

EUROPEAN PARLIAMENT

**Report by Mr Raimon OBIOLS y GERMÁ, chairman of the
Delegation for the countries of Central America, for the Committees
on Foreign Affairs and Development, the Subcommittees on Human
Rights and Security and Defence Policy on the delegation working
party's mission to Costa Rica and El Salvador**

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Introduction:

At its meeting of 16 December 2004, the Conference of Presidents adopted the programme of interparliamentary delegation activities for 2005, which included a mission to Costa Rica and El Salvador by a working party from the Delegations for relations with the countries of Central America. The last time that a delegation working party visited these countries was 2003 (Costa Rica) and July 2001 (El Salvador).

COSTA RICA:

The delegation working party mission coincided with the second rejection by a WTO arbitration panel of the duty which the EU wants to impose on banana imports from 1 January 2006. The panel had already earlier decided that the proposed 230 euros per tonne did not guarantee Latin American bananas market access equal to the access they currently enjoy. The proposal for a duty of 187 euros has now also been rejected. Costa Rica's banana exports in the first half of 2005 totalled \$ 109.8 million, accounting for 8% of total exports. The customs duty would particularly affect Costa Rica vis-à-vis Ecuador and Colombia, since it would come on top of Costa Rica's higher social costs.

Contrary to popular belief, only 50% of banana production is in the hands of the big multinationals. The rest is grown by small farmers. Disagreement also exists between the multinationals themselves with regard to the licence system.

Domestic situation:

Since 1948, Costa Rica's two main political parties - the Social-Democrat National Liberation Party (NLP) and the Christian Democrats Christian Social Union (CSU) have alternated in holding the presidency of the republic. The regular alternation of the parties was broken in April 2002, when the CSU President Miguel Ángel RODRÍGUEZ was succeeded by the CSU candidate, Abel PACHECO. For the first time, voters also had to go to a second round, due to the emergence of a third party, Acción Ciudadana (PAC), which secured a little over 25% of the vote in the first round.

President PACHECO's government has had to cope with a fragmented legislature, in which the CSU has only 19 of the 57 seats, while the NLP have 17 and the PAC have 14; the government also suffers from a certain amount of opposition from within the President's own party. Many bills, e.g. the bill on taxation reform, have become bogged-down in Parliament. Some of those we spoke to voiced their confidence that in the end of the day, the tax reform bill would be adopted before the end of President Pacheco's mandate. Another bill which they hoped would be adopted is the Free Trade Treaty with the USA.

The credibility of Costa Rica's political class has been affected by the proceedings opened against two former presidents, Rafael Ángel CALDERÓN and Miguel Ángel RODRÍGUEZ; the latter was obliged to resign his recently taken-up post as Secretary-General of the OAS. President José María FIGUERES was also summoned to appear by the by parliament.

With regard to relations with its neighbours, Costa Rica is still in dispute with Nicaragua on navigation rights for the San Juan river, a dispute which although not as serious as it has proved in the past, has led to Nicaragua taking measures like requiring visas or charging a 20 dollar tax.

The Supreme Court's ruling that the ban on presidential re-election was unconstitutional was of particular importance for the future, since it has opened the way for former presidents to stand in the election scheduled for 5 February 2006. There is already a pre-election feeling in the country.

In 2002, the fiscal emergency law was adopted with a view to increasing tax revenue and reducing public spending. A deficit was running at 4% of GDP in 2002, and debt was equal to 60% of GDP. The proposals for correcting this situation include the future introduction of VAT. The privatisation process, to which the population at large is firmly opposed, is particularly delicate and a source of major controversy, with opposition to it led by the trade unions and social organisations, who fear a significant rise in levies and tariffs.

Costa Rica is not particularly interested in regional integration, and participates only minimally in the relevant institutions. President Abel PACHECO's visit to the Central American Parliament, Parlacen, aroused great expectations, since this was the first ever by a Costa Rican President. However, Costa Rican politicians continue to take a critical attitude to Parlacen, advocating reforms, such as eliminating direct election, (seen as very expensive) as well as cutting both the number of MPs and reducing salaries. They also oppose the arrangement whereby each country has two seats for former Presidents, seeing this as a camouflaged form of impunity. They also advocate the idea of an institution comprising MPs from national parliaments. Several of the people we spoke to in our various meetings stressed the low level of Costa Rican interest in Parlacen; President Abel PACHECO himself did not hesitate to describe the institution as burdensome.

Every time Parlacen came up during our meetings, we advised our Costa Rican friends to uphold the direct election of its MPs, and to seek to introduce reforms which would give it real powers and greater transparency, as ways of bringing Parlacen closer to the region's citizens in the medium term.

Many of those we met drew our attention to Costa Rica's problems with mass emigration from other Central American countries, particularly Nicaragua. In a country of some 4 million inhabitants, an estimated 500 000 immigrants work in the primary production sector, above all coffee, bananas, pineapples and cut flowers.

These immigrants are relatively well integrated, but nonetheless, the cost in terms of social security, health and education is difficult for a small country like Costa Rica to cope with something which was several times pointed out to us; at the same time, government spokesmen undertook to press ahead with efforts to respect and guarantee immigrants' rights, despite a difficult economic situation.

Meetings with members of the government:

At their meeting with President Abel PACHECO, attended also by Mrs Rocío SAENZ, the Minister of Health, Mr Manuel GONZÁLEZ SANZ, the Minister of Trade and Mr Marco Vinicio VARGAS, the Deputy Minister of Foreign Affairs, we tackled different aspects of bilateral relations, and the issue of EU-Central American negotiations. The Costa Rican government particularly highlighted the significance of these negotiations for the region, since closer relations with the EU would help to balance its relationship with the USA. They also highlighted their country's efforts to diversify its products for export to Europe, and its markets.

President PACHECO also spoke about the difficulty experienced both by his own government and his predecessors in reducing the levels of poverty which currently affect 20% of the population. 6% of Costa Ricans live in destitution. The main problem in tackling this is the limited financial resources available to the government, since at 12.5%, taxation is extremely low, in conjunction with the high cost of providing social services in the form of health and education to the half a million Nicaraguan immigrants now living in Costa Rica.

President PACHECO called for greater international cooperation in tackling the problem of immigration. He also told us that Costa Rica was home to 14 000 political refugees, the highest number in the region.

The Deputy Foreign Minister, Vinicio VARGAS PEREIRA thanked the EU for its interest in the region, and highlighted the role of the EP in postponing the application of the graded GSP.

Meetings with members of parliament, representatives of political parties and presidential election candidates:

We were welcomed at the Congress of Deputies by its President, Mr Gerardo GONZÁLEZ ESQUIVEL who asked the delegation chairman to address the Congress in plenary.

We also met the three candidates whom opinion polls put in the lead for the impending elections.

With former President **Oscar ARIAS**, we first of all discussed the general situation in Latin America; he expressed his admiration for the way that Chile had adapted to the new globalised economic context, transforming it into the region's top per capita exporter, ahead of Costa Rica.

With regard to the Agreement recently signed with the USA, he said that the treaty was useful, despite the delays surrounding its negotiation. If properly used, it could achieve high economic growth which would create jobs.

His own electoral programme supported integration as a response to globalisation. He also mentioned certain 'unpopular' measures which would have to be introduced to combat poverty and, above all, boost job-creation: free trade, the abolition of monopolies and a tax reform which would increase government revenue by raising taxes and combating tax-evasion.

We also met **Mr Ricardo TOLEDO**, the CSU's candidate, who was less enthusiastic about integration; he took a positive overall view, but believed that Central America was not prepared for it.

He said that the massive influx of immigrants into Costa Rica meant that more restrictive legislation needed to be applied, given the enormous social security costs, and the impact that immigration was having on both civil security and health. Costa Rica had nonetheless managed to achieve full social security coverage, and universal access for all to the electricity network.

He said that the Agreement with the USA needed to be backed up with additional measures such as rules on generic medicines, and protection for SMEs. Finally, he believed that ratification of the treaty should be put to a referendum.

Finally, we met the CAP candidate **Mr Otón SOLÍS**. He voiced his concern at the extent to which the Costa Rican economy depended on foreign investment, which meant that a large part of profits was transferred abroad. In order to rectify the situation, a policy to encourage SMEs by means of subsidised loans was required. He said that the current approach discriminated in favour of big companies. He also said that the tax system needed to be reformed, since under the present system, multinationals like Intel paid no taxes. This would be the only way to keep the social security system viable, since it required two thousand million dollars per year.

With regard to social policy, he said that poverty had not been reduced in recent years, and that the concentration of wealth in the hands of the upper echelons had actually increased. Furthermore, there was widespread party-political 'clientelism', resulting in public office being allocated on behalf of the party and government. He said that this situation also existed in institutions such as the Treasury Inspector's Office or the Supreme Electoral Court.

He was extremely critical of the free-trade treaty with the USA, seeing it as a step backwards for regional integration, as well as involving the deflection of interregional trade towards the USA. He was in favour of renegotiating the Agreement with the USA.

Meetings with representatives of civil society:

Those we met included representatives of the **Chamber of Exporters**, who stressed the need to uphold the GSP with the EU.

With regard to the Central American Free Trade Agreement, they said that they wanted the debates surrounding it to provide a framework for a general debate on regional integration, and that the possibility of introducing corrective mechanisms be investigated, since during negotiations, the sole criterion had been to satisfy the USA's concern to protect investments.

The **FLACSO** representative, **Carlos SOJO**, spoke about the Costa Rican political system, saying that the government had been unable to shoulder the task assigned to it by the Constitution; he also said that the two-party model which had hitherto obtained was out of date.

Finally, **Mrs Sonia PICARDO, of the International Human Rights Institute**, said that Costa Rica had a moral duty to foster the development of human rights in Central America, in particular in Nicaragua and Guatemala.

Other meetings:

The delegation visited the COBODES scheme, designed to conserve forests and develop buffer zones on Costa Rica's north Atlantic coast: the goals are prevention of deforestation, preservation of primary forest, and a sustainable development system. Decisions are taken by the government in conjunction with representatives of civil society; the budget is € 6 820 000, 4 400 000 of them contributed by the EU.

We also visited the '**FOMUDE**', a scheme to strengthen local government and decentralisation, in support of the government's decentralisation policy and strengthen the management capacity of local government. We were accompanied by the **Minister for National Planning and Economic Policy, Mr Jorge POLINARIS VARGAS**.

EL SALVADOR:

Domestic situation:

Our visit followed close on the heels of hurricane 'STAN', which devastated a considerable part of Guatemalan and Salvadorian territory; El Salvador is constantly battered by natural disasters in the shape of earthquakes, hurricanes and storms. Following hurricane STAN, the EU had immediately decided to provide emergency aid of EUR 1.7 million.

The country's domestic situation is stable, with recent governments having been able to complete their terms of office. The last presidential elections took place on 21 March 2004, under completely, unexceptionable conditions, with the following results:

ARENA-(Alianza Republicana Nacionalista)	57.7%
FMLN-(Frente Farabundo Martí para la Liberación Nacional)	35.6%
CDU-PDC-(Centro Democrático Unido-Partido Demócrata Cristiano)	3.9%
PCN-(Partido de Conciliación Nacional)	2.7%

The electoral turnout, at 63%, was the highest since the 1970s. Taking into account that an estimated 2.5 million Salvadorians live abroad, mainly in the USA and were unable to vote, these figures actually show that some 90% of residents voted.

For the fourth time in succession, the presidency went to the ARENA candidate. The FMLN is well established at municipal government level, which means that the former guerrillas are being integrated into civilian life; this greatly helps the process of national reconciliation. We can thus say power is shared between ARENA (at national level) and the FMLN (at local government level).

Since ARENA has no majority in the Legislative Assembly, President Antonio Elías SACA has had to seek support from other political parties in order to push ahead with getting legislation through Parliament.

Firm relations have traditionally been dominated by the priority assigned to the USA; this means that El Salvador has no relations with Cuba, for example, and takes a different stance on Iraq from that of the rest of Latin America. The country is heavily dependent on the USA in economic terms, with 60% of its trade taking place with the USA, and the absolutely essential role played by remittances from immigrants in keeping El Salvador afloat economically.

Recently, however, El Salvador has started to show increased interest in the South American integration movement launched in December 2004 in Cusco, with the setting up of the South American Community of Nations. For the first time, at the recent Salamanca Ibero-American Summit, El Salvador voted for the first time against the US embargo on Cuba. The government is also displaying considerable interest in stepping up relations with the EU, in the belief that this could result in technical assistance in sectors whose development it views as priorities, particularly education, tourism and infrastructure.

However, at our various meetings with Salvadorian representatives, it was obvious that cooperation with the EU is not given the importance it merits in terms of the amount of finance which both the Union and its Member States devote to El Salvador. At most of our meetings, we drew attention to this and requested help in improving the visibility of the EU both in El Salvador and in the other countries of the region.

There is strong support for integration in El Salvador, since it is seen as a way of turning the country into a specialised regional platform for the banking and insurance sectors.

The economy is at a standstill. Economic growth, running at circa 1.5%, cannot absorb the amount of new labour coming on to the market thanks to demographic growth, partly due to the fact that the country has no genuine production industry, having focused instead on assembly plants, particularly of Asian origin. This has also had the negative consequence of reduced social guarantees, particularly as regards trade union activity, being used as a means of attracting assembly plants. The result is that El Salvador currently fails to comply with the stipulations of various ILO conventions, which could lead it to lose the benefits of GSP+.

Remittances from emigrants estimated in 2004 at over 2 500 million dollars, continue to play a fundamental role in the economy, covering 80% of the trade deficit, and representing 65% of export income, currently running at 2 627 million dollars. These remittances, which are subject to transfer costs of almost 15%, are not invested in production industries, but are mainly spent on (largely imported) consumer goods.

One of El Salvador's major problems, which is extremely obvious in the major cities, is rising levels of insecurity due to the growth of youth gangs or 'maras', currently totalling some 40 000 individuals. The phenomenon has been imported from the USA, and it has developed to such an extent in El Salvador largely because young people are left in the care of other family relatives while their parents, and particularly their fathers, go to work in the USA. The deportation of over 1500 Salvadorian criminals a year from the USA has also aggravated the problem.

The 'maras' have no ideology of any kind, and are ever more closely bound up with kidnappings, drug-pushing and selling weapons. The fact that many of their crimes go completely unpunished, largely due to the slender resources available to the police, is part of both the cause and effect of the phenomenon.

Meetings with members of the government

In the absence of the President, who was attending the Americas Summit in Mar de Plata, we met Vice-President Ana Vilma de ESCOBAR, and Deputy Prime Minister, Eduardo CALIX, with whom we discussed the economic situation. They described the Salvadorian economy as extremely open, dollarised and with low rates of interest and of inflation.

They stressed that the Social Agenda was a priority for the government, as a basis for achieving both economic and political stability. Another priority was strengthening the institutions, above all those with the remit of fighting corruption and impunity, and particularly the judiciary; this task was still pending.

They also mentioned the major projects which will find their proper place within the regional integration process, particularly the establishment and development of the various road, port and telecommunications networks. The building of a port on the Pacific coast is therefore a priority, since it is fundamental to the scheme to convert El Salvador into a centre for regional distribution and logistics.

Meetings with members of parliament and representatives of the political parties

At the legislative Assembly, we were welcomed by the Vice-Presidents of the House, Mr Manuel MELGAR and Francisco MERINO, who told us about the work currently being dealt with by the Assembly. They mentioned that it was necessary to achieve consensus in order to get legislation adopted, since no party had a majority in the House; such consensus had been acquired for 90% of the legislation adopted. With regard to the possible adoption of the ILO Conventions, required for the country to continue to benefit from the GSP+, they mentioned the procedure which would have to be followed, which could involve a need for constitutional reform.

They also mentioned the reform of the electoral system, and the need to fight against alleged electoral fraud. Like several of those we had already spoken to, they were in favour of inviting an EU electoral observation mission to ensure that the electoral proceedings were above board.

Finally, they mentioned the current registering of new political parties, a process which required 42 000 authenticated signatures.

We held a working meeting with members of **ARENA**, including the leader in the House, Mr Rolando ALVARENGA, and members of the National Assembly and Parlacen.

They informed us of the successes of the ARENA governments which had been in power since 1989, highlighting in particular the efforts made in the area of tax reform and human development.

They also highlighted ARENA's commitment to integration, which had eased border crossing between four of the region's countries, El Salvador, Guatemala, Honduras and Nicaragua, thanks to the Central American passport or the introduction of a single visa.

We also had an interesting exchange of views on the problem of the 'Maras', and the government's policy for fighting it; which involved penal measures on the one hand and preventive measures aimed at younger children on the other.

Our meeting with members of the FMNL again included MPs both from the National Assembly and the Parlacen; the coordinator, Mr Menardo GONZÁLEZ and the former Presidential candidate, Mr Shafik HANDAL, were present, and the situation in El Salvador was discussed in both political and economic terms.

They said that the economic and social model implemented by the government was now in crisis after 16 years of application, with economic growth at a virtual standstill.

Agriculture was one of the sectors which had suffered worst, hence the sheer number of workers emigrating. The real figure for poverty was 58% of the population, not the government's 43%. The government's scheme to privatise drinking water supplies would aggravate the problems of the poorest sections of society, since it could be assumed that both monthly water prices and connection charges would rise.

The only way out of the crisis would be a full-blown tax reform which would increase revenue, currently running at 11% of GDP. The priority for the increased revenue would be health and housing. They described the ARENA tax reform as extremely half-hearted.

With regard to regional integration, they were less optimistic than the spokesman of other parties, and saw the present situation as one of standstill, largely due to the priority that had been given to the free trade agreement with the USA. The latter had negotiated with each Central American country individually, which meant that the Agreement had not benefited regional integration at all. They also drew attention to the negative consequences that the Agreement would have on employment.

Finally, they said that the opposition parties were uneasy about the reform of the electoral code, particularly with regard to the Supreme Electoral Court.

Other meetings

We held a meeting with various representatives of civil society, at which views were exchanged on the human rights situation in El Salvador; we were told that the gulf between rich and poor had increased, with El Salvador now ranking 104th in the UNDP human development listing. The region's geographical vulnerability was only partly to blame.

In their view, the political parties, engaged in constant electoral campaigning, had little by little distanced themselves from civil society, which was not at all to the benefit of democracy. Furthermore, they described the level of impunity at all levels as alarming, indicating as it did a serious failure to comply with the Peace Agreements.

Nor could it be claimed that there was freedom of the press, since most of the media were controlled by the government.

We also met members of parliament belonging to the Salvadorian delegation to the Parlamen, chaired by the recently elected Parlamen President for 2004/2005, Mr Julio PALACIOS. During our meeting, we discussed the current state of the reforms of the institution, and the prospects for future development. The MPs asked us to invite President Josep BORRELL to address a formal sitting of the Parlamen.

Conclusion

The working party's mission coincided with three topical issues in the region: firstly, it had just been battered yet again by a natural disaster, underlining its structural vulnerability to natural phenomena.

Secondly, the EU and Central America were in the midst of evaluating the progress made with regard to regional integration. The evaluation will not be helped by the separate negotiations by the various countries of a free trade agreement with the USA, since future EU trade agreements will be subordinate to this agreement, which will negatively affect the assessment.

Finally, the WTO arbitration panel's conclusions on the customs duty which the EU is seeking to impose on bananas have left the future of this basic sector, of particular importance to Costa Rica, wide open and completely uncertain.

For both countries, emigration is of major importance: in Costa Rica, a million Nicaraguans mean cheap labour but also enormous social costs, particularly in terms of education and health. El Salvador's 2.5 m emigrants to the USA represent both a safety valve in terms of excessive available workforce, and an incalculable source of revenue to counteract the country's structural economic ills.

Finally, both countries suffer from a lack of genuine tax reform to increase revenue and wipe out tax evasion. Without such reforms, the fight against poverty and guaranteed social provisions are simply not viable in the medium and long term.

Integration remains on the regional agenda, although the two countries' attitude to it is completely different. Costa Rica is dubious as to the appropriateness of the 'integration institutions', but has no constructive reform proposals to make. El Salvador, on the other hand, sees integration as a possible path to economic development.

Finally, we were alarmed at the EU's lack of profile in both countries. The EU and its Member States are the major players when it comes to cooperation, and occupy a leading position in terms of both trade and investment. Nevertheless, what awareness there is of the EU is small, and is often limited to criticism of CAP aid to European farmers and to obstacles to trade in bananas and to the implementation of the GSP.