons; the products contemplated in the hedging program, represent 97% of these harvests. In terms of Agricultural, Forestry and Fisheries GNP, grains and oilseeds represent more than 22%, maize only represents more than 13%

In 1994, given the downward price projections for cotton and the fall in national production of this fiber, a pilot program was implemented via sales options (puts) directed at producers. Although the major cotton producers already had a certain experience and knowledge of the markets, these operations were significant because for the first time, Mexican producers participated in a generalized way in the acquisition of risk management instruments. The cost of coverage or hedging costs were deducted from a special plant health support that ASERCA itself granted to cotton producers.

This program was so successful that it was redesigned to make the alternative of price hedging available to a larger number of producers.

BASIC FOUNDATIONS OF THE PROGRAM

The Price Hedging Program for Agricultural Products, which has provided farmers with market instruments to protect themselves from falls in international prices; it is conceived as a form of insurance that at the same time provides producers with a guarantee, making it easier for them to obtain credit.

Some financial institutions have established price-hedging schemes as a requisite for the granting of seasonal farm credits. This instrument has also been fundamental for collateral schemes, since it provides an additional source of repayment, guarantees the value of the security and allows access to credits in dollars, at more attractive rates.

The supports are directed at producers of maize, wheat, sorghum, soybean, safflower, rice and cotton, both individual farmers and associations, and from last year, hedging contracts were also introduced for small coffee producers. The sorghum options are carried out through maize, while safflower options are acquired through soybean, since these commodities are not traded in the futures markets. In the case of sorghum, there is a traditional differential with the price of maize of around 90%, which has shown a high correlation. Considering that the reference price for the harvest of Tamaulipas is the Texas grain price, hedging has been extremely effective, since there are no significant differences in the bases.

With regard to safflower, the number of contracts covered with soybean is insignificant. In general terms, we consider that this coverage is not ideal because these are very different products and markets. Nevertheless, the producers requested this alternative.

In general, the base risk, or of correlation between national and international prices, arises because the futures contracts that operate in certain countries, particularly in the United States, reflect local needs that may be totally different to those of other countries and which are the result of factors such as differences in specifications and quality, local conditions of supply and demand, the transport situation, interest rates, storage costs, etc. A high base risk may render impractical the use of a futures contract or options on futures, for price hedging with a particular product.

In countries where state intervention in the markets has been reduced, there is a closer relationship between internal prices and international prices, which makes possible the use of hedging instruments in international futures markets. In the case of Mexico, geographic proximity and the existence of a Free Trade Agreement

with the United States, have encouraged a high correlation of prices in raw materials, that make it feasible to hedge against price variations in their futures markets.

In addition, ASERCA provides advisory and "brokerage" services for other products for which financial resources have not been available, including coffee, orange juice, beef cattle and pork.

In 2000, with the severe fall in international prices and in collaboration with the Mexican Coffee Council, hedging contracts were implemented for small coffee producers.

These hedging mechanisms operate through long positions on options put (sale) and call (purchase), according to producers' needs. Calls are only available to those who establish forward contracts, in other words, who sell their harvest in advance. This form of protection is aimed at promoting agriculture by contract.

The main attraction of options, is that risk is limited to the payment of a premium whose cost is known in advance; they are a form of price insurance. Puts allow farmers to set a minimum sale price, a "floor" price, also known as the strike price, and to receive the benefits of price increases when the commodity is actually sold. With calls, there is an incentive that, if the futures prices should increase after the sale contract is drawn up, the producer will receive compensation from the futures market. In this case, the "floor" price is established in the forward contract. The strike price of the option negotiated through ASERCA is the closest to the closing price of the relevant futures contract (at-the-money).

The use of futures contracts was ruled out, because these imply fixing the price and do not allow producers to take advantage of any favorable movements that might occur before marketing the product. In these cases, the perception of the participants might be of "having lost". In addition, the risk of not meeting the margin calls would be extremely high and the costs administrative costs would be significantly increased.

Support for the Hedging Program has been granted through two modalities:

- **Simple Cover.** Under this scheme, in 1996 and 1997 ASERCA assumed two-thirds of the total hedging cost, which includes the commissions paid to the brokerage firms. Since 1998, ASERCA contributes 50% and the producer must pay the other 50%.
- **Cover with the establishment of an Investment and Contingency Fund (FINCA).** In 1996 and 1997 ASERCA covered 100% of the hedging costs, provided the producer deposited the same amount in a FINCA, which is essentially a savings trust fund, with the aim of capitalizing it. In the period 1998-2000, ASERCA's contribution was 75%, while the producer had to pay 25% of the cost and deposit in the FINCA an amount equal to the sum disbursed by ASERCA.

Since the minimum duration of FINCA was three years, and in response to the change of administration in December 2000, this modality was applied in 1999-2000 only for those trust funds constituted before December 31, 1998.

The requirements for joining the program, are relatively simple: applicants must prove that they are accredited producers and be registered in PROCAMPO, or be a beneficiary of a seasonal credit or a working capital loan, and present the deposit slip in the ACERCA account, for the amount of their contribution to the hedging contract or option. This mechanism takes advantage of the database of the same institution and the controls of the banking institutions, thereby reducing administrative costs.

It is important to note that producers who are not in PROCAMPO and do not have open credit can also register. However, they must present some other evidence and ultimately prove ownership of their property.

ASERCA's central offices prepare Tables of Hedging Costs containing information on each product, expiration date (month of expiry) and type of option, and these are sent daily to its 16 Regional Offices. These tables may also be consulted at www.infoaserca.gob.mx.

the agrifood sector in Central America

The costs that appear in these tables, which are published and distributed before 4 in the afternoon, are valid to operate the following day. In other words, ASERCA absorbs the risk of the variations in the operations of the exchanges the following day. This gives the program great speed and simplifies the participation of the producers.

RESULTS 1996 - 2000

The results obtained in five years of operations have been very satisfactory. The first hedging transaction recorded was with wheat on May 31, 1996; at the close of that exercise 2,219 options contracts had been placed. In 1997, the transactions increased significantly to 8,577 contracts; in 1998 there was a slight decrease to 8,396 contracts and in 1999 the volume reached 10,711 contracts.

The year 2000 was very important in terms of expansion. In the first semester, it exceeded the volume of the previous year. Last year a total of 14,745 contracts were placed. However, the granting of financial support had to be suspended from August for lack of budget. In the following months the cost of the transactions was covered totally by the producers themselves.

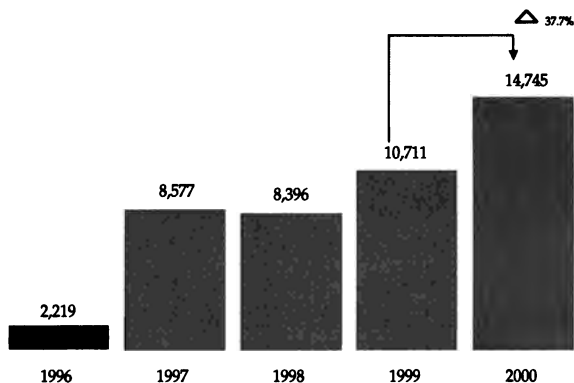
In five years of operations, ASERCA's budget contribution has reached 261 million pesos, that of the producers has reached 192 million and the income received by the latter has totaled 445 million pesos.

Purchases 1996-2001

Product	1996		1997		1998		1999		2000		2001 (as of 11.02.01)		TOTAL	
	Contracts	Tons	Contracts	Tons	Contracts	Tons	Contracts	Tons	Contracts	Tons	Contracts	Tons	Contracts	Tons
Cotton	971	22,022	1,089	24,697	3,728	84,550	2,960	67,132	890	20,185	84	1,905	9,722	220,490
Safflower	0	0	0	0	74	10,070	2	12,519	0	0	0	0	166	22,589
Corn	201	25,401	1,463	185,811	1,420	180,348	1,810	229,881	1,631	207,147	32	4,084	6,556	832,682
Sorghum	1	127	2,895	367,681	1,823	231,532	2,365	300,369	6,705	851,574	581	73,701	14,370	1,825,073
Soybean	28	3,810	81	11,022	0	0	7	953	0	0	188	25,583	804	41,268
Wheat	1,019	138,663	3,049	414,901	1,351	183,841	3,477	473,142	5,492	747,339	37	5,035	14,425	1,962,922
Coffee	0	0	0	0	0	0	0	0	27	450	0	0	27	450
Total	2,219	190,024	8,577	1,084,112	8,396	690,341	10,711	1,083,995	14,745	1,826,704	922	110,377	45,570	4,905,551

BUDGET														
OUTLAY	487,588		61,240,132		54,888,418		61,265,243		77,749,942		5,053,953		260,697,68	
COST														
PRODUCER (pesos)	6,245,195		16,221,673		46,243,170		53,656,134		70,900,448		5,053,952		192,075,561	

Contracts traded by year, 1996-2001



Hedging contracts have enabled ASERCA to partially indemnify Mexican producers for their losses in the commodity market. In global terms, we estimate that the income received through the Program at more than 50 million dollars. These resources were assigned to the payment of seasonal farm credits and the purchase of materials for the next production cycle, which has helped to alleviate, to a certain extent, the farmers' position with the banks (basically BANRURAL) and the producers' own credit unions.

Liquidations, 1996-2001

PRODUCT	CONTRACTS	TONS	INCOME PRODUCER		CONTRACTS	TONS	INCOME PRODUCER		PRODUCT	CONTRACTS	TONS	INCOME PRODUCER	
			pesos				pesos					pesos	
1996					1998				2000				
COTTON	823	18,665	2,188,316	117.24	3,427	77,723	61,051,517	785.24	COTTON	1,346	30,527	17,125,777	561.01
SAFFLOWER	0	0	0	0.00	74	10,070	26,180	2.58	SAFFLOWER	0	0	0	0.00
CORN	92	11,685	1,052,041	90.03	1,914	243,089	19,157,884	78.81	CORN	1,695	215,275	8,882,823	41.26
SORGHUM	1	127	5,627	44.31	1,822	231,405	9,787,669	42.30	SORGHUM	6,693	890,090	101,882,590	119.85
SOYBEAN	28	3,810	453,814	119.11	80	10,886	5,381	0.49	SOYBEAN	0	0	0	0.00
WHEAT	876	119,204	9,912,872	83.16	1,272	173,091	15,840,786	91.52	WHEAT	5,976	813,201	18,912,732	23.26
COFFEE	0	0	0	0.00	0	0	0	0.00	COFFEE	27	499	980,327	2,134.57
TOTAL	1,820	153,491	13,612,669		8,589	746,264	105,849,267		TOTAL	15,737	1,909,512	147,784,209	
1997					1999				2001 (14.02.01)				
COTTON	1,208	27,397	7,827,245	285.69	2,834	64,274	44,737,704	696.36	COTTON	0	0	0	0.00
SAFFLOWER	0	0	0	0.00	92	12,519	372,791	29.78	SAFFLOWER	0	0	0	0.00
CORN	736	93,676	1,791,620	19.17	2,052	260,616	15,149,281	58.13	CORN	0	0	0	0.00
SORGHUM	2,876	365,269	29,824,092	81.65	1,980	251,472	27,600,277	109.76	SORGHUM	219	27,814	374,194	13.45
SOYBEAN	1	136	0	0.00	7	953	15,414	16.18	SOYBEAN	0	0	0	0.00
WHEAT	3,118	424,290	26,442,280	62.32	3,146	428,101	23,889,861	55.80	WHEAT	0	0	0	0.00
COFFEE	0	0	0	0.00	0	0	0	0.00	COFFEE	0	0	0	0.00
TOTAL	7,939	910,569	65,885,237		10,111	1,017,934	111,785,328		TOTAL	219	27,814	374,194	

In the period 1996 – 2000, 1,052 clients were served, both individual farmers and associations. Producers' organizations accounted for 91% of the contracts placed. In the case of individual producers, the estimated size of the production units was more than 100 hectares

The program was designed to be self-financing, given that when producers obtain significant incomes in the futures markets, they can repay ASERCA, either in full or in part, the amount of its initial contribution. This has allowed it to recycle the budget resources in the period 1997 – 1999 and, therefore, to cover greater volumes than those contemplated in the original budget. Even though recovery was one of the basic assumptions for the preparation of the annual budget, last year the Ministry of Finance and Public Credit did not authorize the reutilization of these resources and so the granting of financial support to the hedging contracts had to be suspended; the sums recovered were repaid to the Federal Treasury.

As is to be expected, the availability of budget resources has been one of the main factors limiting the Price Hedging Program.

With regard to the products, hedging contracts have focused on sorghum, cotton and wheat. In 1996, the operations were essentially wheat. In that year alone, a contract for 127 tons of sorghum was covered in the state of Campeche. Sorghum has had an enormous importance during the rest of the period, especially last year, when it had a 46% share.

The operations with wheat have also been extremely consistent. In the case of cotton, the highest volumes were recorded in 1998 and 1999. In terms of the resources contributed by ASERCA and by the producers, cotton contracts occupied first place during both years, since this is a product with greater commercial value, the premium costs are significantly higher.

The participation of cotton producers from the states of Baja California, Coahuila and Chihuahua, has been important. There

has also been great demand among the wheat producers of Sonora and the sorghum producers of Tamaulipas.

Although the results of the program are positive, the volumes covered by risk management instruments for prices are not representative of the volume of grain transactions in the national market. There is a considerable geographic concentration in the states of Sonora and Tamaulipas as a result of the farmers' high level of organization, the scale of production, the economic resources available to cover the contributions and of the particularly critical conditions under which wheat and sorghum are sold, respectively.

In the case of cotton, the Comarca Lagunera has hedged, on average, 70% of its production, which is the highest percentage for any product or region participating. In wheat, the operations of 2000 represent approximately 17% of the national harvest; in the case of Sonora these represent 47%. Sorghum hedges are equivalent to 12.5% at national level, but nearly at 34% of the production of Tamaulipas. By comparison, in Guanajuato, second leading producer of this forage grain, production protected with hedging contracts barely exceeded 1%. For maize, the program's influence on the national marketable production is 1.2%, though it covers one third of the harvest of Sonora.

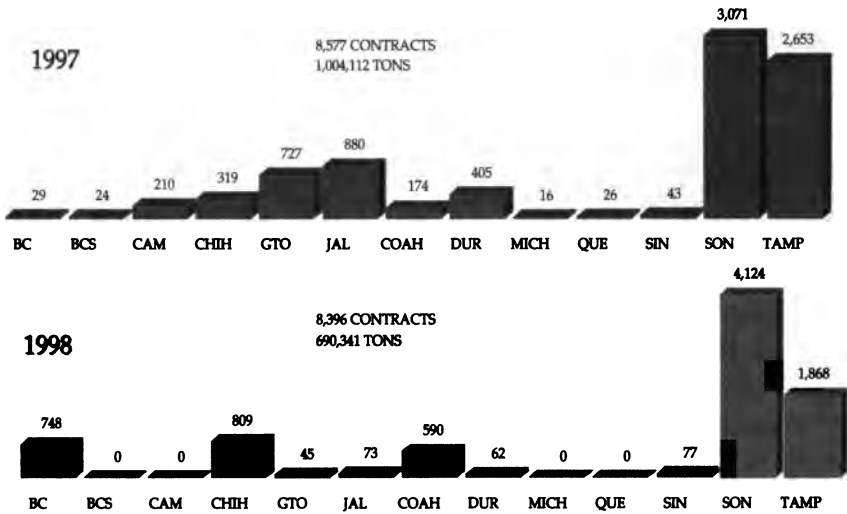
The participation of oilseeds, soybean and safflower has been almost nil with inscriptions also from Sonora. It is important to emphasize that the hedging contracts for safflower via soybean is not wholly adequate, since the price of these seeds does not move in the same direction. The incorporation of safflower into the program was due to the specific petitions of producers.

Last year, also in response to repeated requests by rice producers, it was formally decided to include this product in the program. In this particular case, the Chicago market does not respond to the hedging needs, since prices are distorted by the internal prices of the United States. In addition, this is not a very liquid market. To date, no hedging contract for rice has been made.

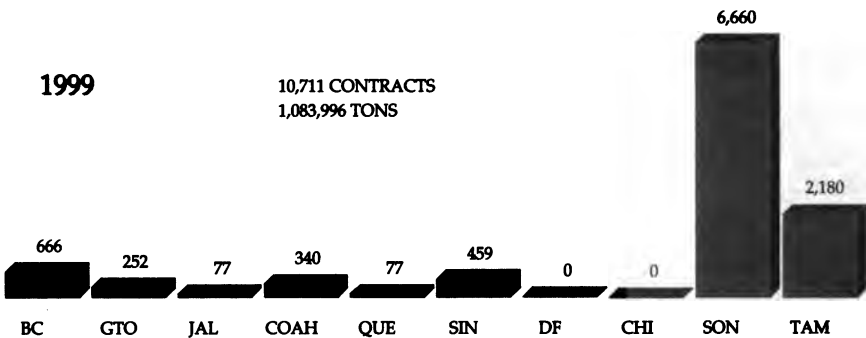
In 2000, with the sharp fall in coffee prices and despite the fact that the program was suspended for the rest of the products, specif-

ic financial resources were authorized to acquire hedging contracts for small coffee producers. The volume of the inscriptions was not very significant, despite the availability of more than one million dollars and the fact that such contracts had been insistently requested. The view of the farmers was that “ the price could not drop any further ...”.

Contracts by federal agency, 1997-1998

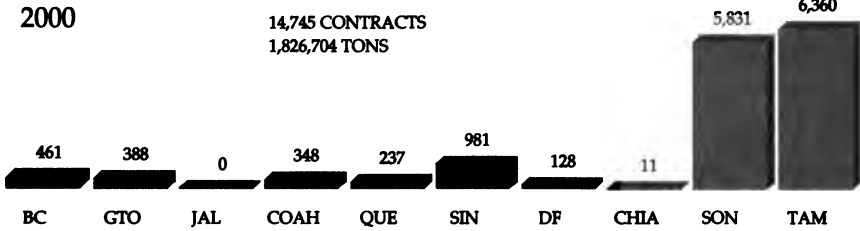


Contracts by federal agency, 1999-2000

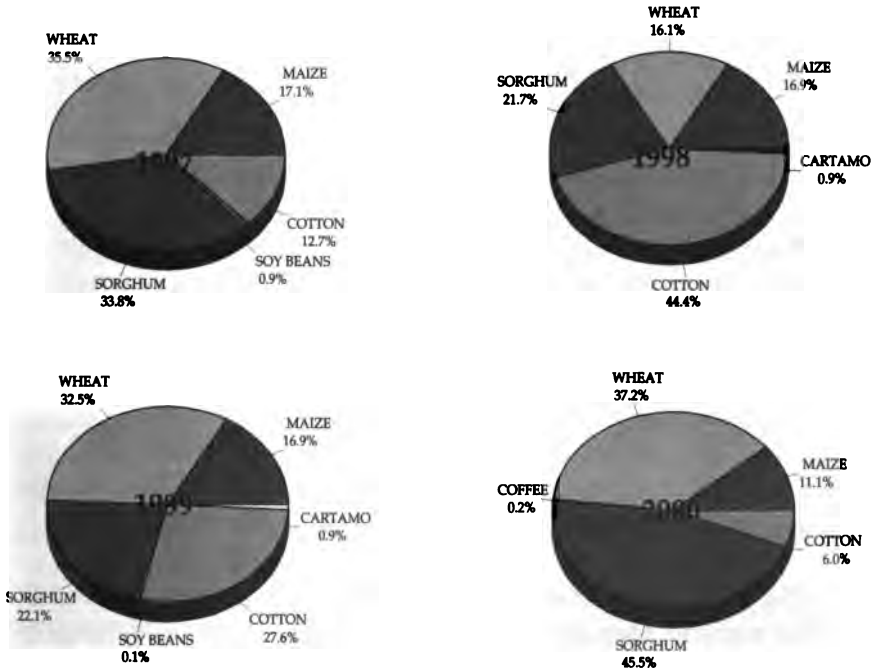


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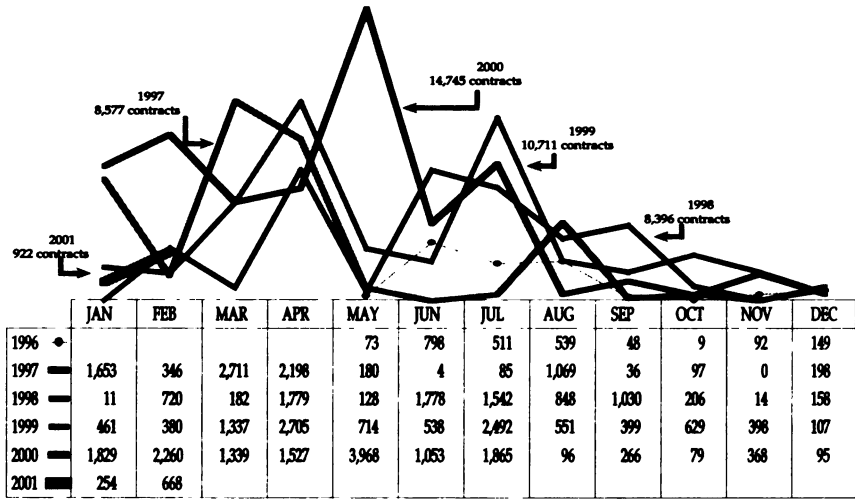
Contracts by federal agency, 1999-2000



Contracts traded by product, 1999-2000



Monthly trend in contracts traded, 1996-2001



An additional objective of the hedging program has been to create a culture of risk management in the Mexican agriculture sector. In this regard, we have achieved important advances. Indeed, this has awakened the interest of many different sectors in the futures markets and risk management in general. Mexico's banking institutions, in particular, are increasingly including the taking out of a hedging contract as a requirement to obtain loans.

The successful implementation of a program of this scale has not been exempt from various types of obstacles, and has required major institutional efforts in the areas of dissemination and training, both internal and external.

The creation of a culture of risk management is the starting point for ensuring that the agricultural sector uses the instruments of the futures market intensively and effectively. This training effort has also included the country's official decision-makers.

The operational mechanics of the program have been presented throughout Mexico: at events promoted by public sector institutions, producers' organizations and lending credit institutions.

These presentations have increasingly required us to organize short courses on futures and options.

For the past five years, monthly seminars have been organized imparted by the brokerage firms that ASERCA uses for its transactions and by other consultants, on different topics related to the futures markets and options and the price trends in the international markets. These seminars are directed both at ASERCA's own staff and at the personnel of public sector institutions belonging or related to the agricultural sector, and farmers' representatives.

In 2000, in collaboration with the Autonomous University of Tamaulipas, ASERCA launched a Hedging Contracts Diploma, with a duration of 180 hours. The first ninety hours were completed in December, and were organized in two centers: Reynosa and Mexico City. In Reynosa 40 producers and salespeople participated, while in Mexico City, ASERCA personnel and 34 colleagues from other areas participated. The second part of the diploma course will begin at the end of February 2001.

One of ASERCA's main concerns has been the training of personnel who are directly involved with the operation and the design of hedging strategies and advisory services for producers.

Five years ago, when the institution had already carried out transactions on the international futures markets and options and even swap operations, the majority of the staff had never been on the floor of a commodity exchange and did not know the basic concepts or the workings of the futures market.

At the end of 1996, intensive training began, in situ in Chicago. Courses have also been given on the theoretical valuation of options, stock markets, futures markets, etc. From 1998, we began a formal process to obtain accreditation for our staff by encouraging them to take the National Commodity Futures Exam, better known as Series 3, administered by the National Association of Securities Dealers (NASD). This exam must be passed to obtain the registration and license of the NFA (National Futures Association).

Another of our concerns has been to maintain the transparency and control over our operations in the international markets. For this it has been necessary to have an organizational structure similar to that of a brokerage firm: an operations and customer service section (front office); registration and control of transactions (back office) and analysis and operations strategy section (middle office). The formal creation of the back office was an enormous qualitative leap forward in our operations.

At present, we estimate that 80% of our time is dedicated to the tasks of promotion, training, registration and control, 15% to analysis and only 5% to the placing of contracts in the market.

Carrying out transactions similar to those of a brokerage firm has also caused problems in the financial accounting of futures and options, which is not contemplated traditional government accounting. In the case of the producers' program, the operations are conducted on their behalf, and do not form part of ASERCA's financial accounts.

The contribution of INFOASERCA (www.infoaserca.gob.mx), which has been operating since March 1998, has been very important for the program. Our website, in addition to the Tables of Hedging Costs, users can access futures prices in the main international exchanges for the most representative products, as well as various analyses of international market trends.

OUTLOOK 2001

With the start of the new administration, new measures have been proposed for the Agricultural Prices Hedging Program to permit its consolidation and the strengthening of the culture of risk management in the agricultural sector: its decentralization and privatization.

Normal operations will continue and the program will contribute 50% of the cost of hedging contracts for producers. Additional contributions for the formation of FINCAs will no longer be granted.

Efforts have begun to set up cooperation mechanisms with the State Governments to protect smaller producers than those who have traditionally participated. ASERCA could, in special cases, if the states contribute part of the cost, participate with a little more than 50% of the cost, but the idea of both parties absorbing 100% of the cost of risk management instruments has been ruled out: the farmer is expected to contribute something, as a general rule. The possibility of taking out block contracts, with "lottery ticket-type" certificates is being explored.

Credit on chattel mortgage schemes will be actively promoted, also in coordination with state governments.

In some cases, farming by contract will be promoted though the payment of between 25% and 50% of the cost of the buyer's premium, as an additional contribution, covering either the product bought or produced by the farmers (pork farmers for example).

Operations will be decentralized to encourage greater participation by the Regional Offices of ASERCA in the promotion of the program and in the placement operations, as well as state governments and other agricultural institutions. This will involve strengthening internal training and specific assignation of staff to this task. The human resources structure on which the operation of the Regional offices is based, has been essentially aimed at PRO-CAMPO and at market supports.

The incorporation of the private sector as trainer, operator and promoter of price hedging services, to promote effective demand for risk management instruments among producers and vendors, could happen from the second semester of this year. Although in

the United States the private sector participates in implementing programs for these types of markets, with the support of government funds, though pilot options programs and farm insurance, which function through brokerage firms and authorized agents, in Mexico it will be necessary to propose intermediation schemes, charging of commissions and remuneration mechanisms for the intermediaries, limiting the cost for producers who receive financial support to take out hedging contracts.

The incorporation of private agents in direct transactions will also require a regulatory effort by ASERCA, since it will be necessary to establish criteria for the selection and approval of participating firms and mechanisms of supervision and revalidation of the authorization to operate.

At the same time, it will also be necessary to design mechanisms of control, supervision and monitoring of the correct use and application of financial resources assigned to the subprogram and ensure their proper operation on the part of the intermediaries.

CONCLUSIONS

The Program has contributed to the development of a culture of risk management in the Mexican agricultural sector, has encouraged participants to follow the performance of the international markets and to increasingly seek a direct intervention by taking out hedging contracts. However, it has not achieved significant participation by small producers.

The factors of success have been:

- The use of options, so that the mechanism functions as an insurance

- Providing support of 50% of the cost to reduce the initial outlay. Although this is not a real subsidy, but rather a “stand-by credit”, or a “shared risk”, since ASERCA only loses its contribution if the risk of the downward movement in prices does not materialize—in other words, recovers its portion if there are benefits in the commodity exchange.
- Operating in commodity exchanges such as Chicago and New York, provides transparency and confidence, as well as offering great liquidity. The value of the option is verifiable through many different sources and at all times.
- The flexibility of entering and leaving when the producer considers it appropriate
- The ease and simplicity of the registration mechanism and participation
- Informing producers and broadly disseminating the hedging costs the following morning, in other words, ASERCA absorbs the risk of fluctuations in the markets during the next day. This only works when the market does not register movements that substantially modify the cost of the premiums (“limit down” for puts and “limit up” for calls); if this happens the rules of operation enable us to not place the contract. In practice this has only happened twice.
- Deposit the cost of the hedging contract in the nearest branch of a bank (Bancomer, for now), as a condition so that ASERCA takes up the position, but operating with great speed (that day without fail, and, in general, in the half hour after having made the deposit).
- Minimal risk of non-compliance by producers: they pay their contribution in advance and there are no margin calls

While the participation of private agents in the operation of the Program is desirable, there are still some points to be resolved with respect to mechanisms of control and supervision, both in terms of the correct operation, and the application and the proper use of financial resources, as well as on the criteria for selection and the ways in which these agents participate. These aspects must be clarified in the coming months.

FINANCIAL MECHANISMS IN THE AGRIFOOD SECTOR: SOME EXAMPLES FROM LATIN AMERICA

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INTRODUCTION

The agricultural sector plays a fundamental role in the economies of developing countries and the financing of this sector is of vital importance for a harmonious development of its production.

The fact that governments have ceased to be active in the marketing and price setting of commodities has exposed new groups of economic agents to previously unknown risks and difficulties with respect to prices and to new obstacles to their access to credit markets.

Modern financial instruments, particularly those utilizing different forms of securitization, may not be the ideal or unique solution to the problems provoked by the instability of markets, but at the moment they are an alternative which offers several advantages.

Lenders are able to arrange financing with better security, and are therefore prepared to offer more funds on better conditions. These advantages apply, at least in theory, to any borrower, be it a central government, a parastatal enterprise, a private commodity enterprise, or a farmer.

New techniques have been developed to reduce counterpart risk, particularly through the innovative use of commodity transactions as collaterals for financial transactions. Since the value of the commodities used for this purpose depends on prices, management of price risks generally forms a part of these new financing techniques.

In this paper some examples of this type of securitization are examined, and its advantages, particularly as regards credit classification and consequent positive effects on financing costs, are highlighted.

IMPORTANCE AND LIMITATIONS OF FINANCING

The principal factors limiting access to rural financing have been the following:

- The trade liberalization process.
- Fragmentation of the agricultural sector: disappearance of production and marketing agencies.
- Reduction in the sources of State financing.
- Lack of know-how and training of new agents involved in agricultural marketing and financing.
- Inability of the financial sector to grant the necessary financing due to existing risks.
- Inadequate legislative and regulatory standards.

In the last few years, most governments have reduced their role in the agricultural sector or about to do so. This has had two effects on farmers: First, they find themselves exposed to price risks which were previously assumed by the government; in some countries this is a gradual process, as in the case of the United States, where the 1996 law "Freedom to Farm Act" foresaw a transition period of seven years, while in most developing countries and countries in transition the situation has changed from one year to the next.

Second, since governments have withdrawn from the sector and since marketing systems have become fragmented, in many cases credit systems have fallen apart, leading to negative consequences for productivity (due to the interruption of provision of inputs), and farmers have been obliged to sell their production immediately after the harvest, leading to price falls and a distortion in the seasonal behaviour of prices.

Many of the private entities that are active in agricultural markets have only participated in these during the last few years. Accordingly, their knowledge of modern financing methods is limited. The same can be said of many local banks, since for many years lending policies were determined by governments, and they lack the knowledge and the experience necessary to offer potential customers access to modern financial markets.

Local banks are the natural intermediaries for the utilization modern financial instruments. However, they are practically absent from this sphere of activity in most developing countries, and devote themselves to more lucrative and less risky banking activities. Other institutions that could act as intermediaries, including farmers' associations, are rare or have little capability.

An inadequate legal framework can be an important obstacle to the use of modern financing techniques by enterprises. Examples include export licensing procedures and other policies that limit the possibility of foreign lenders receiving commodities as collateral, direct intervention in credit markets, absence or non-application of adequate rules for bankruptcy procedures and various limitations on the kind of assets that can be used as collateral. These restrictions can be expensive: for instance, World Bank studies estimate losses in Argentina and Bolivia due to obstacles to securitized transactions at 5 to 10 per cent of GDP.¹

In general, Latin American countries have introduced extensive regulations with a high degree of state intervention and which

¹ Heywood Fleising, "Secured transactions: the power of collateral", *Finance and Development*, June 1996.

are in some cases not completely up to date. For example, financial-related mechanisms are confused with commodity-related mechanisms. They also tend to impose very high capital requirements on certain entities such as commodity exchanges and their members and warehousing institutions and subject them to similar regulations and supervision as banks or financial intermediaries.

In addition, in the case of Latin America, other factors play a role, among which could be mentioned:

- Internal conflicts and civil wars with consequent risks and abandonment of land and farms. This is the case particularly for El Salvador (in the 1980s), Guatemala (peace agreement signed in 1998 after three decades of strife), Nicaragua and Colombia.
- Problems of climate such as those related to “El Niño” and hurricane Mitch. Many Central American countries lost most of their perennial cultures (bananas, and to a lesser extent coffee) and their infrastructure, and therefore a positive development is not foreseeable.
- Nationalization, re-privatization and major changes in banking systems.

FINANCING SYSTEMS AND AGRICULTURE

Both governments and private sector lenders have engaged themselves deeply for many years in the search for ways of financing the agricultural sector. Among traditional financing methods for the agricultural sector are those offered by the formal sector, in the form of both subsidized loans (cooperatives, credit unions) and commercial loans.

To this has to be added the various sources of finance from the informal and semi-formal sectors. Much of the financing needs of

farmers are met through loans from traders, processors, and private lenders, including friends and family. These loans, which are usually short term and for small amounts, can carry very high interest rates, up to 100 per cent.

For reasons already explained traditional methods of financing carry higher risks for new entities in agricultural markets. Thus the importance of financing using collateral. Any asset that has a value in the eyes of either lender or borrower can be used as collateral. "Collateral" can be defined as an asset, which can be pledged or physically transferred by a borrower to a lender. The best known use of collateralized finance refers to the use of real estate as collateral. Other fixed assets such as plantations, factories or warehouses can also be used.

Agricultural activity in many countries has been characterized by a growing interest, on the part of both producers and entities in the processing chain, in incorporating innovations aimed at improving the economic results of their activity. They have invested heavily in modern processing and, warehousing facilities. Using these same assets as collateral has enhanced security.

However, these traditional tools no longer suffice, and not all active in the commodity sector have a track record, or enough capital to guarantee access to credit. For the agricultural producer an alternative exists which can offer much greater possibilities. This is the use of goods, and particularly the agricultural produce that he owns, as collateral for loans.

COLLATERALIZED FINANCING

The results of agricultural activity are goods which can be stored, and which can accordingly be used as collateral to obtain finance. Under a system of financing against warehouse receipts, banks or other financial institutions provide credit on the base of goods deposited in a warehouse subject to (preferably) independ-

ent control. The risk of insolvency is transferred from the lender to the warehouse enterprise; the latter is usually a large enterprise supported by financial guarantees and which can count on additional protection through insurance.

The collateral can be used in different ways. The simplest way is to use the commodity to obtain finance by converting it to documents (REPOS). This necessitates a financial transformation mechanism where products are exchanged for documents. The most complex form implies the assignation of the commodity to a "special purpose vehicle", which in its turn emits bonds for sale to institutional investors.

In many countries with economies in transition, such as Russia, Poland, Hungary and Romania, the system of warehouse receipt financing is evolving into a way to improve access to credit for small and medium-sized grain producers (with the added advantage that the system allows verification and improvement of product quality).

In most developing countries credits to producers of export commodities are most important (for instance, coffee in Uganda, pepper in Malaysia, sugar in Argentina), although in some countries (for example India, Philippines, Mali and Zambia) the use of cereals and other locally consumed food products as collateral for credits to farmers is increasing.

The use of warehouse receipts or warrants of deposit (which is the principal way that farmers can use commodities as collateral) improves the availability of credit and reduces its cost at the same time. In practice, banks that have sufficient knowledge of rural credit would like to increase the length of their credits so that farmers can use them several months before harvest, provided that the production is immediately deposited in supervised warehouses.

Warrants can be issued against credit operations for fruit and agricultural, livestock, forestry, mining and manufactured

products, deposited in privately owned or government-owned warehouses. -Legal regulations require that, in order for warrants to be issued on deposited products, these products must be free of any lien or legal attachment. The absence of any lien has to be declared to the warehouse administrator.

Authorized warehouses emit certificates of deposit or warrants. In Latin America the certificates consist of two parts: the certificate of deposit which confirms that the product has been warehoused (title of ownership) and the bond or warrant that is used as an instrument of credit.

The activities carried out by the enterprises that issue warrants are professional services requiring official authorization. A minimum capital is required and enterprises have to be able to offer secure and clean storing conditions, fire insurance, security and classification systems.

Economic development is intimately linked to credit. However, for credit to develop efficiently its transfer has to be possible. The warrants are transferred by endorsement. The endorsement on a warrant implies the transfer of the rights to the loan. All those having endorsed a warrant are responsible in solidarity for the debt to the legal holder of the warrant.

When the warrant is endorsed, the acquirer enjoys legal right to the goods covered by it that is superior to that of all other creditors. If the depositor of the goods under warrant does not fulfill his obligations with respect to payment, the acquirer can ask the enterprise having issued the warrant to file a non-judicial claim on debtor.

This special collection right of the holder of the warrant is an advantage because it avoids the need to file legal action, which, even if the claim were decided in summary proceedings, would be slow and expensive for the creditor. The collection procedure requires the creditor to the warrant to request the products cov-

ered by the warrant to be sold at public auction on the maturity date.

Insurance constitutes a question of vital importance for warrant operations, since the total volume of warrants and the value represented by the goods held in custody by the warehousing company have to be protected. Therefore, an adequate insurance policy and a solid insurance system are of crucial importance, since if an accident occurs, all those involved expect maximum diligence in the resolution of insurance claims.

In general, the warehouse company needs to take out insurance to protect itself against theft and other operational problems, but it also needs to be protected against both the risk of disaster (drought, flooding, sabotage) and in certain cases against political risk.

The main credit suppliers are local banks, trade houses and sellers. As their profits on even highly profitable deals are relatively small compared to the size of the deal itself, one deal which goes awry can wipe out the profits of many successful ones. The risk of default is thus the greatest hindrance to the provision of credit, and as the risk of default is relatively large in developing countries, credit providers are often extremely wary of supplying funds to actors from these countries, unless they can be given sufficient guarantees. International banks can guarantee credits given by local banks

ADVANTAGES OF COLLATERALIZED FINANCING

The advantages are as follows:

- The incidence of non-payment of loans is generally low. The borrower (producer) repays the loan with income from the sale of the product.
- If the depositor of the merchandise under warrant does not pay, the holder of the warrant can ask the warrant issuing

enterprise to sell the goods given as collateral. Normally this is done in public auction. If this is not provided for in the legislation a "repos" can alternatively be used.

- If there is any problem with the deposited goods, the warehouse assumes responsibility.
- In case of dispute between creditors, warrants grant preferred rights over the stored products.

The use of guarantees and collateral to facilitate financing reduces counterpart risk, including in international trade, which means that more funds can be obtained at a lower cost. Moreover, the utilization of collateral allows credits of up to 80 per cent of the value of the goods to be obtained, particularly for goods that have known prices, for example goods that are quoted on exchanges, and in cases where an adequate legal and institutional system exists.

Financing using collateral normally implies a lower rate of interest but higher operating costs than financing without collateral. If the transaction is small or if the enterprise has good credit standing and consequently easy access to finance, the savings on the interest rate may be smaller than the additional transaction costs.

If local banks cannot handle collateralized financing smaller enterprises are excluded from the market. However, collateralized financing is increasing and in Latin America, for example, is increasingly replacing the more traditional and more costly letter of credit for the financing of commodity production and trade.

EXAMPLES FROM LATIN AMERICA

Use of Sugar as Collateral by Cubazúcar

In the case of using sugar as collateral in Cuba, the Sugar Processors' Union (the producer), which groups the Basic Units of

Cooperative Production, deposits the sugar produced in warehouses. The warehouses can be inspected by Cubacontrol (a company which controls merchandise), by the banks or by SGS (if required).

Based on the certificates of deposit, warrants are issued. They are guaranteed by Banco Nacional de Cuba or its local branch and are transmitted to Cubazúcar, which is the state owned company marketing sugar. Cubazúcar in its turn transmits the warrants to trading houses such as ED&F Man Sugar Ltd., Sucden, Vitol Sugar, Cargill.

The trading houses provide financing against the warehouse receipts and the warrants. The sugar deposited in the warehouse is used as collateral for the financing of the following harvest.

During certain years in some provinces, titles based on the future productivity increase of the sugar mills were issued in addition to the warehouse receipts. Banco Nacional de Cuba set up the financing.

The trading houses provided loans with the specific objective of investing in the improvement of the sugar mills. The titles issued were transmitted to a special purpose vehicle and the repayment of the loan was based on the increase in sugar production achieved as a result of the increased productivity of producing enterprises.

Cattle Titles in Colombia

The National Agricultural Exchange designed the model. It selected regions that were sufficiently safe and had a tradition of developing systems for cattle breeding and ranchers with experience specializing in breeding.

The process consists of structuring an asset-backed financing, in this case for cattle fattening. The following are the main steps:

- The livestock enterprise is registered.
- Contracts are signed with Fiducia Mercantil Irrevocables for ceding patrimonial rights on thin animals and committing livestock ranchers to further the fattening process through approximately 11 months in pasture.
- The titles to be issued are qualified.
- Authorization is requested from the Superintendency of Stocks.
- The titles are issued and sold (over-collateralization: titles for 75% of the value of the patrimony were issued).
- Insurance was purchased against theft and terrorism, with independent supervision and guarantee for the administration of assets (100% of the value of the remoneration).
- The financing is transferred to the livestock ranchers, who proceed to fattening the calves.
- The fattened calves are sold, and the titles are redeemed.
- The resulting profits are transferred to the livestock ranchers.

So far, titles for 24,000 animals have been issued (there are 25,000,000 in Colombia) in three emissions for a total value of 6,000,000 US dollars.²

SCENARIOS FOR THE FUTURE

In the future, we shall see a better integration between the financial markets and commodity markets with participation by specialized warehousing companies, commodity exchanges and producers' and traders' associations.

However, in order to draw maximum benefit of this integration, the role played by agricultural producers' associations is very important. Farmers are usually the last group to benefit from the possibilities offered by modern financial markets. Often they are

² Federico Vélez Ortiz, Bolsa Nacional Agropecuaria, presentación para el VII encuentro de la Asociación Panamericana de Bolsas de Productos, Buenos Aires, 15-17 noviembre 2000

not even aware of the possibility of using the price information provided by commodity exchanges to improve their negotiating position with traders, in many cases with quite satisfactory results.

Moreover, the farmers are usually not sufficiently well organized to profit from these possibilities even when they are aware of them. This confirms the necessity to promote strong farmers' associations. Regrettably, even when such exist, in many if not most cases, the institutional framework is inadequate. In particular, local banks do not have the necessary technical know-how to act as intermediaries in risk management or facilitate financing and securitize them with future production or warehouse receipts. For this reason, governments could establish mediating agencies or stimulate banks to familiarize themselves with intermediation in the area of risk management and the use of commodities as collateral (the international community could contribute to this process).

When an association takes it upon itself to meet the needs of farmers in the area of finance the farmers have much better possibilities to gain access to modern markets: first, because an association is able to invest in capacity building and information, second, because the costs of banking transactions will be much lower than if small farmers were to act separately, and, third, because there exists an informal mutual guarantee among association members.

At the moment, only a few farmers' associations in developing countries and countries in transition are sufficiently strong to act effectively in the areas of marketing or provision of credit. Although the number of such associations is small, it is likely to grow rapidly in the next few years. Moreover, many organizations, including some in the United Nations system, are working to improve the capacity of these associations. It is important to recall that a few years ago independent farmers' associations did not exist in many countries.

The synergy between commodity exchanges, banks, warehouse companies and a modern system of information and communication will allow agriculture to enter a new era, where the

food production chain will include more flexible and competitive producers.

THE ROLE OF THE GOVERNMENT

The government can facilitate wider use of financing using collateral through:

- Adequate laws and regulations
- Coherent agricultural policies
- An adequate legal system
- Playing an active role to develop knowledge of the techniques
- Support to pilot projects

If a government is prepared to adopt the necessary policies it is relatively easy to reduce the problems of access to credit; in fact, these problems are becoming less important in several countries. Farmers are in theory good customers for credit institutions. If they are to operate efficiently they need to have continued access to credit (which represents an incentive for them to reimburse their loans without delay) and the products they grow or their livestock are good collateral for loans. What is necessary is a system that permits the banks to profit from these relative advantages.

In this regard, it is very important to work out techniques that guarantee the repayment of loans. With this objective in mind it is necessary to ensure some sort of control over the payment received for the sale of commodities. This means that if they are in fact delivered, the buyer (for instance, a commodity exchange as was earlier described in the case of Colombia) in charge of sales by farmers pays the bank which has provided the farmers with loans for inputs, following which the bank pays the farmers after having deducted what they owe for the loans. This system or a slightly more complex version of it is utilized in several countries in Central and Eastern Europe and in other countries, as for example in Zambia.

CONCLUSIONS

As a result of the evolution of world commodity trade (the increase in available information, the growing importance of logistic efficiency and the ever increasing intensity of competition between exporters) and the withdrawal of many governments from commodity marketing and price setting activities, collateralized financing techniques are becoming ever more useful. They have acquired a decisive importance for agricultural producers because they help improving efficiency, reducing costs and improving access to finance, with a resulting increase in profitability, since they broaden the range of marketing options and facilitate access to credit necessary for the purchasing of inputs.

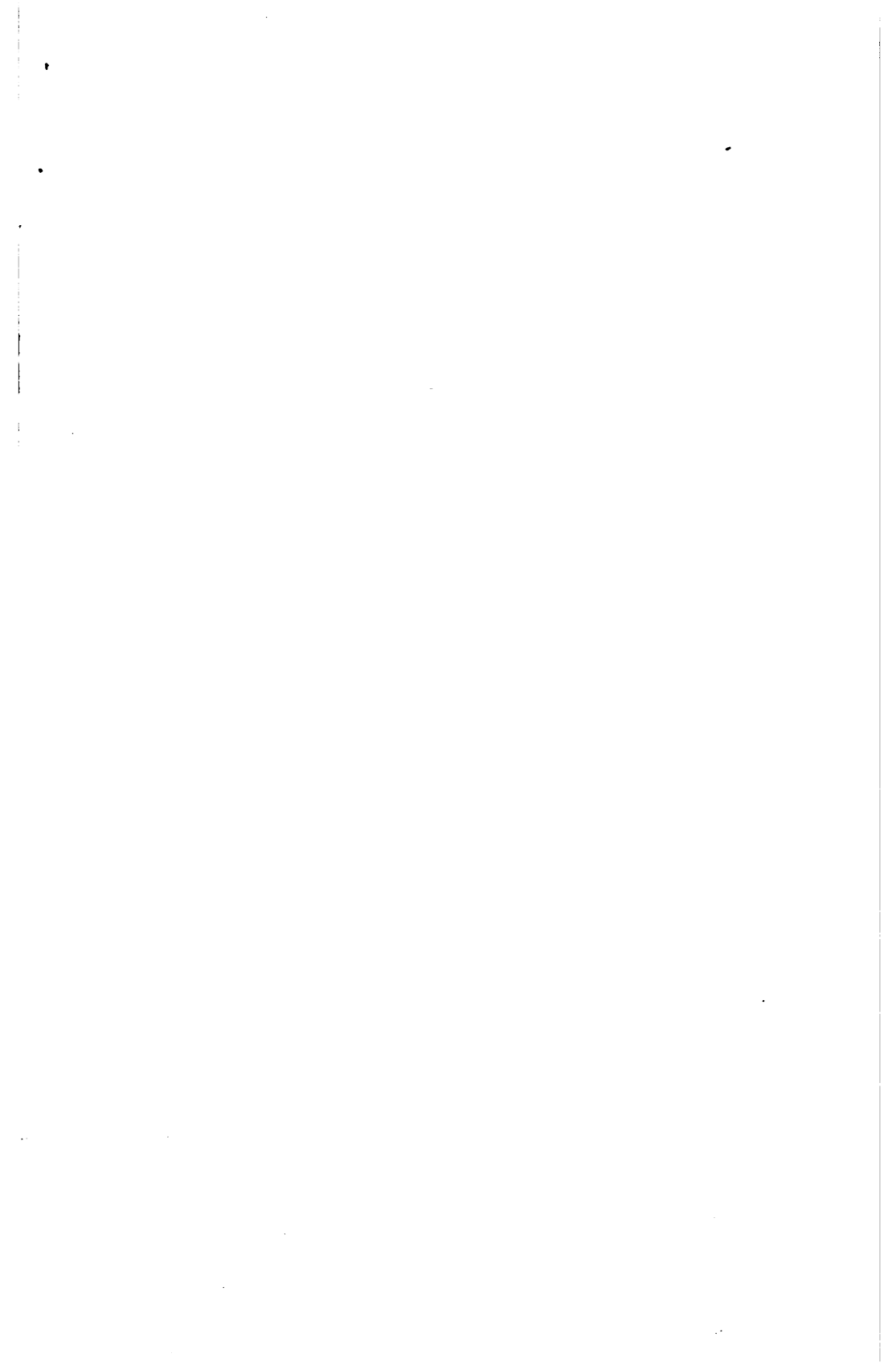
Nevertheless, various factors have limited the utilization of these basic instruments. Sensitization and capacity building is necessary in all cases. The use of financing against warehouse receipts has been limited due to the insufficient institutional framework characterized by a weak local banking structure and modest development of farmers' associations. Much remains to be done in order to improve the legal, regulatory and political framework.

The limiting effects of these legal and political problems are even more important in the case of using commodities as collateral for the long term financing of large enterprises and projects. In one form or the other, the use of commodities as collateral can make a large contribution to trade and investment activities that otherwise would not take place. While lack of knowledge and understanding is important to some extent, the inadequacy of government policies and regulations also play a role. Similarly, the international community creates obstacles, particularly through the negative pledge covenants imposed by multilateral development banks.

**NATIONAL EXPERIENCES
WITH THE FINANCING
OF COMMODITIES**

**A. OVERVIEW OF THE ARGENTINE
EXPERIENCE IN FINANCING
FOR BASIC PRODUCTS**

**B. MECHANISMS FOR FINANCING
COFFEE IN COSTA RICA**



OVERVIEW OF THE ARGENTINE EXPERIENCE IN FINANCING FOR BASIC PRODUCTS

*Speaker: Fernando Frávega
Consultant, Argentina*

INTRODUCTION

Agricultural production has played a significant role in the Republic of Argentina due to its ecological conditions. The country is an important producer of cereals, oils, flour, cattle products, fruits, juices, cotton and sugar.

Each product line is concentrated in a particular geographic area, automatically implying that the different products are affected by the specific set of difficulties inherent to any activity.

However, as common denominator, there are universal aspects in all productive processes that are part of commerce. Wherever financial matters are involved, wherever there is capacity for storing or stockpiling as a step previous to the production or industrialization of products, there is a sure need for credit- commercial or financial- as well as for the legal security of lenders.

This should be kept in mind, since it is without doubt a recurring concern in relation to systems of production and trade of products derived from agricultural activity, a concern whose need for solution has been maintained during the different stages of Argentina's historical and economic evolution. The form in which each era has attempted to address this situation is a direct consequence of the particular circumstances occurring in accordance with the ideas in vogue at the time.

In this sense, without attempting to enter into the economic and political history of Argentina in great detail, except for illustrative purposes related to the subject, I have considered it useful to establish a sort of division according to the different periods in the Argentina's agricultural economy, and its impact on productive activities and on the financial backing provided for those activities.

Founding Stage (1853-1880)

In this period, as a direct consequence of the installation of a national organization, a peace process was initiated, directly resulting in a political interest for consolidating this young process with the development of activities, mainly agricultural, promoting the settlement of the population in the interior of the country. The majority of the credit used during this period came from official national or provincial channels and was used for structural aspects of agricultural business: land purchase, operational improvements, etc. The legal backing most employed involved instruments using property as a guarantee (mortgage, etc.)

Development Stage (1880-1930)

As a consequence of the country's first organizational impetus and incorporation of its population through a strong migratory flow from Europe, a process of productive growth began in the agricultural sector. This resulted in new technologies, new and improved facilities of infrastructure (railroad, roads, ports, etc), the existence of important commercial institutional spheres in the private sector (exchange markets for products, treasury markets, etc.) and the development of foreign trade, essentially based on export of agricultural products.

For the most part, financing for the sector continued to come from official government sources, although some private financing

began to be available, mostly through the resources of the producers themselves, and from the commercial sector, industry and private banks. During this stage, in keeping with the legal needs of the national congress at that time, laws were passed to provide the productive-commercial circuit with guarantees making suitable financial development possible. This was the case of the first laws on warrants and securities.

Regulatory Stage (1930-1991)

At this stage, when significant agricultural production was taking place and in a historical framework of incipient world crisis at the beginning of the 1930s, Argentina responded to these signals by promoting transformation in the majority of its productive structures. These transformations would actually go further than those dictated by the critical circumstances motivating them. As a consequence, the private sector yielded to the growing presence of the public sector, accompanied by the creation of public organisms of intervention in the productive-commercial process, both internal and external. Examples include the National Grain Board, the National Meat Board, etc. State activity initiated in such magnitude that it became the referent par excellence of all productive and commercial activities. This gave rise to the price support system, price ceilings in the domestic market, official FOB prices in the foreign market, the national river and maritime fleet, export quotas, import quotas, etc. The financial sphere was circumscribed mainly by official government banks, given that State intervention was not only supervisory, but also actively operational in that it established exchange and interest rates, and regulated the buying and selling of major commodities.

This was accompanied by a decline in the amount of area planted in the country and the under-utilization of financial instruments, in an economic environment marked by high inflation that would lead to an unchecked process of hyperinflation.

As of the 1980s, thanks to the incorporation of new technologies by actors in the private sector, gradual growth in the volumes harvested was initiated.

Deregulatory Stage (1991-2000)

As a consequence of the events and of the derailment of the economy's main variables, the political class and particularly the ruling government found it necessary to dismantle the official scaffolding structured around productive activities, in an attempt to eliminate chronic public deficit and the scourge of inflation. Organisms for state intervention were dissolved (the National Grain Board, National Meat Board, etc.). Markets, including agriculture, were liberalized and quotas on production and export were eliminated, as were their price systems. A new era began in which different economic factors took a more active part. Financial developments kept pace with productive activity, leading to an upsurge of different instruments to back financial assistance. In the agricultural sphere, in general, the warrant has occupied a special role as one of these security instruments.

PROPERTY AS GUARANTY - THE WARRANT

In Argentina, the evolution of agricultural activity over the last decade has been characterized by the growing interest of producers and other agents in the trade chain in better facilities that translate into factors for improvement of the economic-financial equation in their respective business. As such, investments were made in fixed assets (fields, warehouses, etc.) in order to optimize their productivity, and thus their results, within a more structural vision of business activities. In general, this was financed mainly by mortgaging the assets affected- in other words, through securities on machinery.

Most agricultural activities require significant investments, from the moment crops are planted to harvest time. Producers need enough financing so that, to the degree possible, their activity can evolve, with at least a portion of the results of one harvest lasting into the next cycle.

This explains why the instrument of the warrant has been used increasingly by both operators and banking entities ever since its reappearance in the Argentinean agricultural market (1991),

The warrant was well received in the context of Argentina's expanding economy. The market perceived it as an instrument of commercial legislation that could regulate legal relations between the company issuing warrants and the bearer of goods stored in depositories, either their own or belonging to third parties and administered by the company. This instrument could be endorsed in buying and selling or credit operations that, by law, grant right en rem of special guaranty and privilege to the creditor of the warrant.

The fruits of agricultural activity are by nature goods and can be stockpiled. Because of this natural condition they responded well to the prescriptions of Argentine law on warrants, which offers a wider range of alternatives than the provisions of agricultural law do.

Of all agricultural products, sugar has perhaps been used most frequently as collateral in financial operations.

BRIEF REFERENCE TO THE OPERATIONAL STRUCTURE OF THE WARRANT

Before entering into an analysis of the warrant in Argentina, it is useful to examine some of its main structural elements.

The Warrant Company

The activities that warrant companies carry out are essentially professional and have one specific purpose. Official authorization is required for legal recognition as a commercial operator. The company must have a minimal capital base and provide secure conditions in depository constructions, fire insurance, surveillance systems, classification and cleaning.

These companies are absolutely prohibited from carrying out buying and selling operations on the fruits or products of those goods referred to in the certificates of deposit they issue. Nor may they carry out credit operations on merchandise deposited under warrants. Warrant companies that wish to discount or negotiate this type of paper may only do so with special authorization from the Executive Power.

Goods for Which Warrants May be Issued

Warrants may be issued on credit operations involving fruits or products derived from agriculture, livestock, forestry, mining or national manufacture, deposited in bonded warehouses or with third parties. Legal prescriptions establish that for warrants to be established, products deposited must be free of any legal encumbrance or embargo, duly notifying the administrator of the depository to this effect.

Depository

Special

This occurs when the good deposited is a quantity of consumable items, if the depositor concedes the use of these to the receiver or delivers them without prohibiting their use. At the termination of the warrant the depositor must find the same quantity and quality of goods as deposited originally.

The loss of identity usually operating with respect to trade in grains is characteristic of this type of deposit

Regular

This applies to goods that can be individualized. The most typical case refers to a deposit made on a quantity and quality of consumable goods, delivered by the receiver in sacks or closed boxes.

Right to Guaranty

The effect of signing the warrant instrument determines that the creditor has a greater legal right than the holder of any other type of credit not directly connected with the warrant itself.

NON PAYMENT, OUT OF COURT EXECUTION, PUBLIC AUCTION

When the debtor-depositor of the merchandise under warrant does not comply with his credit obligation, the creditor may ask the warrant company for out-of-court execution of the good given as guaranty.

Thus implies the establishment of a legal principle of dispensation of judicial procedures in order to authorize the execution of the good given as collateral.

The creditor is explicitly prohibited from taking possession of the good given in warrant.

Execution of the good given in warrant is carried out through a private proceeding of public auction, duly publicized in two daily newspapers, one of which must have national circulation.

THE WARRANT AS A CREDIT INSTRUMENT. ENDORSABILITY OF THE INSTRUMENT

The warrant is a credit instrument representing merchandise (certificate of deposit) and the collateral that backs it (the actual warrant itself), which is also a negotiable instrument and has a fundamental characteristic (to be the deposit contract.)

The development of the economy is intimately connected with credit. But similarly, for credit to develop efficiently it must circulate.

The Argentinean system permits the endorsement of the body of the certificate of deposit and concomitant transmission of the ownership of the good with any encumbrances it may have.

Endorsement of the warrant signifies transfer of its corresponding debts.

The first endorsement is nominative and must be registered.

Subsequent endorsements may take place under different modalities. Registration is not obligatory.

All the endorsers of the warrant are fully responsible for the debt to the legitimate holder of that debt.

INSURANCE

Insurance is a question of vital importance in the operation of warrants, in order to provide coverage for each of the operations making up the volume obtained by the emissions of the warrants companies and the capital represented by the merchandise held and stored by the companies.

It is of central importance for the reliability of the system to have an adequate insurance policy and a solid insurance company. Once damages have occurred, all those involved in the operation expect maximum diligence in compensation for the damages occurred.

In the majority of cases, insurance companies issue policies providing coverage to warrant companies indicating the warrant creditor, if there is one, as beneficiary, or the receiver, in the absence of credit pending payment. The usual risks covered include destruction of merchandise from fire, theft, water damage, damages from climactic risk, earthquake, etc. In some policies, depending on the zone and product deposited, the policy may include larceny, misfeasance or damages from specific causes (lack of cold, etc.)

USE OF THE WARRANT IN THE REPUBLIC OF ARGENTINA

With its reappearance in the Argentine market, the use of the warrant extended beyond the sphere of agricultural goods, and was applied to a variety of products: automobiles, iron and steel products, fuels, paper, computer equipment, farm machinery, chemical products, etc.

However, it has acquired the greatest presence in the agricultural arena.

This operation has been applied to cereals, oils, seeds, wool, cotton, cattle, milk products, juices, fresh fruits, wines, etc.

In any case, it should be mentioned that of all the different market segments, the foremost use of the warrant has occurred in the sugar industry, not only as a guaranty instrument in the credit system for movable goods, but as the one proven most effective.

As an important clarification, it should be noted that the period with the greatest level of transactions in the warrants market in terms of sustained growth occurred from the second half of 1991 to the second half of 1998. The current fall in the issuance of warrants is essentially due to the recessionary tendencies of the Argentine economy persisting from that time to the present, rather than any reduction in the use of warrants per se.

During constricted periods of the economic cycle, the business community is more inclined to use traditional legal tools rather than legislative instruments in terms of crisis. With all the warrants in Argentina, in the short new existence of this instrument it has dealt successfully with circumstances adverse to sustained development and having a negative impact on the workings of the Argentine economy. These include the ones occurring periodically from 1985 to the present, with the so-called global effects (Tequila, Asiatic, Russian, Caipirinha, etc.)

SUGAR AS COLLATERAL FOR CREDIT

Refined sugar as the result of the agricultural and industrial productive process is an activity with a long history in Argentina. Because it is produced and industrialized in a concentrated geographic area, sugar is one of the most typical of what in Argentina is called "regional economies."

Until the deregulatory stage of economic activity, the sugar industry was one of those subject to greatest intervention by the State.

Sugar production is greater than national demand and its structural formation is oligopsonic.

Participation in foreign markets is mainly restricted to the American quota and occasional export operations, basically to surrounding nations.

The sugar industry is one of the types of production with greatest impact on the provinces of the Argentine Northeast (mainly Tucumán and Jujuy) and is one of the main activities in terms of labor, agricultural production and in-house industrial capacity. As a result, in that region everything related to the industry has a high political and social content.

At the onset of the 1990s, the sugar sector faced a critical situation as a result of excess production, extremely volatile prices and the severe indebtedness of the majority of its processing industries, many of whom were involved in judicial processes for bankruptcy.

Without distinction of rank in the economic scale of the activity, for different reasons participants generally did not qualify for credit or had exhausted their capacity to take on debt.

As such, they needed to wait until they could trade the sugar from their property in order to be able to finance their activities, with the consequent depressing effect of an oversupplied seasonal market.

The warrant made its reappearance in the national financial market at a moment when it was not very tempting to financial agents who had experienced the bitter taste of the sugar sector's failure to meet its obligations or who knew about objections in the official banking system.

However, as a consumable product with low perishability, refined sugar had characteristics making it an asset that was usable, was liquid and could qualify. Recognized as a commodity in the international market, at the domestic level no quote was generated in an objective and transparent commercial institutional sphere. However, with its remarkable creativity in facing recurrent crises and generating new financial alternatives, there was no obstacle preventing the sugar industry from finding a way to transform sugar into an asset that could be used as an object for credit. Its transformation as a recognized form of collateral,

unusual among the commercial customs of the sector at that time, was largely-although not exclusively-due to the new currents in the Argentine economy, creating an eagerness for different instruments of credit, guaranty, price coverage, etc. It found in the old concept of the warrant (whose original legislation dated back to 1914) a fresh instrument with succinct legislation, as brief as it was infrequently used in national commerce.

Having made this short presentation on the frame of reference of the warrant in this sector, it is useful to summarize the main operational characteristics of the warrant in the sugar market.

Main Users

The use of the warrant as collateral has been widely applied by parties involved in the sugar business.

The greatest number is used by the sugar refineries, which are usually formed as legal entities. Only in exceptional cases have refineries classified as "prime" employed the sugar warrant to obtain financing, since they customarily enjoy a very high credit rating. This allows them to access credit through lines that do not tie their current assets with guarantees.

Use of the warrant by sugar industrialists has been so extensive that even refineries whose creditors have called for bankruptcy meetings have obtained financing with sugar as collateral.

Cooperatives of sugarcane producers have also obtained financing through warrants. These organizations are legal entities with a different capital base than that of their members, who receive financing benefits through lines of credit or buying and selling operations backed by the cooperative-producer relation.

In general, individual sugarcane producers have recurred the least to financing through this route, due essentially to their low

scale of productivity in relation to fixed operating costs. Nonetheless, in certain circumstances they have obtained financing of this type by joining together with other producers.

Credit Providers

Banks

Banking entities are the main agents that have contributed to financing with sugar as collateral.

During a first stage, the so-called local banks and major banks with some degree of representation in the zone participated in this practice until a financial market for warrants developed. Later the process extended to the minor banks involved in agricultural business. Participation of the official national banking system was more vocal than real. State banks in the provinces involved have participated to a lesser, but genuine, degree in the market.

Suppliers of inputs

Suppliers of different types of inputs in the productive and manufacturing processes of the sugar industry have provided commercial financing for the purchase of inputs, securing their credit with sugar deposited under warrant. This is the case of suppliers of packaging, gasifying fluid, agrochemical products, etc.

Foreign banks

Foreign banks have also had an important role as financial agents for this industry. They generally provide financing through discounts on warrants held by a state bank or as collateral for some type of prefinancing for exports.

Private investors

Different agents outside the banking sector have taken an interest in warrant financing. Individuals and pools of investors channeled through other entities (i.e., the Exchange for Products from Tucumán, etc.) have attended a broad segment of credit demand in the sector.

Depository Site

The storage facilities for sugar used as collateral are one of the central aspects of the effectiveness of this guarantee.

The economic-financial equation of the business of warrant companies poses limitations in making investments that are large enough to have their own warehousing.

However, using different types of legal figures, leading warrant companies have secured storage stations for their own use, a circumstance that has undoubtedly made the system more efficient.

In general, even when there are important facilities for this purpose, storage installations within the refinery area have been rejected by the leading warrant companies and the majority of credit providers. They consider this type of depository inadequate for the security of the collateral, since it could be confused with other inventories or subject to appropriation if politically motivated demonstrations occurred at the site.

Type of Deposit - Packaging

Given that practically all warrants on sugar have been issued for storage plants used exclusively by warrant companies, most are based on the modality of regular deposit. This involves the use of piled, 50-kg bags with the commercial brand name. Bulk sugar under the loss of identity modality has not been customary.

Main Risks

Physical

Damages: Damages to merchandise because of torn packaging, climactic phenomenon, fire, etc. has rarely occurred, and in general, the insurance companies have provided compensation.

Missing inventory - fraud: From an actuarial perspective, the number of cases has been very low, but it has occurred. Most instances have been due to deceptive ways of stowing the bags at the moment the warrant was physically constituted ("trenches in the stacks," etc.) or misfeasance by the warrant company, or, very exceptionally, when unscrupulous operators have issued blank warrants.

Theft: Losses due to theft has been unusual even when inventory has been missing as a result of bulking processes, generally on warrants issued on deposits in the refinery area.

Quality: Except for water damage or in cases of fraud with respect to the quality indicated at the issuance of the warrant, very few claims have been made regarding this aspect.

Price

As mentioned earlier, in Argentina there is no stock market quote for sugar, although market and spot price estimates can be verified.

In any case, the national market does not have its own instruments for covering futures markets.

For price coverage, financial agents have operated on the basis of the market price of the campaign, deducing a percentual variable that contemplates estimated volatility of the national price over 180 days, plus related costs and interest.

This mechanism is obviously not very sophisticated and tends to drive up the final cost of the operation. In any case, it is the alternative most frequently used in the market.

There have been practices in the market that employ coverage systems of futures prices in an international market based on a refinery of recognized solvency, against a purchase option for merchandise in the domestic market concerning financing distributed to different refineries, contributing the merchandise affected as collateral.

In some operations, and to address certain market circumstances involving an oversupply of sugar, efforts have been made to put together stocks of product as a means of regulating supply of sugar, placing them under warrant and releasing these in such a way as to permit more rational placement and avoid adverse effects on the price formation process.

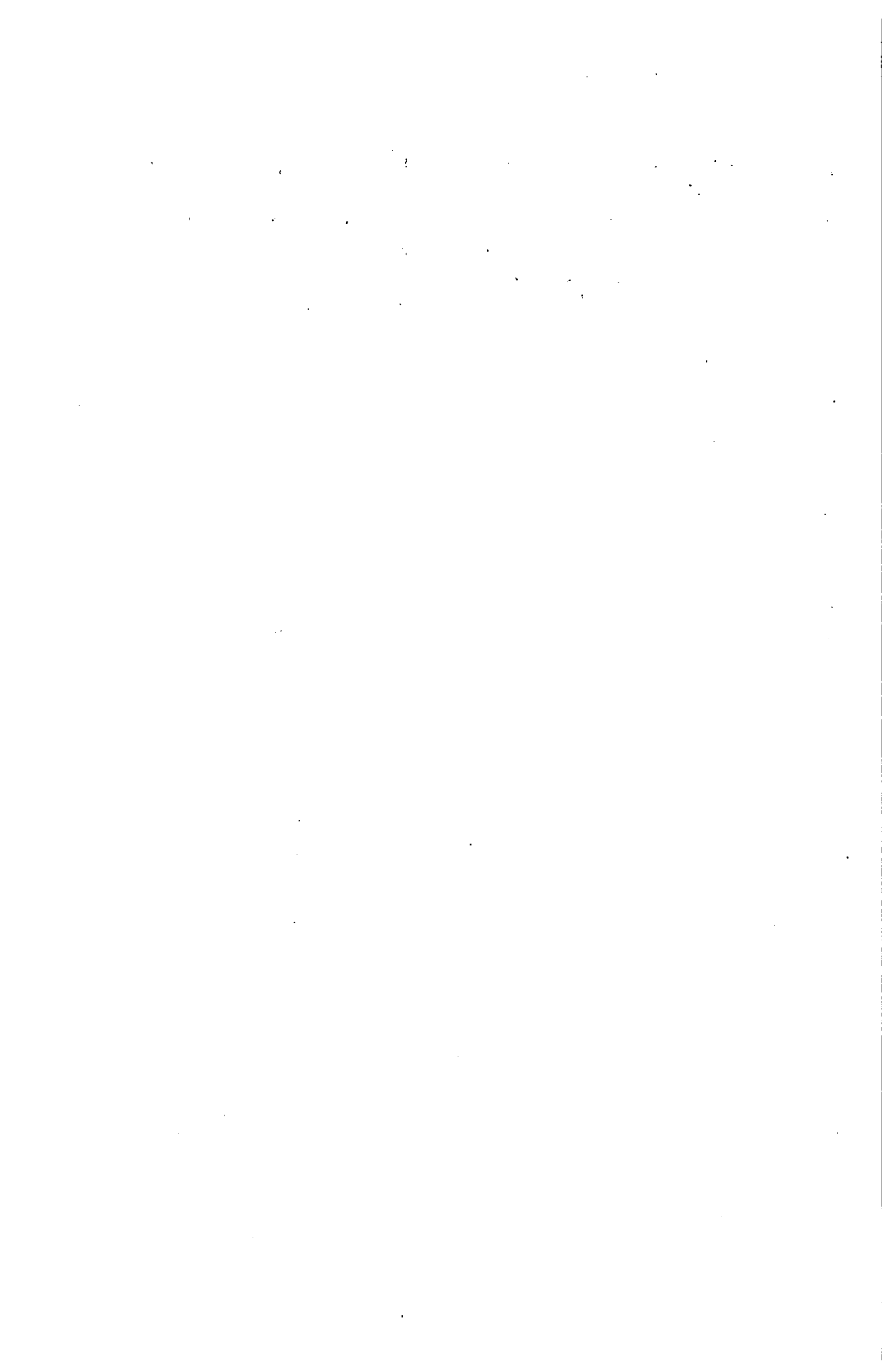
Non-payment. public auction

Indices on non-payment of credit with sugar as collateral have been very low in terms of the public auctions that have taken place. In any case, experiences in this area have had satisfactory results.

Inventory control mechanisms

- Warrant companies have permanent staff in the depositories, mechanical and electronic security systems, and additional equipment to supervise procedures and personnel.
- Insurance companies commonly maintain teams of inspectors to make reports on the prior equipping and conditioning of plants, and periodic reports on the status of the guarantee goods affected and the general condition of the stacks.

- **Credit providers.** They have the authority to inspect depositories and inventories for which they are creditors of warrants. In some cycles, banks have contracted out this surveillance function to third parties, to inspect stacks of sugar collaterals in the hands of warrant companies.
- **At the end of each month the State registers warrants issued.** On a very few occasions, inspections have been made of warrant companies.



MECHANISMS FOR FINANCING COFFEE IN COSTA RICA

*Speaker: Juan Bautista Moya
ICAFFE, COSTA RICA*

INSTITUTIONAL ORGANIZATION

As coffee growing and trade intensified it became necessary to create both institutions and laws in order to regulate the national and international market for this product.

At the beginning of the 20th century, thousands of small growers came into conflict with coffee mills concerning marketing and credit arrangements. The parties reached an agreement through Government mediation, as the Congress (now the Legislative Assembly) began issuing legislation on relations between processors and producers.

The Institute for the Defense of Coffee was created as a consequence of Law N° 121, of July 24, 1933. Its priority was to defend the interests of everyone participating in the activity, promotion and perfecting of the industry, and to establish offices for general research and trade of the product in major consumer markets. State intervention in the comprehensive regulation of coffee growing and trade has established the rules of the game ensuring an equitable system of relations among the sectors involved.

As time passed and coffee growing was increasingly developed in national territory, it became necessary to modify Law N° 121. In 1948, through Executive Decree N° 74 of June 21, the

Institute was transformed into the Costa Rica Office for Coffee, a semiautonomous institution under the Ministry of the Economy. Its substantive functions included responsibility for the Board of Payments for Coffee, the Coffee Exchange and control of the entire coffee gathering process in the country. No purchasing, selling or exports were permitted without the authorization of this office, which thus became the entity regulating and controlling all national coffee activity. Law No 2762 was passed in 1961. Its purpose was to determine an equitable system of relations among producers, processors and exporters, and guarantee rational and appropriate participation for each sector of the coffee business, and consequently of all transactions involving coffee produced in national territory.

THE COSTA RICA COFFEE INSTITUTE

On June 28, 1985, Law No 6988 was passed, creating the Costa Rica Coffee Institute to meet the needs of a more developed industry. The area of action was extended through a better use of available human resources and budgets in order to consolidate its institutional development and prestige. This law marks a new direction in the institutional process of coffee growing through the strengthening of the organization, by expanding its jurisdiction and introducing important changes in procedures that are still employed in distributing income from coffee-producing activities.

This institution is governed by a seven-member board of directors and their respective substitutes. Three represent the producer sector and an additional one member each represent the milling, exporting and roasting sectors. The seventh member represents the Executive Power, either a minister or similar high-ranking official.

Law 7736, passed December 19, 1997, modifies eight articles of the Law on the System of Relations Among Producers, Processors and Exporters (No 2762). With this, the Costa Rican Coffee

Institute became a public entity independent of the State, with its own legal identity and capital, and broad capacity for entering into contracts and making binding decisions in conformance with the sphere of authority granted under current law.

Functions

From its creation, this organization has carried out the following mandate:

- Foment an equitable system of relations among the different sectors participating in coffee-producing activity in coordination with State institutions, in order to ensure compliance with and improvement of related legal and regulatory provisions;
- Contribute to the development of the national coffee sector at all stages and to agricultural diversification in the country, in collaboration with public and private entities;
- Formulate and propose to the Executive Power policies that should be followed in the national coffee industry, and defend its interests at the national and international level;
- Control every aspect of coffee processing, export and trade. At the end of each harvest year, and with the pertinent information, calculate the price different milling firms should pay to producers (the liquidation price) and ensure that this amount is paid in a timely manner. This payment to the producer is unique in the world, and makes it possible for Costa Rican coffee growers to receive a price consonant with international prices.

Jurisdiction

The jurisdiction of the Costa Rican Coffee Institute (ICAFE) includes the following areas:

- Regulate aspects related to the delivery, processing, marketing and export of coffee;

- Coordinate with the pertinent ministry Costa Rica's representation at international meetings concerning coffee, when such participation does not fall within the exclusive domain of the Executive Power;
- Carry out promotional activities for Costa Rican coffee in the country and abroad, and sign agreements for this purpose;
- Provide certificates of origin and quality for exported coffee;
- Conduct and disseminate technological research and development concerning coffee production, milling and roasting;
- Compile statistics on the production, export and consumption of coffee;
- Perform economic studies on prices and costs;
- File complaints before the tribunals concerning any instances deemed as fraud in detriment to producers and the State, with the obligation of serving as party in cases where the law establishes this possibility; and
- Oversee due payment of taxes and resources whose collection is charged by law to ICAFE.

Origin of Resources for the ICAFE Budget

The Costa Rican Coffee Institute receives 1.5 % of taxes on coffee exports, as stipulated in the Law of the System of Relations among Coffee Producers, Millers and Exporters (Law No 2762) and its modifications in Article 108. This article was reformed by Law No 7551, in which the percentage was increased from 1% to 1.5% of the FOB value of each 46-kilogram unit of exported coffee.

One percent of this allocation is used to cover ICAFE administrative maintenance and research, and the rest is used for the promotion, diversification and sustainable development of coffee producing.

NATIONAL COFFEE INDUSTRY CONGRESS AND OTHER ORGANIZATIONS

The importance and transcendence of the coffee-producing sector in the national economy gave rise to the National Coffee

Industry Congress, ICAFE's permanent and highest-level management and administrative organ.

The composition of the National Congress of Coffee Growers is as follows:

Sector	No. delegates
Producer	27
Miller	9
Export	6
Roaster	2
ICAFE	1
Total	45

This congress meets on the first Sunday of December each year and on a special basis when so determined by the ICAFE Board of Directors or when requested by at least 25% of the delegates.

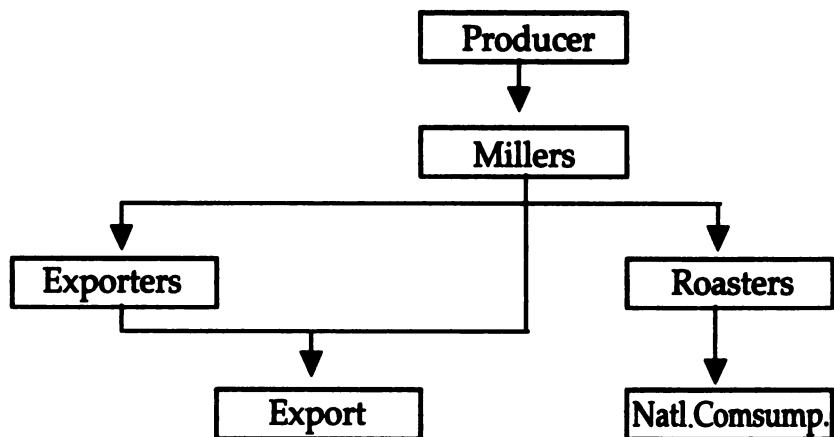
There is a series of organizations uniting the different sectors making up the coffee industry. Mills belonging to cooperatives are associated with the Federation of Coffee-Grower Cooperatives, R.L., while those not under a cooperative system are members of the National Chamber of Coffee Producers.

STRUCTURE OF THE COFFEE SECTOR

In Costa Rica, coffee trade has been entirely in the hands of the private sector, although the State maintains supervision and control through ICAFE, which, as mentioned previously, represents all sectors involved in this activity.

The Costa Rican coffee industry consists of four sectors, regulated by provisions in Law 2762 (June 21, 1961) and the body of regulations corresponding to this law. The object is to ensure the fair participation of each sector

ILLUSTRATION 1
Vertical integration of the coffee industry



These sectors maintain constant interaction and make up a typical agribusiness system comprised of agricultural producers, primary processors of raw material (coffee mills), processors of end product (roasters) and exporters.

The following table shows the number of participants in each sector during the 1998-1999 and 1999-2000 harvests

TABLE 1
Structure of the Costa Rican coffee industry
(1998-99 and 1999-00 harvests)

Sector	Harvests	
	1998-99	1999-00
Deliverers	72 942	73 707
Milling companies	94	94
Exporting companies	44	47
Roasting companies	35	33
Trading companies	33	40

Source: ICAFE.

Producer Sector

Producers are those persons with the right to exploit a coffee plantation and those who deliver coffee cherries to the mill.

The predominant types of coffee grown in Costa Rica are low- and high-yield, such as "caturra" and "catuaí," which cover more than 80% of the national coffee-growing area. It should be pointed out that 100% of Costa Rican coffee belongs to the Arabica species. The recommended growing density applied by around 90% of producers is 1.68 meters between rows and .84 meters between plants, to obtain an average population of 7,000 plants per hectare.

Today's coffee producers have characteristics similar to those who initiated this activity during the first half of the last century, and can be classified by size, productivity and organization.

The largest coffee growers belong to family businesses with many years in the industry, generally well organized and obtaining yields of over 30 fanegas¹ per hectare. In the past, many of these companies were integrated with mills, but currently this is true only of the very largest. These producers represent 27.5% of national production.

TABLE 2
Costa Rica: Producer breakdown according to the quantity of coffee delivered to processing plants (1999-2000 harvest)

Range (fanegas)	No. of deliverers	Percent	Coffee delivered	
			(fanegas)	Percent
From 1 to 100	66 448	90.15 %	1 377 843	38.18 %
From 101 to 500	6 667	9.05 %	1 237 405	34.29 %
More than 501	592	0.80 %	993 692	27.53 %
Total	73 707	100,00 %	3 608 940	100.00 %

Source: ICAFE.

¹ The Costa Rican "fanega" is the volume equivalent of the standard 46 kg sack.

There is a second type of producer, whose scale of production is smaller but with similar levels of technology and yield. The majority of these growers produce only coffee as a cash crop, but in some lower-altitude areas such as Grecia, Turrialba and San Isidro del General, many medium- and large-scale producers also grow sugar cane, allowing them to diversify risk of price and poor harvest and obtain more stable incomes. This second group of medium-sized producers cultivates approximately 34.3% of production in the country.

The small-scale producer generally grows less than five hectares, but contributes almost 40% of national production. This farmer uses a lower level of technology, and yield is consequently lower than the national average. In general, the producer and his family must work in other activities as well, in order to obtain sufficient income.

The Processing Sector

Processors are those people with one or more mills. Their responsibility is to finance, receive, mill and sell coffee. In many countries, this processing is performed by the producers themselves, on a small scale and using traditional methods. In Costa Rica, however, processing takes place in large-capacity plants using relatively sophisticated technology. Raw material, or the coffee cherries, are received from many growers through bulking centers, and then transformed into green coffee.

Participation of mills in coffee trade

The trading activities carried out by most mills consists of determining the quantity and date of delivery of the amount to be sold, negotiating a premium or discount for the lot according to quality, and setting a price when the market reaches the desired level. Once the mill sets a price for the lot, the exporter registers the transaction with ICAFE. The processor can set the price at the same moment it negotiates the differential or later on, if desired, just as long as this is done before the deadline established for the agreed date of delivery.

In compensation for their part in the industrialization and marketing of coffee, mills have the right to a 9% share of the net amount derived from sales less processing costs.

Nature and geographic distribution of mills

In Costa Rica, mills are distributed throughout the coffee-growing area (see table 3). In order to operate they must be registered with ICAFE and are subject to the legislation in effect. Milling centrals provide various services for producers, including supply of inputs, technical assistance and credit service.

TABLE 3
Distribution of milling firms in the different coffee-growing regions (1999-2000 harvest)

Region	N° of mills	Percentage
Central Valley	40	42.6 %
Turrialba-Juan Viñas-Orosi	17	18.1 %
San Carlos-Sarapiquí	1	1.1 %
El General	4	4.3 %
Coto Brus	8	8.5 %
Atenas-Palmichal-Puriscal	5	5.3 %
Los Santos	11	11.7 %
Guanacaste	8	8.5 %
Total	94	100.0 %

Fuente: ICAFE.

Due to the nature of this activity, there are three types of milling companies: those forming part of an exporter group, cooperatives and independents (see Table 4).

Independents

This group of processors has two subgroups: those producing and milling mainly their own coffee and those milling for independent producers. The former has substantial investments in

TABLE 4
Breakdown of mills by type
(1999-2000 harvest)

Processor group	Firms	Percent	Amt. of coffee declared	
			(fanegas)	Percent
Independents	26	27.7%	748 117	20.7%
Cooperatives	43	45.7%	1 357 182	37.6%
Linked to exporters	25	26.6%	1 503 641	41.7%
Total	94	100.0%	3 608 940	100.0%

Source: ICAFE.

plantations, with the advantage of being able to control volume and quality of coffee at the production level. Some of these companies are small, and consequently affected by low profitability. This second group also experiences the problem of low processing volumes. In addition, because they buy from independent growers, supply and quality are difficult to ensure.

Independent processors are not integrated with export and must consequently depend on exporting companies in order to sell coffee. Some market their product with the aid of an exporter under their own brand name of longstanding tradition, while others promote their brands overseas on their own.

In recent years, many independent mills have closed down or have been sold to exporter groups or cooperatives. Nowadays this group represents the oldest coffee companies with the most tradition in this activity.

Mills linked with exporters

This group has increased their market share very significantly in the last few years since several exporting businesses decided to become involved in processing in order to acquire greater controls over supply in certain zones of production and obtain a guaranteed minimum volume for their customers.

Integration with export, familiarity with overseas trade, the market information they possess and financial capacity are the main strengths of this group over independents and cooperatives.

Mill cooperatives

The cooperative sector fulfills a very important function, which is to receive coffee from the smallest producers, pay them a competitive price and provide them with a series of services assisting them in attending their plantations. The typical producer in cooperatives delivers from 50 to 200 fanegas of coffee and cultivates from 3 to 6 hectares of land.

Usually the producers bring their coffee to the cooperative of which they are a member. This gives them voice and vote in member assemblies, a share in profits generated and access to additional incentives, such as discounts in the purchase of inputs, medical services and other benefits.

Cooperatives employ the same system of trade as independents. Normally they sell to several exporters, including the exporting branch of the Federation of Coffee Grower Cooperatives (Fedecoop, R.L.)

Another consortium of cooperatives in the province of Guanacaste (Coocafé R.L.) has managed to obtain better prices for its coffee by selling it directly to a roaster in Europe. This roaster industrializes and sells the coffee under the cooperative brand name ("Forestal".)

Exporter Sector

Exporters are the people who place green coffee in the international market. To operate as such, exporters must register with the Costa Rican Coffee Institute and comply with various legal and regulatory requirements.

In Costa Rica, the exporter purchases coffee from many mills, mixes it by types and sells it under its own brand names to importers and roasters overseas. The exporter generally makes larger-sized sales than the lots obtained from mills, making it necessary to mix purchases in order to deliver uniform lots to their customers. The exporters carry out this work in large-capacity dry mills where coffee is classified, mixed and prepared for export with great efficiency.

In the 1999-2000 harvest-year, 47 exporting firms were active on a permanent ba-sis. It should be emphasized that the largest volume of exportable coffee from Costa Rica is managed by a small group of firms dedicated to this activity (see Table 5.)

The primary function of the exporter is to store, prepare and supply high volumes of coffee to importing companies or roasters operating in the major consumer countries.

TABLE 5
Participation of exporting companies in the handling of coffee exports (1999-2000 harvest)

Percent of total	Firms	Percent	Percent sold
From 0 to 2	39	83,0 %	12,6 %
From 2 to 5	3	6,4 %	11,9 %
From 5 to 10	2	4,2 %	15,5 %
More than 10	3	6,4 %	60,0 %
Total	47	100,0 %	100,0 %

Source: ICAFE.

Participation of exporters in coffee trade

In the majority of cases, the product exporters sell is the same one they buy from processors, since the work they do is to mix coffee to make uniform lots. Coffee is then packed in sacks under the mills' own brand names or that of the exporter.

Under the arrangement stipulated by law, the share paid to exporters for their intervention in the business may not be greater than 2.5% of the value of the transaction when the exporter assumes the risk of market fluctuations, or no greater than 1.5% when acting simply as intermediary.

Roasting Sector

Roasters registered with ICAFE are the persons who own facilities for roasting, grinding or some other industrial process for the bean, and market it domestically. National roasters usually purchase coffee every month in accordance with their sales projections. The coffee is received already milled, and lots are mixed to prepare their brand, and then roasted, ground and packaged. The degree of processing carried out by this agent is simple, since it does no more than sell either beans or ground coffee, requiring none of the complex processing occurring for soluble or decaffeinated coffee.

For a long time, coffee consumed inside Costa Rica was of low quality, with sugar added. However, demand for pure coffees has grown consistently during the last ten years, and has now obtained a share of 25%. This evolution in consumer tastes and preferences was exploited by several companies that identified a new market opportunity.

COFFEE TRADING PROCESS

Every harvest year the Costa Rican Coffee Institute establishes the percentage corresponding to quotas for export, domestic consumption and when necessary, a provisional quota of availability. It may also set an obligatory withholding quota to comply with international agreements.

TABLE 6
Concentration of the roaster sector in Costa Rica
(1999-2000 harvest)

Roaster	Purchase (kg)	Percent
Café el Rey, S.A.	6 656 670.16	42.9%
Tostadora La Meseta, S.A.	3 217 599.20	20.7%
Café Volio, S.A.	1 314 924.60	8.5%
Industria Nal. del Café, S.A.	804 227.16	5.2%
Café Fino, S.A.	554 787.00	3.6%
CC La Amistad Coffee	513 911.47	3.3%
Otros	2 464 482.74	15.9%
Total	15 526 602.33	100.0%

Source: ICAFE.

National Coffee Trade

Until the 1991-92 harvest year, supply for domestic consumption was determined through just one procedure consisting of 14-day auctions, organized by ICAFE. In October 1962, ICAFE's Board of Directors decided to liberalize the sale of coffee for national consumption, and as of February 1993, domestic coffee trade is carried out through contracts between mills and buyers.

Exports of Coffee

Export of coffee requires contracts between the exporter and mill, using the following procedure:

Coffee exporters must inform ICAFE daily of purchases made that same day (Daily Purchasing Report.)

These contracts are then registered with the institute during the 15 days after the presentation of the Daily Purchasing Report, and provide the following information:

- Harvest
- Name and legal status of the seller and buyer
- Name and location of the processor milling the coffee
- Quantity of coffee in kilograms
- Type and classification of the coffee
- Price and payment conditions
- Delivery month or months
- Place and date the contract was signed

To execute this type of contract, the exporter must request export procedures from ICAFE through the form called the "Customs Declaration". This document supplies the following information: destination; ports of departure, shipping and arrival; name of the exporter and importer; number of the commercial invoice; brands; quantities; values; tariffs and the exporter's signature.

The documentation is checked at ICAFE and if all information has been provided correctly, receives due authorization. The exporter may then take the coffee out of customs and send it overseas.

The Certificate of Origin is another document ICAFE extends to the exporter, and includes the quantities, routes, country, brands, weight, date of shipment and signature of the ship captain. Although not required for export, this document is a formalism carried out on behalf of the ICO for statistical purposes.

COFFEE PROMOTION STRATEGIES

Until not too long ago, to promote its product the Costa Rican coffee sector did no more than place ads in international magazines and participate sporadically on a private basis in conferences and seminars facilitating contact and exchange of information with potential buyers.

The country's lack of marketing efforts in international activities was due to the conception that Costa Rican coffee sold by itself and thus required no type of promotion. In reality, it was not that Costa Rica's coffee sold by itself, but that sales were guaranteed in a market where export quotas were set by the International Coffee Organization (IOC), until July 1989. The convention was not ratified and the agreement on export quotas was broken. This caused a radical change in the situation and the coffee sector found it necessary to seek out sales opportunities and provide souvenirs of Costa Rica, tourism brochures and other resources to make the country and the virtues of its coffee better known.

The first efforts to promote Costa Rican coffee abroad were in direct response to the aggressiveness of other producer countries whose coffees were recognized as superior in the international market. For example, Colombian coffees had received a prize, as did the coffee from Antigua, Guatemala. Costa Rican marketing could not afford to lag behind, of course, given that this country offered coffees as good or better than these.

Coffee from Costa Rica is well known by roasters and importers overseas, who are familiar with the qualities of coffees such as the Tarrazú or Tres Ríos, a strictly hard bean. This is not true of consumers, who have heard of Colombian coffee, Jamaican Blue Mountain, coffee from Antigua or Ethiopia, but not Costa Rican coffee.

Out of the country, Costa Rica's coffee has traditionally been mixed with other types and sold under a given brand name, with no credit given to its origin. The use of Costa Rican coffee to enhance and improve blends is certainly the best indication of importers' recognition of its quality. But by rights, consumers should also be informed of these virtues and merits, so that Costa Rican coffee can compete with other countries in the market under equal conditions.

The new strategies promoted by ICAFE in coordination with the coffee sector have arisen in an environment of genuine consensus concerning the need to promote Costa Rican coffee and assure growth of sales and position in the international market.

SYSTEM OF PAYMENT TO PRODUCERS

Law 2762 established a system called "liquidation" so that coffee producers will receive a fair price for their product. Based on this system, producers deliver their production to processors for milling and sale. In turn, ICAFE calculates the final liquidation price based on the respective information, and verifies that this is duly paid to all the producers.

The liquidation system functions as follows. When producers deliver their coffee cherries to the mill they receives an initial sum of money in cash as an advance. The last payment of the ultimate value of the product is made through a final liquidation. According to law, mills must have sold all coffee by September 30th of each year. This deadline may be modified by ICAFE's Board of Directors to compensate for delays in exports caused by obligations under international commitments or other circumstances. Processors pay additional partial payments in between the initial advance and the final liquidation.

Calculation of the final liquidation is based on both domestic and international sales amounts, less mill costs accepted under the law, the mill's commission, and the contribution to the Coffee Stabilization Fund (FONECAFE.) The difference is the price for final liquidation, which is set exclusively by the Costa Rican Coffee Institute.

TABLE 7
Formation of the price producers receive

Item	US\$ / 100 pounds	Percent
Price New York Stock Exchange	70,00	
Plus differential	5,00	
FOB price	75,00	100,00%
Less ICAFE: 1.5 % of the FOB price	1,12	1,50%
Less export costs	1,65	2,20%
"Rieles" price	72,23	96,31%
Less mill costs	9,00	12,00%
Less mill profit: 9% (US\$ 72.23 - 9.00)	5,69	7,59%
Price paid to producer	57,54	76,72%

Source: ICAFE.

Table 7 provides an example to demonstrate internal price formation for coffee that is strictly hard bean, premium quality.

Milling firms compete concerning the liquidation price they pay to producers. The mill paying the best price will attract more coffee growers that will sell their product to that firm at the next harvest.

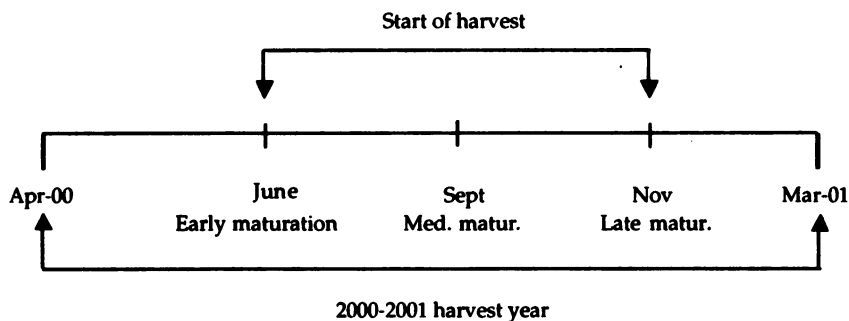
It should be pointed out that the liquidation price the mill pays its customers depends on the export price for which the coffee was sold, conversion from the cherry to green coffee- known as the mill yield- the rate at which dollars were exchanged, mill costs, and the price and proportion of national consumption. In addition, when market conditions stipulated in the law governing the National Coffee Stabilization Fund occur, the producer's contribution to this fund is deducted.

FINANCING FOR THE COFFEE INDUSTRY

In Costa Rica the harvest year begins on April 1st and ends on the following March 31st. Although coffee picking normally occurs between the June-November period, more than 85% of national production is harvested between November and February. Production zones are classified according to early, medium and late maturation.

Early maturation zones are located at least 800 meters above sea level. There, coffee picking begins in June and ends in December, although it occurs most intensively in October.

Areas of medium maturation are located at altitudes ranging from 800 to 1200 meters above sea level. The cherry begins to mature in September and harvesting ends in January, with the greatest volume maturing between December and January.



Late maturation takes place in zones located from 1200 to 1700 meters above sea level. In these regions the coffee harvest occurs from November to March, intensifying in the last weeks of January and during February.

All producers require money to tend their coffee plants at different stages of production and during harvesting. In Costa Rica there are essentially two categories of financing for producers:

one directly with the financing entity or with resources belonging to the mills, and the other with resources from financing entities obtained through the mills.

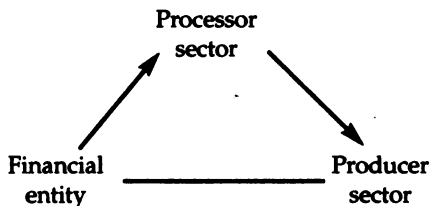
Commercial Banks or Processors

There are two stages in financing through commercial banks or using the milling firms' own resources. One is assistance for cultivation and the other is for harvesting. The resources are given to the producer in quotas or in a lump sum, depending on the accrediting bank or processor.

The disadvantage of direct financing from commercial banks is that procedures are extremely complicated, requiring substantial guaranties, certifications and backing, and the bank reserves the right to reject the application if considered too risky because of a customer's lack or low level of solvency.

From Milling Companies

This type of financing comes indirectly from the national banking system, international banks or exporters, which facilitate funding for mills, who in turn distribute these resources among the producers who are their customers. This is the most common type of financing among Costa Rican coffee growers.



There are three sources of financing, each with different credit conditions. The financial entities in this system are the following:

National Banks

The major State banks involved in coffee financing are the National Bank of Costa Rica and BICSA, which together provide around 70% of the credit required in this sector.

Credit is offered in two stages:

- Assistance for plantations: (new plantings, pruning, fertilizers, spraying, etc.)
- Harvesting: loans for coffee picking

During the first stage credit is granted in the months of January, February and March, depending on the maturation zone in which the processor is located (early, medium or late.) Resources for the second stage are released as of July, August, September and October.

The guarantee required in both these cases is the "coffee on the plant", meaning the harvest that is being financed and which is expected at the end of the productive cycle. It is easier for the mills to obtain financing for the second stage since it is then being delivered to the plant yards and the guarantee is more concrete (greater security for the bank that resources will be recovered.)

Private and International Banks

One of the lines of credit these banks offer is revolving credit over 3-, 6- or 12-month periods. Under this system the debtor has a line of credit for a specific amount, which may be used in one transaction or in fractions at whatever time intervals are needed.

If the milling company does not use the entire line of credit in the period established, the bank has the power to reduce it for the next harvest or raise the financial cost of the credit as a way of penalizing the customer.

Banks that offer this type of financing (Interfin, Banex, Cuscatlán, BCT, Banco Alemán Platina) require different types of guarantees from the debtors, such as:

- Securities on coffee in the mill silos
- Collateral (facilities or properties)
- Fiduciary guarantees

Exporters

Another source of indirect financing for the Costa Rican coffee industry is through exporters. They finance mills for amounts up to 80% of the value of the sales contracts.

The exporter is funded by external resources, since in most cases these are very large transnationals that can obtain money from their home offices at extremely low interest rates.

Financing characteristics

The financial entities offering resources to the national coffee sector make sure that their creditors (the milling companies) honor their debts at the moment they begin trading the harvest. In the same way, mills expect that the producer will pay off financing when harvesting is finalized so there will be a zero balance at that moment, in order to be able to finance the next harvest period.

The milling sector finances the producer sector through an IOU, bill of exchange, or security certificate and, depending on the amount requested, also demands collateral. Through these types of legal papers, the producer commits to delivering a given number of fanegas of coffee in payment for the sum received.

It should be noted that the sums mills give to their producers to finance the second stage of the productive process (harvesting) are not actually a loan, but an advance on the final price of that harvest.

"Sui generis" financing system

The financing system for coffee activity in Costa Rica is quite special in that there is a regulatory entity such as ICAFE that maintains records of financing mills receive in dollars, since the exchange rate is one of the elements that affects the final liquidation of coffee for the producer.

Article 32 of the regulations corresponding to the Law on the System of Relations Among Coffee Producers, Millers and Exporters establishes that export sales contracts used for financing purposes must be registered at ICAFE, and should indicate the harvest involved, the negotiating entity, the date of negotiation, the exchange rate, the amount settled and the equivalent amount in colons.

In terms of the final liquidation, the resources that mills obtain are an advance of money stemming from the sales contract, whose execution will necessarily have to be in substitution for the contract for purposes of financing.

In the Costa Rican environment there are additional mechanisms to avoid duplication of financing for producers, such as the Public Registry, where the securities producers give as a loan guarantee are registered. In addition, some mills request "Certificates of Indebtedness" extended to the producer on previous occasions by other mills or financial entities.

A generalized problem regarding financing for coffee activity in Costa Rica is that the resources obtained have such high rates of

interest that producers are unable to honor them, since their profits are not sufficient.

FUTURES MARKETS IN COFFEE

Futures markets respond to the growing need of traders to manage fluctuations in international prices, whether of basic products or financial instruments. These markets provide instruments for managing risk.

Coffee is a product of great value at the international level, very volatile and affected by brusque changes in supply and demand. Supply is affected by weather conditions, the health of the plants, international agreements and domestic policies. Demand for coffee is determined by its price, the availability of substitute beverages and consumer preferences.

Principal Futures Markets for Coffee

The principal futures markets are the following:

- New York: The Coffee, Sugar and Cocoa Exchange, C.S.C.E.
- London: London Futures and Options Exchange ("London Fox")
- Paris: Marche International des cafés Robusta de Paris / Le Havre), also known as the Paris Stock Exchange

Use of Futures Contracts for Coffee Sales in Costa Rica

The use of futures and options requires a general knowledge of their operating mechanics, but their application is relatively simple if the objective is simply to cover a position and not speculate on the market.

The infrastructure required to make use of coverage instruments is limited to the use of brokers overseas (in the United States, in Costa Rica's case) in their advisory role and as a means of participating in the market. One must be a member of the Coffee Ex-change to be able to participate in it, and the only way to buy and sell in that scenario is through a chain of intermediaries, in which our closest agent is a stock exchange broker.

However, in Costa Rica very little is known about how these coverage mechanisms are handled. The coffee industry is a very traditional sector, and it is difficult to convince coffee growers and millers of the virtues and limitations of these financial instruments.



THE ROLE OF REGIONAL INSTITUTIONS IN MOBILIZING RESOURCES

Speaker: Patricio Rueda
CABEI

EFFORTS BY CABEI TO CONCEPTUALIZE AND DESIGN PROJECTS OF MAJOR REGIONAL IMPACT

In the context of economic, political and social transformations that have taken place in recent years in the region, I would like to share with you the efforts and the opportunities that CABEI believes will serve to further strengthen the process of integration, through the financing of projects of great regional importance.

The Institution's central mission is to promote regional integration and a balanced economic and social development in the Central American countries. Therefore, it continues to implement a credit program that will maintain it in the vanguard of the region's financial institutions.

At present, the Bank is focusing its attention on three main priority areas. Firstly, it is placing greater emphasis on providing support to the private sector. A fundamental and strategic aspect of these actions is the strengthening of the region's financial system, by facilitating technical assistance and resources.

As a second priority area, CABEI participates in the financing of the public sector, based on the criteria of opportunity niches. In other words, the Bank concentrates on those areas in which it has

developed a high level of specialization, such as transport, hydraulic projects, energy and communications. In addition, CABEI seeks to co-finance large regional projects with other institutions such as the IDB and the World Bank.

The third line of action is to contribute to efforts to mitigate poverty, by financing technically and financially viable projects. In this regard, we will strive to be creative in designing actions to give dispossessed groups access to goods and services, according to their possibilities. Moreover, CABEI's financial actions include providing support to micro-businesses, promoting community banks, promoting integrated rural development programs and the incorporation of rural women in production and remunerated work.

We are making enormous efforts to address the needs of the Central American population in the areas of education, health, housing, food security and nutrition, particularly in view of the acute structural problems caused by Hurricane MITCH and its aftermath, as well as by the two recent earthquakes in El Salvador. In the latter case, CABEI recently approved financial support of US\$75.0 million and is now considering an additional financial package of US\$127.0 million during the financial period 2000/2001 and US\$175.0 million for the period 2001/2002.

In this context, CABEI has defined the following criteria to guide its credit management policy towards supporting the development of the Central American export sector:

- Revitalize capacity to respond to financial requests to promote and implement activities that have great potential to penetrate new markets.
- Consider the region as a single geographic unit, to avoid the duplication of investments and take advantage of each country's potential and resources.

- Operate selectively in order to have a positive impact on the economies, giving priority to loan operations that promote growth, integration, added value, transfer of technology, environmental protection and the rational use of natural resources.
- Promote the development of clusters within the context of the regional competitiveness program financed by CABEI.
- Forge strategic alliances with financial institutions and development agencies, under the criteria of complementary actions and the contribution of additional resources, and with national and regional organizations, in order to have a greater impact on the region's development.
- Exploit shared resources, such as watersheds, forests and rivers, and utilize the advantages of proximity.
- Promote labor-intensive programs.
- Improve and integrate the region's market information systems.

In this context, the above proposals are divided into two parts: the first part consists of direct action activities, towards which CABEI will direct its financing. The second part consists of activities, projects and/or programs regarded as forms of support or services that complement the direct action activities.

Direct Action Activities

Modernization of economic infrastructure to support production, with an emphasis on quality

The Bank will collaborate in the development of infrastructure to support countries' exportable production, under modalities that facilitate the participation of the private sector and foreign capital, other international institutions and particularly of CABEI's extra-regional partners. It will also negotiate or leverage resources from other international financial organizations for the following areas of development: ports, airports, highways, access roads, energy, telecommunications, irrigation, development of customs-free areas and warehousing facilities.

In line with national development objectives, CABEI in coordination with the Central American countries, seeks to implement projects, design common policies to facilitate trade logistics and develop advanced infrastructure systems.

The isthmus will be endowed with a strategic system of highways connecting the region's main economic centers, including ports and airports, along the main axis of the Central American Pacific Corridor.

With its renewed focus on open regionalism, Central America hopes to appear before the world as an economically integrated area, where goods can be transported from one ocean to another without the inconveniences of intra-regional boundaries, where the ports in different countries compete with each other to offer the best service at the lowest cost and where goods can be unloaded in the port of one country, be re-processed in another, and leave from the port of a third country using transportation services belonging to any member country.

In order to turn this vision into reality and take a qualitative leap forward in improving the region's trade-related infrastructure, it is essential to implement major projects, such as the Central American Logistical Corridor Project, made up of a) the Pacific Corridor or Natural Corridor; b) the Pan-American Highway (CA 1); c) develop links between the region's ports, capital cities and the leading economic centers, and d) modernize the border posts at a cost of approximately US\$300.0 million. This area of integration is of particular interest to the members of the Consultative Group, which met recently in Madrid, Spain.

Border posts

A vital element for the proper functioning of the logistical corridor is the modernization of the border posts. In this regard, it is essential to develop new physical infrastructure and facilitate the elec-

tronic interconnection of the border posts as a fundamental bulwark of the logistical corridor.

Improving the infrastructure of ports, warehouses, roads and public buildings is also necessary in order to achieve the objective of modernizing the Customs System.

Energy and telecommunications

At present, the electricity systems of the Central American countries are linked via two weak interconnections, which form two separate subsystems, preventing energy exchanges or energy sharing among all the countries. The first subsystem links Guatemala and El Salvador, while the second links the rest of the countries - Honduras, Nicaragua, Costa Rica and Panama.

Given that Central America faces structural deficiencies in its efforts to satisfy demand for energy, it is important to implement a joint electricity interconnection project on a regional scale in order to tackle the problem jointly and develop global solutions.

Among the projects of major regional significance that CABEI can help to finance are: the Central American Electricity Interconnection Project, via a 230 MW line, at an estimated cost of US\$500.0 million; the implementation of feasibility studies for the Mexico-Central America Gas Pipeline Project, whose costs range from US\$3.0 to US\$5.0 million. The total cost of this project is estimated at US\$1,030.0 million. Also of major importance is the Central American Private Electricity Generating Project - CABEI has already financed individual projects that can subsequently be regionalized. Another important initiative that has been identified is the Electricity Distribution Project, a service that is being privatized in nearly all the Central American countries and which is costing an estimated US\$725.0 million.

Among the projects identified in the area of communications is the Central American Fiber Optic Program, with a cost of US\$120.0 million. It is important to note that the part corresponding to Guatemala has already been financed, though the rest has not. The financing for the Honduran part alone is US\$35.0 million. In addition there is the Regional Digital Telecommunications Network Project, aimed at expanding and modernizing the interconnections between all telecommunications systems and networks in Central America. Finally, there is the Project for the Digitalization of Telephone Lines in Central America, which in Costa Rica alone will cost US\$400.0 million.

Modernization of production and business innovation

There is a clear need to promote a vision of agriculture as “an expanded sector”, understand and appreciate the rationale of the conglomerates and induce a positive attitude towards the sector to encourage investment.

With regard to the agriculture sector, it is important to note that aspects such as the high transaction costs, the considerable post-harvest losses and the limited development of agricultural exports are affected by the deficient services due to the absence and/or insufficient development of distribution networks, warehousing and cold storage facilities, roads, bridges and airports or by their poor condition. The limited range of telephone and electricity networks in some countries must also be considered.

In addition, the irrigation infrastructure in regional projects and on individual farms is very far removed from its potential and possibilities and is therefore a priority task that will require major investment. The development of irrigation systems will enable Central America to “do” agriculture during all 12 months of the year. However, this initiative must be closely accompanied by financing for infrastructure and equipment and therefore, the creation of special funds for medium-term investment will be promoted. In this context, the Bank will promote activities to promote the development of:

- Specialized infrastructure for the management and processing of agricultural products, additives and other specific chemical substances.
- Ports specializing in the countries' most important export products: bananas and sugar.
- Increased coverage of basic public services such as electricity, telephones, water, etc., particularly in rural areas.
- Irrigation systems.
- Technology and Training to increase productivity.
- Natural resources for sustainable development.

In addition, CABEI will provide resources to promote industrial modernization and retrofitting, within a framework of environmental sustainability.

Tourism

The region's tourism potential may be greatly reduced if the quality of its natural attractions, sought after by growing numbers of international visitors, is not maintained and if the customer service is deficient. The national parks, protected wildlife areas and coastal zones should be maintained in optimum conditions. The development of tourism should be consistent with the expectations of local and international visitors, who look for high quality accommodations and other attractions that complement and further enhance their enjoyment of the region's natural beauty. Within this sector, CABEI will focus its attention on supporting and strengthening all sectors that promote the development of tourism industry, such as: physical infrastructure (hotels); provision of equipment and supplies; attractions, training and transportation.

Social development

As an essential part of its positioning, CABEI will continue to contribute to increased social wellbeing in the region through the financing of projects that facilitate the balanced, self-sustaining and progressive social development of the Central American population. CABEI will therefore support programs and projects in the following areas:

- **Child development projects:** initiatives at the Central American level to ensure that children complete their schooling, plus the provision of basic health and nutrition services.
- **Youth projects:** incorporate this sector into the development process by providing resources for technical and professional education.
- **Popular Housing Projects:** this is considered to be one of the most pressing needs in Central America. The region's enormous housing deficit has been further increased in recent years by several natural disasters.
- **Urban Development Projects:** in this area, Sweden could provide cooperation by strengthening the resources of the Municipal Development Program (PROMUNI).
- **Implementation of Computer Education Projects:** providing computers to public schools to make education more effective.
- **Projects to combat poverty:** including those to promote micro and small businesses.

Environment

Without a healthy and productive base of natural resources, the region's agricultural potential is endangered. Poor land use has already led to the deforestation of critical watersheds in various countries. This deforestation has reduced the water supply in some areas, has made farmlands and coastal areas far more vulnerable to storms and floods and has reduced the productivity of coral reefs and other marine and coastal resources. The intensive

and inappropriate use of pesticides and poor or unsustainable farming practices on cattle ranches have reduced the productivity of the soil in many parts of the region and have polluted water resources needed for agricultural and human use. Without better land use and the best sustainable agricultural practices for tropical agriculture, the future productivity and competitiveness of the Central American agriculture sector will be jeopardized. In this regard, the Bank is supporting the following activities of great regional impact:

- **Trifinio Project:** development of border zones, especially in Honduras.
- **Debt swaps** with Central American countries for environmental projects.
- **Participation of Sweden in the Environmental Fund for Central America (FALIDES)** in order to strengthen it.
- **Implementation of the Central American Biological Corridor**, linking protected areas throughout the Central American region, in order to protect and conserve all forms of biodiversity.
- **Implementation of projects to clean up the region's rivers and lakes and provide an adequate supply of potable water.**
- **Projects related to the management of natural resources, watersheds and the prevention of natural disasters.**

Activities Related to Trade Logistics

These projects are included in the integration of information systems and the promotion of a regional program for the products of the companies that are being financed.

The Bank is interested in setting up a fund to finance trade information and promotion offices with the private sectors of the Central American countries to promote exports and foreign investment and forge strategic alliances, facilitate the expansion and diversification of exports, taking advantage of their geographic

location. The idea is to finance micro and small businesses in order to guarantee their access to cutting-edge technology, and also place greater emphasis on the financing of the regional trade in raw materials and staple grains, agroindustrial processing and intra-regional investment, and make intra-regional trade more expedite.

In addition, CABEL will continue to strengthen the Central America's mechanisms of financial regulation and supervision, within the framework of the Committee of Basle, strengthening the stock exchanges by participating more actively in them, supporting training in the different aspects of trading, and encouraging greater knowledge of the market trends. The Bank also proposes to develop new products and financial services with greater added value.

At the same time, CABEL will encourage participation in trade fairs and business missions, especially in those countries that are among CABEL's extra-regional partners, support to regional technology transfer programs and the expansion and consolidation of regional cooperation.

Meetings, such as this present event, should be promoted more regularly, in order to further develop our knowledge of conditions in the region and thereby develop viable economic and political solutions to the inveterate problems of development in Central America.

CABEL'S CONTRIBUTION TO SPECIAL INITIATIVES

Contribution to the Central American Agenda for the 21st Century

CABEL has made a significant contribution to the Central American integration process through its response to the petition issued by the Central American Presidents, on August 16, 1996. The Presidents requested financial support to develop a strategic

plan for the international competitiveness and sustainable development of the Central American region, with the support of the Latin American Center for Sustainable Development of INCAE and Harvard University.

In August of 1996, the Board of CABEI approved the sum of CA \$7,762.145 to be disbursed within a three-year period to support the program "Central American Alliance for Sustainable Development: Strategy for Competitiveness and Sustainable Development".

This initiative to design, implement, promote and disseminate a strategic plan for international competitiveness and sustainable development directed at the Central American region, was implemented by the Latin American Institute for Competitiveness and Sustainable Development (CLADS), attached to INCAE, and the Chancellor and members of Harvard University.

The program consisted of a series of actions, such as studies, research, discussion and implementation, aimed at structurally improving the Central American countries' capacity to respond to the opportunities and challenges of globalization. The activities included research, "benchmarking" exercises, visits, discussions and seminars and were intended to serve as a catalyst for bringing about changes in both the public and private sectors. In the case of the public sector, efforts were aimed at modifying standards, policies, formalities, procedures and governmental infrastructure. In the case of the private sector, the objectives were to improve business practices, adopt new technologies, favor new investments and achieve greater competitiveness. The topics discussed were: Customs, Transport Infrastructure, Promotion of Investment, Reform of the State, Social Welfare, Tourism, Agroindustry, Macroeconomics, development of Capital Markets, the Environment, Training and the Central American Agenda for the 21st Century.

More than a mere program with a pre-determined time limit, we regard this effort as an ongoing dynamic process that is still unfolding. Some of the most important results achieved are of an intangible nature, such as:

- Helping to change the dynamics of the relations between the public and private sectors of the region;
- Raising the level and quality of discussion and analysis of key issues related to the development of the region as a whole and of each of the countries;
- Introducing new strategic issues to the agendas of countries and of the region as a whole;
- Promoting processes of change in many of the region's productive sectors;
- Strengthening the performance of key areas that affect the business climate in the region;
- Incorporating valuable knowledge of international "best practices" in various aspects of development, and
- Encouraging discussion and the exchange of experiences in Central America, at more than 200 meetings with more than 10,000 people on important issues of regional development.

Creation of FALIDES

The Alliance for Sustainable Development, ALIDES, is a regional strategy aimed at turning the Central American isthmus into a region of peace, freedom democracy and development. It seeks to promote changes in individual and social attitudes that will lead to the construction of a sustainable model in political, economic, social, cultural and environmental terms. In order to contribute to these objectives, the Bank created the Central American Environmental Fund (FALIDES), on July 18 1995, to operate as a financial mechanism and, among other things, tap resources to administer and use them in activities related to environmental conservation and sustainable development. At present, the Fund only has resources from CABEI.

The Fund's resources should be used in investments that seek to use natural resources in an innovative way. The Fund therefore intends to finance programs and profitable projects that promote the economic and environmental sustainability of the Central American societies.

MAIN ADVANCES IN THE ECONOMIC INTEGRATION OF CENTRAL AMERICA IN THE YEAR 2000: RELATIONS WITH SICA

Given CABEL's participation in many of these activities and the potential financing opportunities inherent in the Central American integration process, we offer a summary of the advances of this process in the year 2000.

Intra-Regional Trade

If we examine the preliminary figures for the year 2000, we can see that intra-regional trade grew by 11%, with intra-regional exports having increased to US\$.2, 537 million. The leading exporters were Guatemala, El Salvador and Costa Rica, respectively. However, it should be noted that Guatemala lost much of its dynamism, having reduced its exports by 2.6% compared with the figures for 1999. El Salvador increased its exports by 16.5% and Costa Rica by 8.7%. It should also be noted that (although with lower figures) Nicaragua increased its exports to the rest of the countries, by 66.8% compared to its exports in 1999.

Regional Agreements

The Council of Ministers for Economic Integration - COMIECO-, adopted a number of important resolutions and agreements to improve the free trade area. The Council also adopted a Resolution of particular importance, reaffirming those documents of intra-regional trade that are considered binding.

With regard to improving the Central American Import Tariff, modifications were approved in response to specific requests by various countries and several safeguard clauses applied by these were eliminated.

At the same time, the Council reaffirmed its interest in implementing the Industrial Modernization Program in Central America. This was submitted to the Consultative Group for Regional Technical Cooperation in Central America, at the recent meeting in Madrid, Spain, in which CABELI played a decisive role.

Another of COMIECO's achievements was the signing of the Second Protocol of the Unified Central American Customs Code (CAUCA), an instrument that introduces modifications to modernize the region's common customs legislation.

At the same time, delegates concluded their negotiations on the Mechanism for the Solution of Trade Controversies, to resolve any trade disputes that may arise in the Central American region.

Customs Union

One of the greatest advances in Central American economic integration is taking place in the context of Customs Union. The initiative was launched by Guatemala and El Salvador in 1996, and consists of creating a common customs area between both countries, which means that free trade will extend to all goods, regardless of their origin, resulting in the elimination of the customs between these two countries. This represents a qualitative leap forward in the process of Central American economic integration. In August of 2000, COMIECO approved the admission of Honduras and Nicaragua to this initiative.

Considerable progress has been made towards the creation of a Customs Union, particularly with the inauguration of the Single

Customs Post in Amatillo, the border post between Honduras and El Salvador, which will facilitate and speed up the movement of people and goods.

There is also a commitment to establish a joint customs area at the border post of Corinto, between Guatemala and Honduras, and the technical work has already begun. Meanwhile, the Finance Ministers of El Salvador and Honduras have agreed to establish, in the short term, a single peripheral customs area in Puerto Cortes, and to establish a joint customs post in El Poy, El Salvador.

With regard to tariff matters, the Central American countries have consolidated those tariffs that were already uniform, and have agreed to harmonize the rest by the end of the year 2002. They also promised joint application of the protection measures mentioned in Article 26 of the Central American Tariffs and Customs Agreement.

Finally, on matters of trade policy, the four countries that are participating in the Customs Union are implementing the necessary coordination mechanisms to allow negotiations with third parties to be conducted jointly, in the case of Panama, Canada and the FTAA. For now, only the three countries of the Northern Triangle are negotiating with the Andean Community.

Trade Negotiations

In the year 2000, delegates concluded joint negotiations on standard or uniform regulations, which were pending from the Free Trade Agreement with Chile, signed on October 18, 1999. Similarly, negotiations on the Free Trade Agreement between Guatemala, El Salvador and Honduras and Mexico concluded with the signing of an Agreement on June 29, 2000.

With respect to the trade negotiations between Central America and the Dominican Republic in 1998, the agreement has been ratified by the countries of the region, except Honduras. The Dominican Republic has not ratified the Agreement.

It should be noted that four countries —Guatemala, El Salvador, Honduras and Nicaragua— have adopted a coordinated position in the negotiations of the Free Trade Area of the Americas (FTAA).

Transportation

On the issue of transportation, the Sectoral Council of Transport Ministers of Central America (COMITRAN) discussed the results of the Workshop on Prevention and Mitigation of Natural Disasters, organized in accordance with the mandate of this forum and as follow-up to the 22nd Presidential Summit. The Workshop discussed various fundamental aspects, such as the disaster prevention activities that are being implemented in the region, the existing regional projects, the basic points of a plan of action to be implemented and which regional projects should be presented to the international donor community. As a result, the document Strategy for the Transport Sector was prepared for incorporation into the Basic Plan of the Regional Disaster Reduction Plan.

This forum also approved two projects: the Central American Logistical Corridor and the Transport component of the Regional Disasters Plan, to be presented to the Regional Consultative Group meeting in March, to which the Bank was invited.

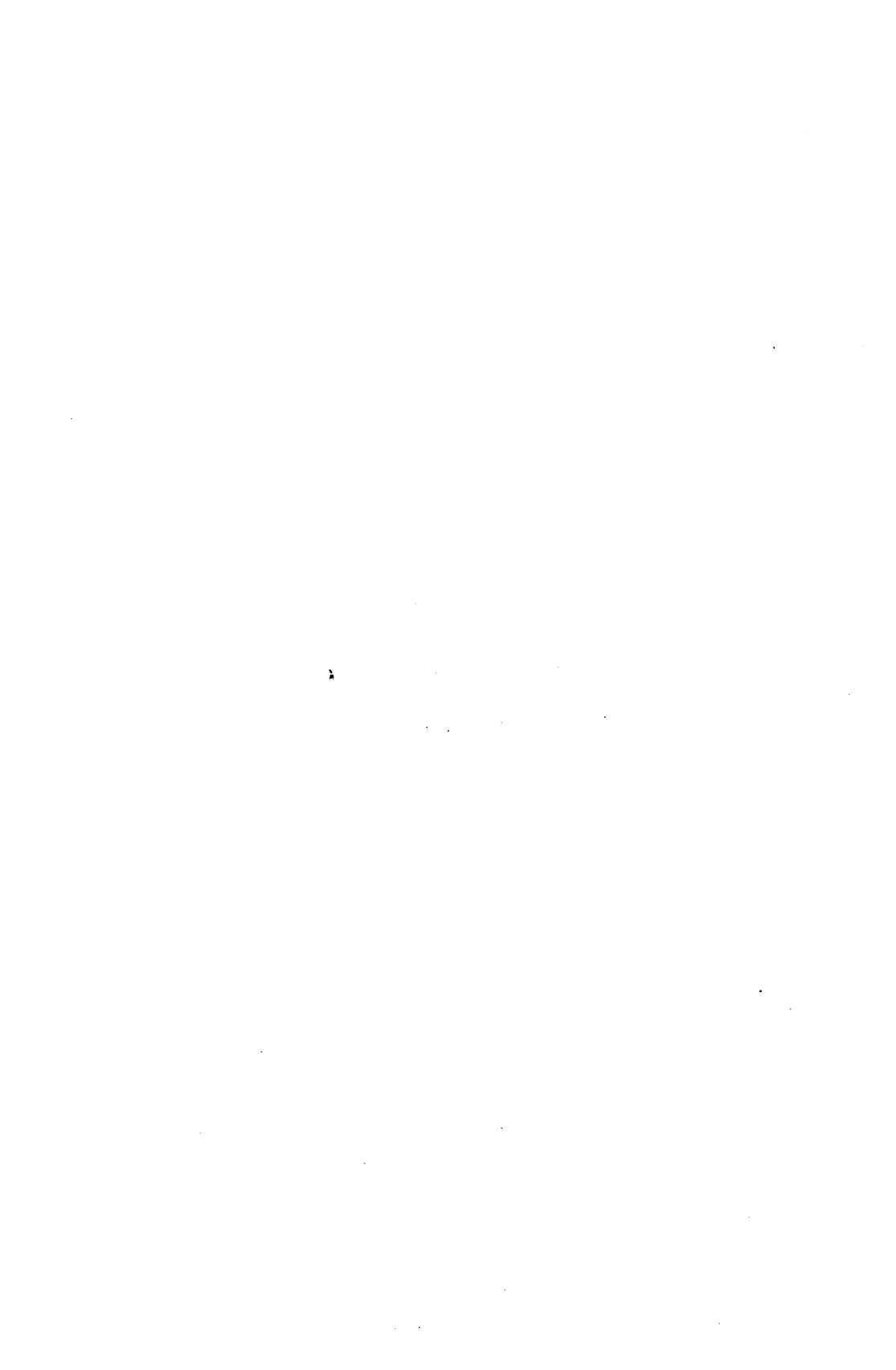
CONCLUSION

As can be appreciated, CABEL's efforts in Central America have served as a catalyst for new initiatives linked to investment

for development, and has also helped countries with innovative initiatives in times of crisis.

CABEI will continue to play a leadership role in the development and integration of Central America. It will continue helping both the economic agents of the market as well as States, in a synergy aimed at achieving creative cooperation in order to boost development and free cooperation among our countries.

RESULTS OF THE WORKING GROUPS



RESULTS OF THE WORKING GROUPS

Speaker: Pilar Fajarnes
UNCTAD

DAY 1: Complementation and Regional Cooperation for Access to International Markets

GROUP 1: Links Abroad

Debate on the point of departure for better insertion in the process of globalization: access/trade or production. Participants chose production and suggested various practical ideas on possibilities for cooperation:

- Problem of health and phytosanitary regulations; need to comply with agreements and intensify harmonization of norms. Practical aspects were included, such as forms.
- Complementarities among economies of the region: they produce the same products, leading to disputes and a loss of intensity in terms of integration. Although a practical solution seems difficult, the underlying nature of agrifood chains could be analyzed to see if they could be made to function at a regional level.
- Need for strategic alliances in the private sector, although not for defensive purposes as they have been traditionally.

- Need to harmonize the different countries' positions at negotiations of international trade treaties (WTO or FTAA), although there are many constraints.
- Policy on competencies: could be used for cross control between the administration of issues concerning health and phytosanitary standards and the rest of the sectors. Also, to be considered by trade policy technicians, but taking the specificities of those countries into account.
- Need to define common tariff policy permitting greater integration.

Additional Considerations

- Should include business topics (i.e., agribusiness) and the important role of participation by the private sector interested in exporting as long as this is viable. Need to define what is considered as "private sector," including transnationals that have experienced a great deal of growth.
- Importance of strategic alliances in cooperation in the private sector: need for business strengthening, training and financing.
- Tariff negotiation implies there are winners and losers. It should be based on opportunities and not sensitive areas, to permit greater possibilities of integration. With respect to tariff harmonization, if this does not advance on its own it will be imposed from without.
- Governments' policies should center on creating a framework of macroeconomic stability and on the promotion of dynamic sectors, such as small- and medium-sized companies that can, for example, generate employment.
- Need to consider factors that are both economic (investment, co-investment, strategic alliances, consumer trends...) and non-economic (environment, health and technical regulations, animal welfare...).

GROUP 2: The Role of Countries and of Regional Cooperation Agencies

Background

- Greater differentiation made between trade of goods and services but it was stressed that in many countries of the area health control systems have deteriorated or even been eliminated, in some cases.
- This is illustrated by the lack of programs to control fruit fly and pink mealy bug.
- Likewise, new health requirements are being generated through international organisms (OIE, CODEX, IPPC), where the participation of the developing countries is limited or non-existent.
- It was established that issues are appearing on the WTO negotiation agenda that express consumer concerns (animal welfare, food quality, GMO).
- As well as other labor and environmental issues also expressing the interests of this consumer group.

Recommendations

- It is necessary to define the role of government at the different stages of negotiation, such as:
 - Domestic negotiation
 - Preparation for negotiation
 - Learning about negotiation
 - Learning about the export process
 - Solving differences (administration of agreements)
 - Regarding this point, functions at the different stages should be in keeping with the actors (same language).
- Need to search for regional initiatives that provide services for the producer and exporter sector. Several ways for establishing this were verified (information centers, quality laboratories, certifications, research, program to foment regional export).

- Establishment of a priority in the budget of the ministries involved for the purpose of developing trade negotiations.
- Confirmation of the importance of giving continuity to the negotiation process through permanent negotiating teams.
- Finally, the group stressed the importance of the private sector being the main force in the pursuit of regional integration, with a view to developing initiatives that assist the development of exports.

Additional considerations

- Significant changes are taking place in issues under negotiation, shifting from the point of view of the producer to that of the consumer.
- Prerogatives of developing countries in negotiations starting as of now, keeping in mind the record of developed countries' trade practices. Different paces could be permitted in the negotiations.
- Need to consider negotiations in sectors that are not agricultural but have an impact, such as maritime transport or health certification monopolies.
- The participation of Central American countries and of developing countries, in general, is limited. This is not a very positive scenario for negotiations benefitting agriculture.
- Both the private sector and civil society (NGOs) should participate in negotiation processes.
- The administrative costs of negotiation should be taken into account. It is difficult for governments to cover all of these, and some should also be assumed by the companies that benefit.
- After the negotiation process, follow-up should be given for particular businesspeople in different themes. Capacity should be generated so that treaties have good results.
- Negotiations should be set forth in a broad sense, going beyond trade and even beyond intangibles and services. A long-term vision should be considered, and could include fiscal and social policies and other elements essential for stability in the region.

DAY 2: National Articulation and the Regional Market as a Platform for Export

GROUP 1: Organization of Industry and of Small-Scale Producers

Themes

- Organization of agribusiness
- Organization of small-scale producers
- Interrelations between agribusiness and producers

Organization of agribusiness

Important aspects

- Quality and inoffensiveness
- Lack of ties among small-, medium- and large-scale (transnational) producers
- Jurisdiction of the agricultural and health ministries
 - Separation of functions: processed and non-processed
 - Articulation between them
- Lack of institutional coordination: trade negotiations
- Suitable legislation: definition of competencies
- Unification of criteria
- Equivalency of procedures
- Follow-up on quality: lack of human resources
 - Vision of investment versus expense
 - Preventive actions
- Relation of trust between the private and public sectors
- Equilibrate responsibilities
- Organization:
 - Clusters
 - "Pool" of companies
 - Trade associations
 - Geographic zones

- Integration of small-scale producers and representativeness
- Competitiveness: increase quality and lower prices

Organization of producers

- Lack of organization
- No commitment to fulfilling contracts
- Ignorance of norms and mechanisms of modern trading: exchanges of production
- Culture of non-organization
- Organization in order to give value-added and improve articulation with agribusiness and its interests

Articulation between producers and agribusiness

- Role of the public sector: facilitate, not implement
- Political will: differentiated policies
- Privatize the private sector: the private sector has to participate in its own development (assume the costs and responsibility)
- Need for the private sector to organize
- Wake up the producer's "common sense"
- Business vision

Recommendations

- Seek mechanisms for joint work between public and private spheres (or make use of existing mechanisms) to achieve regional integration in different areas
- That the government play a facilitating rather than implementing role
- Promote an associative process in the private sector so that it takes a proactive role in its own development

GROUP 2: Development of Regional Markets

Reflections

- The development of intraregional trade has potential but there are significant constraints.
- Absence of regional mechanisms for solving trade-related conflicts.
- Disparity and complexity of customs procedures.
- Disparity of health and quarantine regulations.
- Lack of information and communication regarding those regulations.
- Complicated import/export procedures; lack of information for potential users regarding the norms and procedures in effect.
- Disparity concerning the characteristics of highways and the vehicles that can circulate on them.

Recommendations

- Clarify health and phytosanitary regulations and procedures at the regional level.
- Promote the implementation of formal mechanisms for resolving trade conflicts in the region.
- Establish an effective information system for potential users concerning regulations, procedures and provisions related to health and phytosanitary issues. It is recommended that OIRSA facilitate the process.
- Harmonization of working hours for health, quarantine and customs services at borders. Harmonize the characteristics of highways and transportation in the different countries (generate a highway map.) Simplification and decentralization of import/export procedures at the country level.
- Establishment of an information system for the export/trade sector. SIECA could be the organization in charge.
- Promote co-investment by agents at the regional level.

- Strategies involving training for the private sector in aspects of international trade.
- Commitment of countries to supervise compliance along borders concerning agreements in trade treaties to which they are contracting parties.

Additional considerations

- Need to take into account movements of capital, types of interest and the existence of different banking systems. This is an element to analyze within an institutional framework, examining the characteristics of financial systems, i.e., letters of credit.
- Certain feeling of impotence because advances in different areas have been made in the regional integration system to modernize trade (already there are regulations on health and phytosanitary measures or technical standards and progress has been made regarding mechanisms of conflict resolution.) If these elements already exist, then the question arises as to what is happening. Need for political will.
- Need to create mechanisms through fora of discussion in order to create an integration by areas.
- Role of the private sector, it should have its own territory (no more "Papa State") and a change of focus. It should not only lobby, but also strengthen businesses, take a step forward and carry out services that the public sector cannot provide (market studies, research and development, training...) Advances toward integration essentially depend on the private sector, which should present its problems and needs to the public sector.
- There are examples of successful organizations, such as inter-professional associations that include producers and transformers (vertical integration).
- Importance of the "local": need to seek means for forming organizations, with legislation that protects them.
- Organization has in fact occurred in the traditional agricultural sectors of Central America. The problem lies in the non-tra-

ditional sectors that are just beginning. Organizations in traditional sectors could provide an example and can be learned from.

- **The formation of organizations should be accompanied by legislation on competition, since there is a danger that they could become monopolies or oligopolies.**

**RECOMMENDATIONS
AND CONCLUSIONS:
IDENTIFICATION OF ACTION
PLANS AND TECHNICAL
COOPERATION PROJECTS**

GENERAL CONSIDERATIONS REGARDING THE SETTING

One of the main conclusions of the workshop was that the development of technical cooperation projects should take into consideration two situations not directly related to agricultural projects, but of vital importance to their functioning:

- Address the high production costs and low profitability of agricultural production
- The need for a stable macroeconomic environment

RECOMMENDATIONS

Identify and Define the Interests of the Different Actors

During the workshop, participants emphasized the importance of clearly identifying and defining the interests of the different actors involved in the cooperation projects. These actors can be grouped in two main areas: a) the national sphere, including businesspeople, trade associations, civil society organizations and the State; and b) the international sphere, consisting of financing or technical cooperation organizations (regional or international.)

It was recommended that the following should be known with respect to each actor participating in a cooperation project:

- What is expected of the project?
- What is expected of a cooperation effort?
- What services will that actor be willing to pay for?

the agrifood sector in Central America

SPHERE						
NATIONAL				INTERNATIONAL		
Business	Trade association	Civil society organisms	State (ministries)	Regional technical coop. org.	International technical coop. org.	International finan. org.
<ul style="list-style-type: none"> • Producers • Agribusiness • Exporters • Importers • Services 	<ul style="list-style-type: none"> • Agribusiness leadership • Exporters • Specialized farmer associations 	<ul style="list-style-type: none"> • Academia • NGO: Labor, Environment 	<ul style="list-style-type: none"> • Agriculture • Commerce • Health • Industry 	<ul style="list-style-type: none"> • CAC • CORECA • OIRSA • SIECA 	<ul style="list-style-type: none"> • UNCTAD • IICA • FAO • AID • International Trade Center 	<ul style="list-style-type: none"> • CABEI • IDB • CFC • IFC • WB

Role of the Private Sector

In processes of integration and trade opening, it is the private sector that assumes risks, makes use of opportunities, and suffers the consequences. As a result, this sector should be provided with more spaces for participation and/or more active participation. Recommendations:

- Foment producer organizations and their corporate business vision. The private sector should take the greatest role in integration.
- Take civil society into consideration during the consultative process of trade negotiations
- Promote cooperation among agribusiness associations at the regional level

Role of the Public Sector

Nowadays public sector institutions must be more than implementers; they must be facilitators of integration and trade opening processes. Given this new role, it is recommended that the State:

- Implement pilot systems for the incorporation of small-scale producers in the process of trade opening through the facilitation of credit and the implementation of programs for risk coverage

- Support the dynamism of informal transborder trade and foment its integration with the rest of the sectors in the economy to make use of the advantages
- Provide sufficient regulation and appropriate legal protection; modernize the legislation in force to address guarantees, risk coverage and promotion of competition
- Harmonize standards and procedures (particularly health and phytosanitary measures, import/export, and customs) to avoid arbitrariness and encourage greater articulation among the different State organizations
- Promote dynamic sectors and small- and medium-scale businesses
- Provide training in different areas, such as risk coverage, negotiation, import/export procedures, and financial techniques

Role of Regional and International Organizations

Recommendations for regional and international cooperation organizations:

- Support regional initiatives, such as information centers, quality laboratories, certifications, research and development or regional export promotion programs
- Establish efficient information systems for potential users on health and phytosanitary regulations, procedures and provisions
- Disseminate and support the interconnection of existing systems that provide trade information for exporters
- Contribute to the harmonization of norms among countries
- Collaborate in the implementation (definition) of common tariff policy permitting greater integration among the countries of the region
- Follow-up on/control compliance with trade agreements in actual practice
- Provide technical assistance in the area of risk administration instruments for basic products and new financial products

- **Foment a culture of quality and inoffensiveness throughout agrifood chains**
- **Collaborate in cross-sectoral coordination and delimitation of competencies**
- **Identify and arrange for mechanisms of joint work among governments, the private sector and regional and international institutions to ensure integration in the different areas of interest to the countries.**

ANNEXES

ANNEX 1

PROGRAM

08:00-09:00 Registration

09:00-09:30 Inauguration session

Welcome from Larry M. Boone, Under Director
General of IICA

Message from Abdelaziz Megzari, Vice-Director,
Division of International Trade, UNCTAD

Message from Alberto Dent Zeledón, Minister of
Agriculture and Livestock of Costa Rica

*Day 1: Complementation and regional cooperation for
access to international markets*

09:30-10:30 First Session. Presentations followed by questions
and answers:

Trade treaties and perspectives for agrifood exports
in the region

Speaker: Ricardo Zapata, CEPAL, Mexico

Links Abroad. PROCOMER experience in Costa
Rica and the project "Creating Exporters Canada"

Speaker: Irving Soto, PROCOMER, Costa Rica

10:30-11:00 Coffee

11:00-12:30 Second Session. Presentations followed by ques-
tions and answers:

Sanitary and phytosanitary norms and food inoffensiveness

Speaker: Erick Bolaños, IICA

Considerations in international trade of organic products in Central America: Ideas on Costa Rica

Speaker: Eduardo Gitli, consultant, Costa Rica

12:30-14:00 Lunch

14:00-15:30 Working groups on:

- Links abroad
- The role of governments and organizations of regional cooperation

15:30-16:00 Coffee

16:00-17:30 Presentation of the results of the working groups

18:00-19:30 Reception provided by UNCTAD

Day 2: *National articulation and the regional market as a platform for export*

09:00-10:30 Third Session. Presentations followed by questions and answers:

Organization of industry and cooperation among businesses in the region

Speaker: Enrique de Loma, FAO

Small-scale producers and their participation in agroexport in Central America

Speaker: Carlos Pomareda, consultant, Costa Rica

10:30-11:00 Coffee

program

11:00-12:30 Fourth Session. Presentations followed by questions and answers:

The Central American food industry and the role of the regional market

Speaker: Eduardo Alonso, consultant, Costa Rica

Fostering competitive clusters in agribusiness: INCAE and the process to develop and strengthen clusters

Speaker: Luis Figueroa, INCAE, Costa Rica

12:30-14:00 Lunch

14:00-15:30 Working groups on:

- Organization of industry and of small-scale producers
- Development of regional markets

15:30-16:00 Coffee

16:00-17:30 Presentation of results of the working groups

Day 3: *Aspects on risk administration and financing for basic products*

09:00-10:30 Fifth Session. Presentations followed by questions and answers:

Overview on risk administration and new financing mechanisms in the commodity and food-processing sector

Speaker: Olivier Matringe, UNCTAD

Hedging against price variations in trade of commodities using futures markets, and their contribution to reducing poverty.

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- **The case of ASERCA in Mexico**
Speaker: Miguel Yoldi Marin, Director General of Financial Operations, ASERCA, Mexico
 - **Financing mechanisms in the agrifood sector: some examples from Latin America**
Speaker: Leonela Santana-Boado, UNCTAD
- 10:30-11:00 Coffee**
- 11:00-12:30 Sixth Session. Presentations followed by questions and answers:**
- National experiences with the financing of commodities**
- **Overview of the Argentine experience in financing for basic products**
Speaker: Fernando Frávega, Consultant, Argentina
 - **Mechanisms for financing coffee in Costa Rica**
Speaker: Juan Bautista Moya, ICAFE, Costa Rica
- 12:30-14:00 Lunch**
- 14:00-15:30 Seventh Session. Presentation followed by questions and answers:**
- The role of regional institutions in the mobilization of funds**
Speaker: Patricio Rueda, CABEI
- Panel on financial aspects and administration of risks in prices of basic products**
- 15:30-16:00 Coffee**
- 16:00-17:30 Final Session: Identify plans of action, including projects for technical cooperation, and conclusions**

ANNEX 2

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ANNEX 3

SPEECHES FROM THE OPENING SESSION

Message from Mr. Larry Boone, Under Director General of IICA at the Inauguration of the Regional Workshop

Minister of Agriculture, Alberto Dent; Mr. Abdelaziz Megzari, Representative of UNCTAD; Mr. Roger Guillen, Executive Secretary of the Regional Council of Ministers of Agriculture of Central America, Mexico and the Dominican Republic; Ms. Virginia Trimarco, UNDP Representative in Costa Rica; Ladies and Gentlemen:

It is a pleasure for me to extend a most cordial welcome in the name of the Director General, Carlos Aquino, and myself, at the House of Agriculture in the Americas.

For IICA it is a great satisfaction to welcome you and collaborate in the celebration of this important event, which will examine the possibilities of regional integration of the agrifood sector and international linkage for its development.

In the first place, I would like to share with you that, since 1997, IICA has been under the mandate of the ministers of agriculture gathered together at their highest level forum, the Inter-American Board of Agriculture, to provide support for countries in the Inter-American system in preparing to face the processes of trade negotiation related to agriculture within the framework of the WTO and FTAA.

To fulfill this mandate, over these years we have been developing activities both in the areas of policy and trade and in those of health and food inoffensiveness, technological innovation and

even support for the promotion of the organization of networks of agribusiness organizations.

The activities IICA develops cover research on new themes related to agricultural trade negotiations, the processing and dissemination of information, support for modernization of institutional frameworks, but, above all, we have placed great emphasis on training and the creation of spaces for dialogue and interaction among the actors directly connected with the development of initiatives for regional integration and those in charge of participating actively in processes of agricultural trade negotiations.

We consider that preparing for agricultural trade negotiation and reinforcing capacity so that the regional agrifood sector successfully faces the challenge of more open economies exposed to international competition requires a series of actions that go from the design of negotiating positions, to measures for stimulating the development of national production, to the materialization of efforts that ensure use of opportunities for better conditions in accessing markets via more exports.

To empower effective cooperation with the countries through a response that overcomes limitations in IICA's capacity, we have developed a strategy for building strategic alliances with other cooperation agencies and specialized organisms. Thus, we have held cooperative activities with the WTO, ALADI, SELA, IDB, INTAL, and Governments, as well as supporting the efforts of regional trade organizations for specific products, such as the producers of milk products, sugar, palm oil, vegetable growers, etc.

Within this framework of strategic alliances to better support member countries is the activity we begin today. This why it is such a great satisfaction for our institution to cooperate together with the Central American Agricultural Council and CORECA, to support the efforts undertaken by UNCTAD to build greater capacity in the public and private actors of the agrifood sector in the Americas and explore new forms of financing for the production, integration and

development of agrifood systems and trade of basic products in the region.

As I wish you all success in the work you will be doing in the next three days, I take this opportunity to express once again a most cordial welcome to this site of the House of Agriculture in the Americas.

Introduction by UNCTAD

Abdelaziz Megzari, Deputy Director, International Trade Division

I should first like to thank the Government of Costa Rica for its cooperation in the organization of this workshop in the very pleasant city of San José, the sun of which we very much appreciate, coming from the winter of Geneva.

I have the pleasure of wishing you welcome to this workshop in the name of UNCTAD. As you know, the workshop is organized by UNCTAD in cooperation with IICA and CORECA. UNCTAD is grateful for the support of these two bodies, and for the continuation of the tradition of cooperation between our organizations. Mr. Carlos Aquino, Director General of IICA, played a central role in ensuring the success of the conference that UNCTAD organized in Lyon on cooperation with civil society three years ago. This led to a close cooperation between UNCTAD and IICA in different areas such as commodity risk management. We hope that this workshop will offer us opportunities to develop other joint projects on commodities.

The workshop is organized within the context of an UNCTAD project on diversification and commodity based development. The project, which is financed by the "Development Account" of the United Nations, has as its objectives: (i) to promote the horizontal, vertical and geographical diversification of production and trade structures; (ii) to improve governments' capacities to formulate focused and effective policies in this respect; (iii) to increase the

competence of enterprises in adapting their business strategies to the trading framework of the Marrakech agreements; and (iv) to strengthen positive linkages between the commodity sector and the rest of the economy. This workshop is the third of a series of regional workshops taking place under the project. It is the only one held in Latin America, but we hope to complement it with a few national workshops, including in this region. The organization of such workshops could be one of the ways to follow up on the results of this workshop.

As you know, the Central American region consists of a number of countries which are economically relatively homogeneous and which depend mainly on two export sectors: agriculture and textiles. Their domestic markets are small and the majority of their exports outside the region go mainly to two markets: the United States and the European Union. Trade with the rest of the Latin American region and the Caribbean is less significant, although imports from Mexico are increasing.

International trade in commodities has seen important structural change over the past 25 years. The importance of traditional commodities in world trade is diminishing and developing countries are losing shares of the world market, particularly for dynamic agricultural products. Traditional developing country exports such as coffee and cocoa have lost much of their relative importance. For example, during the period 1970-72 to 1996-97, while the value of total world exports of coffee was multiplied by 5 (increasing from three thousand million dollars per year to fifteen thousand million dollars), as was the value of cocoa exports (growing from 1.1 thousand million dollars per year to 5.5 thousand million dollars), and also of cotton and yarn (passing from 3.6 thousand million dollars to 17.8 thousand million dollars); on the other hand the value of total world exports was multiplied by 15 in the case of fish products (increasing from 3.5 thousand million dollars per year to 51 thousand million dollars), by more than 10 in the case of fresh and dried fruits (passing from 3.9 thousand million dollars per year to more than 40 thousand million dollars), by 15 in the

case of vegetables (growing from two thousand million dollars per year to 30 thousand million dollars), and finally by 21 in the case of flowers (passing from 200 million dollars per year to 4.3 thousand million dollars). These dynamic sectors are also the ones that are most protected by the developed countries and that show the highest incidence of tariff peaks and tariff escalation.

In spite of this, we believe that the agricultural sector, with its perspectives of trade liberalization, could offer valuable opportunities for the Central American region to diversify its exports, taking into account its natural resources and its geographical proximity to the vast United States market. However, the countries of the region are usually small suppliers in the markets where they are active, and have limited market power. Consequently, a two-pronged strategy focusing on niche markets and regional cooperation is suggested. The present workshop could contribute to identify practical measures necessary for the success of this strategy.

We think it is important to underline that we are looking for practical measures that are acceptable to both governments and the private sector. We hope that this workshop will permit us to identify the areas where a closer cooperation between enterprises could strengthen their position in importing markets, as well as actions that should be taken by the industry, its associations, national governments and regional cooperation organizations with a view to eliminate obstacles and improve the situation of the food sector in the region.

Alberto Dent Z.
Minister of Agriculture and Livestock
Costa Rica

It is honor for me to have you here and to give you a warm welcome to this workshop organized by UNCTAD with IICA and CORECA, entitled "The Agrifood Sector: Regional Integration and International Links for Its Development."

At the dawn of the new millenium humanity has obtained important economic and technological achievements that have contributed to the alleviation of poverty and famine, and to a better standard of living for humanity. Even so, great challenges to humanity still persist, such as the incorporation in an active and healthy life of some 800 million people, representing 13% of the world population and still suffering hunger.

This new millenium that many have baptized with different names, such as the age of information, knowledge or globalization, has many inequalities: 20% of the poorest population receives only 1% of world income, while 20% of the richest receive 86% of world income.

This same situation of inequality can be observed by comparing urban and rural societies, and going beyond that, can be seen in the modernized agricultural productive structures and the traditional structures in the hands of small- and medium-scale producers.

Even so, we are convinced that it is possible to win the battle against hunger and underdevelopment: the FAO's Global State of Agriculture and Food in 2000 indicates that the majority of poor people in the world are producers of basic foods, so that any serious effort to alleviate poverty, undernourishment and malnutrition in the world should begin by attacking the problems that hinder agricultural and rural development.

The challenge lies in reducing the technological gap, adapting improved technologies, new forms of organization, new and varied forms of introducing value-added and making use of special opportunities in specific markets, considering the particular conditions of the poor countries and the internal differences themselves within each one of them.

Regarding what concerns us, for the Central American countries the challenge is still greater since it signifies an internal effort

to forge alliances between small and medium-scale producers and alliances among countries who unilaterally make up very little of world trade, meaning that if we don't take one another's hand we will never get ahead.

In recent years our economies have been hit hard by low international prices and adverse climatic effects directly affecting agriculture and rural economies. Regarding other aspects, climate and prices, there is very little our countries can do, and even less if we do not have two basic elements: Central American unity and solidarity and international cooperation.

We know that in the Central American countries we export the same products to the same markets and at times compete among ourselves instead of creating alliances to achieve economic and social development in the Central American area.

The alliance should be aimed at achieving greater knowledge in terms of technological development; organizational, trade and agribusiness development, visualizing comprehensive development of agri-productive systems and, above all, not losing sight that the ultimate end is the wellbeing of the human being by overcoming poverty.

Within this whole menu of options, the development of new options for clusters of food agribusiness is of great importance in positioning ourselves in more stable markets. For this it is essential to have expeditious and efficient mechanisms of regional cooperation among our countries.

This cooperation should center on the identification and implementation of strategies that allow us to position ourselves in market niches that make it possible for the traditional agricultural and rural society to give way to a modern agricultural and rural society that overcomes poverty and malnutrition.

We expect you to identify areas of cooperation among Central American agribusinesses, governments and regional cooperation organisms that will give us guidelines for overcoming weaknesses in the food agribusiness and allow us to take the step of agro-entrepreneurial development and development of the Central American rural setting.

In wishing you the greatest of successes in this important event, I want to urge that proposals reflect the real potentialities in the Central American agrifood sector, with regional cooperation as a strategic aspect in terms of concrete actions by governments, agribusinesses and rural organizations on behalf of economic and social development in the Central American area.

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