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Avian Influenza in the Americas

IICA's vision



Developing a Common Agricultural Market in Central America

Problems and prospects

Establishing a common market is a medium-term goal; the immediate priority is to create the Central American Customs Union, for which there is a lot of political and technical support.

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remains some way off but the negotiations are ongoing and significant progress has been made toward the creation of a Customs Union involving Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.¹

Establishing a common market, with the free movement of the factors of production, the coordination of macroeconomic policies and common sectoral policies, including a regional agricultural policy, is a medium-term goal. The immediate priority is to create the Central American Customs Union, for which there is a lot of political and technical support.²

The agricultural sector is one of the key players in Central American economic integration but forms part of the wider process. The outcome depends on other actors and a number of variables, not all of which are related directly to agriculture.

Bearing in mind all of the above, this article explains where the Central American economic integration process currently stands, and the difficulties still to be overcome and the future outlook, particularly with regard to the issues that are most important for the region's agricultural sector.

Since the efforts to achieve Central American economic integration were re-launched in the early 1990s, the countries of the region have demonstrated their determination to gradually achieve greater integration. A full-blown free trade area

¹ This article is based on a technical paper prepared by the Executive Secretariat of the Central American Agricultural Council for the Round Table "Developing a regional common agricultural market: problems and prospects." This activity took place during the 29th FAO Regional Conference for Latin America and the Caribbean, held 24-28 April 2006, in Caracas, Venezuela.

² The process consists of fusing the five customs areas into one, consolidating the free movement of goods, regardless of their origin. Products imported from third countries must first be processed, and pay any customs duties required, in one of the States Party (SIECA).



The CAC has played an important role in spearheading and promoting the integration of the region's agricultural sector. It also serves as an interlocutor with other ministerial forums.

and fisheries, both with respect to plant and animal health policies and aspects of scientific and technological research and the modernization of production, and

- Coordinating, with the Council of Ministers for Foreign Trade, matters related to regional and international trade in agricultural products that are marketed in the region.

I. Present situation

General framework of regional integration in Central America

In the Tegucigalpa Protocol to the Charter of the Organization of Central American States, adopted in 1991, Central America redefined its regional integration model, adopting a systemic arrangement called the Central American Integration System (SICA). Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama are full members of the SICA and the Dominican Republic is an associate member.

The SICA has five subsystems (economic, social, cultural, political and environmental) and its highest governing body is the Meeting of Presidents. The structure of the SICA also includes, as integration bodies, the sectoral and intersectoral Ministerial Councils, whose role is to facilitate coordination among the subsystems.

For institutional purposes, the Central American Agricultural Council (CAC) forms part of the economic subsystem, which is governed by the Protocol of Guatemala to the General Economic Integration Treaty, signed in 1993, and encompasses only five countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). The Central American Agricultural Council (CAC), made up of the ministers of agriculture, was created under the protocol. The CAC is the integration body responsible for:

- Proposing and executing the actions needed to develop regional actions, programs and projects in the fields of agriculture, forestry

Based on the sectoral spheres of competence established in the Protocol of Tegucigalpa and the Protocol of Guatemala, the CAC has played an important role in spearheading and promoting the integration of the region's agricultural sector. It also serves as an interlocutor with other ministerial forums, such as the Council of Ministers for Economic Integration (COMIECO), the Council of Ministers for Environment and the Council of Ministers for Health, at intersectoral meetings that deal with shared concerns and responsibilities.

Importance of agricultural production in Central America

The combined surface area of the seven countries that make up the Central American isthmus is 522,000 km². The Central American market encompasses roughly 41 million inhabitants, whose average per capita income is around US\$2200. The subgroup comprising the five countries involved in the Central American economic integration process (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) has a combined population of 37.5 million.

The agrifood sector is very important for the Central American countries. Agrifood value added accounts for between 10.3% (Panama) and 35.2% (Guatemala) of Gross Domestic Product (GDP). When backward and forward linkages are taken into account, agriculture's contribution is considerably greater.³

³ The measurement of agriculture's true contribution to GDP performed by IICA showed that agriculture as an expanded sector accounted for over 32% of GDP in Costa Rica (2001), 35% in Belize (2003) and 30% in Nicaragua (2000).

Central America's agricultural sector continues to be one of the most important sources of employment in the region, especially in rural areas. Rural jobs (agricultural and non-agricultural) account for 51.4%, 40.1% and 36.4% of all employment in Honduras, Guatemala and El Salvador, respectively. Even in those countries where the agricultural sector is relatively less important, rural employment accounts for an important percentage of total employment (the figures for Costa Rica and Panama are 14.8% and 19.1%, respectively). The production structure of the agricultural sector shows how important the agricultural and livestock sub-sectors are in all the CA-5 countries.

The agricultural sub-sector accounts for a larger percentage of the total value of agricultural production, ranging from 58.5% (Guatemala) to 71.6% (Costa Rica). The livestock sub-sector is second in importance in all five countries and accounts for a relatively larger slice of agricultural production in Guatemala, El Salvador and Nicaragua. Forestry and fisheries are substantially more important in Honduras than in the other countries. Finally, Costa Rica is the country where agriculture is most diversified. The percentage of nontraditional agricultural products is considerably higher (38.1%) and it has grown in recent years.

**Table 1. CA-5. Structure of agricultural production*
-In percentages-**

SUB-SECTOR/ PRODUCT	COSTA RICA	EL SALVADOR	GUATEMALA	HONDURAS	NICARAGUA
AGRICULTURE	71.6	59.4	58.5	64.8	62.4
Basic grains	2.4	20.2	5.9	8.1	26.6
Traditional exports	31.1	20.1	27.9	44.2	22.2
<i>Coffee</i>	10.1	14.1	6.3	35.5	15.8
<i>Sugarcane</i>	4.7	5.9	8.7	3.9	6.2
<i>Bananas</i>	16.3	0.1	12.9	4.8	0.2
Nontraditional	38.1	19.1	24.7	12.5	13.6
LIVESTOCK	22.2	32.4	33.4	19.7	31.5
Livestock	17.6	18.5	22.1	10.5	22.7
Poultry Farming	4.6	13.9	11.3	9.2	8.8
FORESTRY AND FISHERIES	6.2	8.2	8.0	15.5	6.1
Forestry	3.0	5.8	6.6	8.1	0.9
Fisheries	3.2	2.4	1.4	7.4	5.2

* Based on data for 2002.

Source: Prepared by the Executive Secretariat of the CAC, based on data from Angel, Amy. (2005) CAFTA, cuotas y consecuencias para la agricultura centroamericana.

The agricultural trade of the CA-5 countries accounts for a large percentage of their total trade. During the 2002-2003 biennium, agricultural exports made up 43% of the value of total exports, while the figure for imports averaged a relatively low 13%.

As already mentioned, the Central American economies are heavily dependent on the agricultural sector. Consequently, any difficulties that the sector faces are bound to have an important socioeconomic impact. The location and geography of Central America expose it to a variety of natural hazards, such as hurricanes, floods, landslides, droughts, volcanic eruptions and earthquakes. Measurements of the impact of these hazards show that the agricultural sector and the rural environment are vulnerable to them. On average, agriculture bore the brunt of 35% of the economic losses caused by disasters between 1997 and 2001. In the case of water-related events, the percentage was even higher (40%).

To offset this vulnerability, the countries have identified operating instruments for risk reduction, including the Climate Forum for Central America and an initiative aimed at strengthening and

The Economic Integration Secretariat (SIECA) systematically monitors the dismantling of barriers to free trade, with very good results.

Table 2. CA-5: Value of total trade and agricultural trade by country, for 2002-2003

Year	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
Total exports - US\$ x 000						
2002	4,950,400	1,238,115	2,461,566	961,882	558,705	10,170,668
2003	5,800,404	1,254,952	2,634,726	992,328	605,204	11,287,614
Average	5,375,402	1,246,534	2,548,146	977,105	581,955	10,729,141
Agricultural exports - US\$ x 000						
2002	1,718,644	412,864	1,246,621	590,691	441,428	4,410,248
2003	1,923,301	438,050	1,298,146	603,613	483,059	4,746,168
Average	1,820,972	425,457	1,272,383	597,152	462,244	4,578,208
Agricultural exports - percentage						
2002	34.7	33.3	50.6	61.4	79.0	43.4
2003	33.2	34.9	49.3	60.8	79.8	42.0
Average	33.9	34.1	49.9	61.1	79.4	42.7
Total imports - US\$ x 000						
2002	6,895,983	3,909,393	6,304,057	3,106,028	1,788,375	22,003,836
2003	7,388,650	4,381,843	6,721,550	3,316,114	1,905,524	23,713,681
Average	7,142,317	4,145,618	6,512,804	3,211,071	1,846,950	22,858,759
Agricultural imports - US\$ x 000						
2002	572,165	713,494	815,567	501,479	273,403	2,876,109
2003	594,174	791,336	870,370	538,465	281,127	3,075,471
Average	583,169	752,415	842,968	519,972	277,265	2,975,790
Agricultural importation - percentage						
2002	8.3	18.3	12.9	16.1	15.3	13.1
2003	8.0	18.1	12.9	16.2	14.8	13.0
Average			12.9			

Note: All the items listed in chapters 00-24 of the Central American Tariff System (SAC) were taken into account in calculating agricultural imports and exports.

Source: Prepared by the Executive Secretariat of the CAC, based on data from SIECA.

developing agricultural insurance markets. The goal with regard to insurance is to find innovative mechanisms that will enhance competitiveness and prevent production units from becoming undercapitalized. This, in turn, will guarantee rural producers a more stable income, create more attractive conditions for investment, make agriculture a more appealing activity for the financial sector and have a positive influence on the adoption of best production practices. Producers who traditionally have been denied access to these instruments also need to be incorporated.

Importance of agricultural trade

The agricultural trade of the CA-5 countries accounts for a large percentage of their total trade. During the 2002-2003 biennium, agricultural exports made up 43% of the value of total exports, while the figure for imports averaged a relatively low 13%.

Main agricultural trading partners

The United States is the main trading partner of the CA-5 countries. It purchases 40% of all Central American agricultural exports and is also the chief source of imports (40% of all agricultural imports). Agricultural trade among the CA-5 countries is also very important, accounting for

Table 3. CA-5. Main agricultural trading partners
Average value of agricultural trade 2002-2003

Area	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
Agricultural exports - in US\$ x 000						
CA-5	227,261	181,576	263,013	105,373	150,890	928,112
USA	790,165	109,854	485,584	271,613	171,111	1,828,327
Rest of world	803,547	134,027	523,787	220,166	140,242	1,821,769
Grand Total	1,820,972	425,457	1,272,383	597,152	462,244	4,578,208
Agricultural exports as a percentage of the value of all exports						
CA-5	12	43	21	18	33	20
USA	43	26	38	45	37	40
Rest of world	44	32	41	37	30	40
Grand total	100	100	100	100	100	100
Agricultural importation--in thousands US\$-						
Area	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
CA-5	95,689	361,115	245,822	192,222	128,848	1,023,696
USA	268,020	233,580	386,372	216,123	87,133	1,191,228
Rest of world	219,461	157,720	210,774	111,627	61,284	760,866
Grand total	583,169	752,415	842,968	519,972	277,265	2,975,790
Agricultural imports as a percentage of the value of all imports						
CA-5	16	48	29	37	46	34
USA	46	31	46	42	31	40
Rest of world	38	21	25	21	22	26
General total	100	100	100	100	100	100

Note: All the items listed in chapters 00-24 of the Central American Tariff System (SAC) were taken into account in calculating agricultural imports and exports.

one fifth of the value of total exports and a little over one third of imports. Trade within the Central American region began to experience strong growth in the 1990s following the reactivation of the integration process.

Flows of intraregional agricultural trade

El Salvador (35.3%) and Guatemala (23%) are the chief importers of agricultural products that originate in Central America, while the countries that

**Table 4. CA-5 Flows of intraregional agricultural trade
Based on the average value of exports for 2002-2003 (in percentages)**

Importer	Exporter					Total
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	
Costa Rica	-	1.2	3.6	1.1	3.1	9.0
El Salvador	5.1	-	15.2	6.5	8.6	35.3
Guatemala	7.5	11.3	-	2.6	1.5	23.0
Honduras	5.5	4.9	6.6	-	3.0	20.1
Nicaragua	6.5	2.1	3.0	1.1	-	12.6
Total	24.5	19.6	28.3	11.4	16.3	100.0

Source: Prepared by the Executive Secretariat of the CAC based on data from SIECA

export most agricultural products to other nations in the region, as a percentage of intraregional trade, are Guatemala (28.3%) and Costa Rica (24.5%).

The agricultural sector in the Central American economic integration process

With very few exceptions, there is free trade in all products that originate in the five countries involved in the creation of the UAC. The exceptions include only two agricultural products (unroasted coffee and cane sugar).

The Economic Integration Secretariat (SIECA) systematically monitors the dismantling of barriers to free trade, with very good results. Some 60 obstacles were identified in 2002 but the report presented in March of this year notes that only three complaints were lodged, two of which involved trade in agricultural products.

Furthermore, a Trade Dispute Settlement Mechanism established in 2003 for the Central American countries permits the States Party to resolve their trade conflicts in an appropriate, consistent and expeditious way, using a reliable, pre-determined procedure. Recourse has been made to this mechanism on eight occasions, and all these

cases involved trade in agricultural products. Three cases have been resolved so far, two by means of agreements signed between the parties and one by removing the measure that gave rise to the dispute.

Another important step toward regional integration has been the approval of a series of regional regulations on Unfair Trade Practices (1995), Safeguard Measures (1996), Origin of Goods (1998), Standardization Measures, Weights and Measures and Authorization Procedures (1999), Sanitary and Phytosanitary Measures and Procedures (1999), International Customs Transit (2001), the Central American Standard Customs Code (2002) and Valuation of Goods for Customs Purposes (2004).

As already noted, the Central American countries are making steady progress with the negotiations aimed at establishing a Customs Union. The formula for these negotiations is similar to the one used for other trade negotiations that the countries of the region have undertaken with other trading partners, consisting of "rounds" during which various working groups meet at the same time. There is a specific procedure for dealing with issues that are the direct responsibility or concern of the agricultural sector. The procedure was adopted at the



Intersectoral Meeting of Ministers of Agriculture and Ministers of Economic Integration held in January 2005, in Honduras.

With regard to the Common External Tariff, the countries have managed to harmonize 94.6% of all tariff items (6198) applicable to third countries, which make up 89% of the region's external trade. Of the 5.4% of tariff items that have yet to be harmonized, 188 are products of agricultural origin (121 of which have undergone a process of tariffication at the WTO and 67 of which have not).

The ministers of agriculture of the five countries intent on creating the Customs Union met in Costa Rica in February 2006 with representatives of regional private-sector organizations to draft proposals for the tariffication of the remaining items that would be acceptable to the private sector. These proposals will be forwarded to the Council of Ministers for Economic Integration for appraisal and final approval.⁴

An important development with respect to the participation of regional private-sector organizations was the recent creation of the Advisory Committee on Economic Integration (CCIE). The Protocol of Guatemala made provision for this body, whose brief is exclusively advisory. This committee will issue opinions regarding issues related to integration when the bodies or institutions of the Economic Subsystem ask it to do so, or on its own initiative. COMIECO created the CCIE (Resolution 140 of June 2005). Initially, the Committee will comprise representatives of 11 regional private-sector organizations, seven of which are related to the agricultural sector. All of

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them took part in the meeting with the ministers of agriculture mentioned in the previous paragraph.

Another important development for agricultural trade was COMIECO's approval (by means of resolutions 144-2005 and 145-2005) of general principles for managing tariff-rate quotas for imports and donations of food and agricultural inputs. Any failure to harmonize these aspects at the regional level could have serious repercussions for agricultural markets and trade.

With regard to Sanitary and Phytosanitary Measures (SPS), at the request of the Central American presidents, the ministers of agriculture and COMIECO established a work program aimed at achieving equivalence or the harmonization of sanitary and phytosanitary standards and procedures. The aim is to facilitate trade in products and by-products of agricultural origin, while at the same time protecting plant and animal health.

The work program involves five lines of action:

- i. Streamline formalities, speed up procedures and strengthen sanitary and phytosanitary controls;
- ii. Prevent the entry of exotic pests and diseases, or those that are important for quarantine purposes, into the area covered by the UAC;
- iii. Improve and strengthen the sanitary and phytosanitary status of the countries of the Central American Customs Union;
- iv. Strengthen food safety systems; and,
- v. Complementary actions: Coordination with international organizations, and human resources training and education

Furthermore, as a result of the progress of the negotiations for the creation of the Customs Union, regional agreements have been reached that are important for the agricultural sector.

⁴ The following regional organizations took part in the meeting with the ministers of agriculture: the Central American Federation of Agricultural and Agroindustrial Chambers (FECAGRO); the Central American Rice Federation (FECARROZ); the Central American and Caribbean Federation of Pig Farmers (FECCAPORC); Sugar Producers of the Central American Isthmus (AICA); the Central American Federation of Dairy Producers (FECALAC); the Federation of Central American and Caribbean Poultry Producers (FEDAIVICAC); and the Central American Beef Federation (FEESCABO).



COMIECO has adopted specific resolutions for the mutual recognition of sanitary registration certificates and the definition of equivalent or common technical standards for processed foodstuffs and agricultural inputs.

These agreements were approved in COMIECO Resolution 117-2004, adopted in June 2004. This and other COMIECO resolutions are binding on the countries that sign them and implemented at the national level by means of executive decrees.

By means of COMIECO Resolution 117-2004 the countries approved, among other things:

- Exemptions for 469 plant-based products and by-products that are no longer required to have a plant health import or export permit;
- A procedure for including or excluding products and by-products from the list of the 469 mentioned above;
- A manual of procedures for granting a sanitary permit for the transportation of animals within the Customs Union; and,
- The sanitary criteria applicable to trade in animals and animal-based products and by-products within the Customs Union.

Major progress has also been made in drafting a Sanitary and Phytosanitary Directive to facilitate trade in agricultural products that originate in the States Party to the UAC, grouping the products into three categories:

- a) Products that Pose a High Sanitary and Phytosanitary Risk
- b) Products that Pose a Medium or Moderate Sanitary and Phytosanitary Risk, and
- c) Products that Pose a Low or Insignificant Sanitary and Phytosanitary Risk

The strictness of the requirements for marketing products will depend on the category into which they are placed.

COMIECO has adopted specific resolutions for the mutual recognition of sanitary registration certificates and the definition of equivalent or common

technical standards for processed foodstuffs and agricultural inputs. Recognizing each other's sanitary registration procedures reduces the time required to obtain sanitary certificates in the countries of the UAC as a whole; makes the registration process less expensive; ensures harmonized requirements and more transparent processes; and, avoids the duplication of tests and product certification.

Furthermore, as part of the negotiations for the creation of the UAC and with support from the CAC's Executive Secretariat, the Technical Subgroup on SPS has begun to strengthen sanitary and phytosanitary controls. To do this, it is conducting an assessment of the national quarantine systems and, in particular, each of the 33 peripheral quarantine posts in the UAC countries. The aim is to identify, among other things, the investment in infrastructure and equipment required for each quarantine post. The assessment will also focus on other needs such as harmonized manuals and procedures, professionalization and staff training and a data-sharing network.

This diagnostic assessment will be used to prepare a regional project that will enable the countries involved in the creation of the Customs Union to identify and finance the implementation of the infrastructure, equipment, personnel and procedures needed to handle the goods passing through their peripheral quarantine posts.

Due to the progress achieved in the SPS field as part of the process of creating the Customs Union, the countries will have to review the Central American Regulations on Sanitary and Phytosanitary Measures and Procedures (approved in 1999).

The process of preparing a regional agricultural policy

Finally, in November 2005 the countries began drafting a regional agricultural policy. The Central American Agricultural Council set up a working

Since November 2005 the countries began drafting a regional agricultural policy. The Central American Agricultural Council set up a working group to do this, comprised of representatives of all the ministers of agriculture of Central America.

group to do this, comprised of representatives of all the ministers of agriculture of Central America. The Executive Secretariat of the CAC, IICA and RUTA are assisting the group.

The relevant national and regional public- and private sector actors and civil society will be consulted about the proposed regional policy. The ministers of agriculture will then seek to reach agreement with the other ministerial forums that will be involved in the policy's execution, such as those of the ministers of economic integration, health and environment.

During the formulation phase, a mechanism will be designed to coordinate and align international cooperation for the agricultural sector throughout the region, to support the development of the instruments and specific actions required for the policy's execution. This effort will complement SICA's ongoing initiative aimed at promoting the coordination and alignment of international cooperation to support the regional integration process as a whole.

II. Difficulties for economic integration from the perspective of the agricultural sector

Despite the progress achieved in the Central American economic integration process, particularly with regard to the agricultural sector, some major difficulties have yet to be overcome. These include tariff harmonization, agricultural health, the formulation of a regional agricultural policy, the participation of the regional agricultural private-sector organizations and the implementation of regional agreements at the national level.

- Harmonizing the tariffs for the remaining agricultural products is a complex task. Most of the products involved are subject to tariffs or bound at the World Trade Organization at very disparate levels, making regional consensus difficult. In a few special cases, they will

have to be renegotiated at the WTO (both the tariff listing and tariff levels, and quotas).

- The Central American countries also negotiated different tariffs in free trade agreements (FTAs) that they have already signed with third countries, especially with the U.S., the region's chief trading partner.
- Furthermore, to harmonize the tariff fractions of sensitive agricultural products, the situation in the different member countries must be taken into account and the productive sectors consulted, bearing in mind the political and social problems that could ensue.
- The sanitary status of the countries varies, as does their capacity to respond to sanitary and phytosanitary emergencies. This raises doubts about the credibility of the respective national systems and creates mistrust. This will be an important obstacle when the time comes to eliminate the internal customhouses in the UAC countries.
- Implementing a regional agricultural policy calls for actions and guidelines that exceed the brief of the sectoral forum. Therefore, the policy will have to be negotiated with other sectors involved in the integration process and other actors consulted who are important for the sector. These negotiations and consultations will make the policy more viable, but formulating and implementing it will be a complex process.
- To support all these actions, the role of the Advisory Committee on Economic Integration will have to be strengthened. Although it was included in the Protocol of Guatemala signed in 1993, it was not set up until June 2005. The committee has a key role to play as a counterpart. It will be required to adopt a comprehensive, regional vision to integrate the opinions of the agricultural sector organizations consulted by the Central American Agricultural Council, working both at the sectoral level and with COMIECO.

The Presidents have reiterated systematically their political commitment to the creation of the Central American Customs Union and the ministers of agriculture have responded by making it one of their priorities.

- Finally, it will be difficult for each country to implement the regional agreements already adopted in the process of creating the Central American Customs Union and those that have yet to be negotiated. In the case of the agricultural sector, this calls for: a) major coordination and monitoring efforts, working both with the private sector and other national authorities involved in implementing the agreements; b) information and continuous training for the specialists responsible for executing the agreements; c) the allocation of more budgetary resources to the bodies concerned; and, d) technical cooperation and investment projects, which usually entail borrowing abroad, to strengthen the national agricultural health and food safety services.

III. Outlook

The indicators selected show that the agricultural sector has played, and will continue to play, an important role in the Central American economies. Recent trends suggest that the efforts to develop and/or strengthen a number of promising areas are gathering momentum. Some cases in point are biotechnological applications, the generation of environmental services and bio-energy. Together, they could give the sector a new boost.

The Presidents have reiterated systematically their political commitment to the creation of the Central American Customs Union and the ministers of agriculture have responded by making it one of their priorities, consulting with the regional organizations of the agricultural private sector and coordinating with COMIECO.

On 9 March, in Panama, the Heads of State and Government of the SICA member countries decided that, despite the difficulty of meeting the deadlines set, substantial progress with the customs union was needed. Therefore, they agreed: i) to achieve tariff harmonization by 31 July 2006 at the latest by establishing timeframes for a target tariff, and to set dates for removing tariffs on the

last native products; and, ii) by 31 December 2006 at the latest, to sign the Agreement for the Creation of the UAC.

Another factor that is spurring integration is the coordination of external trade relations. The important negotiations taking place include: i) the Free Trade Agreement with the United States (DR-CAFTA), which has already been ratified by the Legislative Assemblies of El Salvador, Honduras, Guatemala and Nicaragua, and by the U.S. Congress; and, ii) the likely start of the negotiation of an Association Agreement with the European Union (EU), which would include an FTA.

The Central American presidents expressed their determination to announce the launching of the negotiations for the Association Agreement between Central America and the European Union during the Vienna Summit, in May 2006. During the preparatory stage, in recent months, the countries conducted the joint evaluation of regional integration required by the European Union. From the outset, the EU has insisted that the Central American countries advance toward integration before the start of the formal negotiations for the Association Agreement.

The European Union is currently assisting the Central American countries with significant amounts of resources, intended to: i) support regional integration; ii) promote the design and implementation of common policies; iii) strengthen the participation of civil society in the integration process; and, iv) reduce vulnerability and permit environmental improvements. As part of these efforts, the European Union is providing the SIECA with cooperation for the development of a project in support of the Central American Customs Union.

The negotiation with the European Union looks set to be different from the one with the United States. Everything suggests that the negotiations will be "region-to-region," i.e., the European Union will negotiate with Central America as a single unit, not separately with the five or six



countries (Panama may decide to take part in the negotiations).

Another element that must be borne in mind is the Government of Panama's desire to achieve greater economic integration with the countries already participating in the process. This was announced at the Special Summit of Heads of State and Government of the SICA countries, on 9 March 2006. El Salvador is the only country in the region that has reached a bilateral trade agreement with Panama, ratified by El Salvador in 2002, and Panama in 2003.

The political will exists at the highest levels of government to take economic integration a step further by creating a Customs Union, and the agricultural sector is actively involved in the process.

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To sum up: i) the agricultural sector is, and will continue to be, economically important for Central America and for intraregional trade; ii) the political will exists at the highest levels of government to take economic integration a step further by creating a Customs Union, and the agricultural sector is actively involved in the process; iii) formulating a regional agricultural policy will take the countries beyond the Customs Union; iv) the regional negotiations with third parties, in particular with the European Union, are a bigger incentive for, and elicit a stronger commitment to, Central American economic integration; v) the participation of Panama could provide a new and important incentive for further regional integration; and, vi) the complex nature of factors associated with regional integration and in the agricultural sector makes it necessary to establish intersectoral mechanisms for dialogue and joint work with other sectors, such as foreign trade, environment and health.