RESTRICTED

WT/TPR/G/286

6 August 2013

(13-4151)

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Trade Policy Review Body

Original: Spanish

TRADE POLICY REVIEW

REPORT BY

COSTA RICA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Costa Rica is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Costa Rica.

Contents

1 INTRODUCTION

1.1. Since its last Trade Policy Review (TPR), Costa Rica has reinforced its strategy for consolidating its integration into the world economy in two fundamental ways: through active participation in multilateral, regional and bilateral negotiations, and by introducing policies to attract foreign direct investment towards strategic sectors.

1.2. The multilateral trading system is a pivotal element of the strategy for promoting greater participation by the country in international trade. As a small country that is highly integrated into the world economy, Costa Rica needs to have a set of stable and transparent rules that can be effectively enforced in order to guarantee and provide stability for trade flows, confront the threat of protectionism and improve the outlook for growth and development.

1.3. Costa Rica has continued to participate actively in the Doha Round and is committed to the successful conclusion of these negotiations. The country hopes with optimism that the Ninth Ministerial Conference of the WTO (MC9), scheduled for Bali, will yield concrete results as regards trade facilitation, some aspects of trade in agricultural products and special and differential treatment, including the topics of interest to the least developed countries. The country also recognizes opportunities at the multilateral level for moving forward on the trade agenda and is therefore participating actively in the talks on expanding the coverage of the Information Technology Agreement (ITA) and in the negotiations on the Trade in Services Agreement (TISA).

1.4. Costa Rica has also been very active in bilateral and regional trade negotiations. Over the past six years the country has implemented seven free trade agreements and has negotiated a further two, all of this with the aim of broadening its foreign trade platform. Similarly, it has developed a strategy with a view to joining the Pacific Alliance. In a wider perspective, Costa Rica has also stepped up its participation in the Organisation for Economic Co-operation and Development (OECD) with a view to membership.

1.5. Throughout the review period Costa Rica has introduced significant reforms to favour trade and investment. These changes mainly concern the overhaul of the free zone regime and the opening up of the telecommunications and insurance markets. The overhaul of the free zone regime entailed reviewing the legal framework in order to bring it into line with the country's commitments under the Agreement on Subsidies and Countervailing Measures, thereby providing legal certainty for investors. The telecommunications and insurance sectors also underwent substantial change pursuant to Costa Rica's commitments under the Free Trade Agreement between the Dominican Republic, Central America and the United States (CAFTA-DR).

1.6. Considering that 38% of Costa Rica's goods exports are linked to participation in global value chains, Costa Rica has launched a range of initiatives intended to map out the country's participation in these international production schemes, better understand their functioning, and reinforce the national agenda designed to further develop and improve the conditions for moving the country higher up these chains. In view of the steadily expanding share of business services exports in overall exports, these initiatives also encompass participation in service value chains.

1.7. Costa Rica attaches great importance to trade facilitation as a tool for improving its participation in international trade. It has therefore adopted a strategy to optimize and reduce the costs of trade-related customs and administrative procedures. Negotiations in the WTO framework are an invaluable opportunity to move forward in implementing measures that make for increased trade amongst countries.

1.8. During the review period, Costa Rica adopted the regulations needed to eliminate the price-setting mechanism for rice as of March 2014, and in so doing brought the country into line with its obligations under the Agreement on Agriculture.

2 ECONOMIC AND TRADE POLICY ENVIRONMENT

2.1. The Costa Rican economy grew at an annual average rate of 4.04% between 2007 and 2012. Consequently, per capita GDP increased by 61.2% between 2007 and 2012 to stand at US$9,665 in the latter year. Per capita GDP on a purchasing power parity (PPP) basis rose by 20.5% over that period from US$10,465 in 2007 to US$12,606 in 2012. Despite the 1% contraction in GDP in 2009, the country weathered the effects of the world crisis relatively well, registering growth rates above 4% during the following five years (5% in 2010, 4.4% in 2011). For 2012, the economy grew by 5.1% on the back of good performances by the manufacturing industries (more specifically those linked to the external sector) and services.

2.2. Foreign trade and the attraction of foreign direct investment are cornerstones in the development of the Costa Rican economy. Between 2007 and 2012, goods exports grew at an average rate of 4%, reaching 9.3% in the latter year, to post a record total of US$11,343 million.

2.3. Goods exports were driven primarily by industrial goods, which accounted for approximately 64% of total exports in 2012. The main industrial exports included processors and controllers, infusion and transfusion equipment, medical equipment, prosthetic devices and appliances, electrical conductors, tyres, medicaments and textiles. Agricultural products accounted for 36% of Costa Rica's total goods exports, the main products being bananas, pineapples, coffee, crude palm oil and melons.

2.4. Foreign trade in services has increased over the past five years. Whereas total services exports amounted to US$3,552 million in 2007, the figure rose to US$5,560 million in 2012, representing a 57% increase for that period. Since 2007, these exports have grown at an annual average rate of 9.4%. Business, computer and information technology services, including software, represented 47.2% of the country's total services exports, and were up by 10.9% on the previous year. In 2012, exports of these services surpassed even tourism, which made up 43.6% of services exports. Total services exports exceeded those of agricultural goods, a fact that reflects the profound transformation taking place in the country's production structure. In 2012, the contribution of the services subsector to Costa Rica's GDP was 68.6% and its contribution to overall employment was 67.1%, reflecting its significance in the national economy.

2.5. The policy to attract foreign direct investment has been proactively focused on four specific areas, namely services, advanced manufacturing, life sciences and clean technologies. In addition, significant efforts are under way to attract investment in infrastructure and tourism. This strategy has generated appreciable growth in employment opportunities and the transfer of technology and know-how, and has led to higher productivity. The Government's strategy for diversifying foreign direct investment has helped to increase and diversify exports, reform the country's productive structure and boost its participation in global value chains, above all in the areas of electronics, medical devices, automobiles, aerospace/aeronautics and devices for the film industry. In consequence, some 38% of the country's goods exports are related to global value chains.

2.6. Investment flows have continued to increase dynamically over the past decade, and between 2007 and 2012 grew at an annual average rate of 3.6%, posting a growth rate of 5.1% for 2012. In this latter year the country achieved a historical record in attracting foreign direct investment, which amounted to US $2,265 million, or 5% of gross domestic product.

2.7. Notwithstanding this external sector buoyancy, Costa Rica has not managed to achieve the desired fiscal balance. The deterioration in the Government's financial situation occurred despite the Central Government's mainly administrative endeavours to curtail rising expenditure and improve tax collection, in particular by strengthening the tax administration so as to combat tax avoidance and payment arrears. In 2012 the Central Government ran a fiscal deficit of 4.4% of GDP (4.1% in 2011) owing to faster growth of overall spending (10.5%), which was 6.6 percentage points above the prior year's figure. Meanwhile the tax collection rate was lower (8.6% versus 11.1% in 2011). The 2011 public sector deficit was 5.6% of GDP and is expected to be roughly 4.6% of GDP for 2012.

2.8. Yet the state of public finances has not hampered the effectiveness of efforts to maintain stability. Since 2009, cumulative annual inflation has not surpassed 6%, which represents the best performance of the past 35 years. Besides, for the fourth consecutive year inflation during 2012 (4.6%) fell within the target range of the Costa Rican Central Bank's macroeconomic planning.

3 TRADE POLICY DEVELOPMENTS 2007-2012

3.1. For more than 20 years Costa Rica has been building a foreign trade platform based on WTO rules and disciplines, the instruments of economic integration in Central America and free trade agreements (FTAs). In the case of the latter, Costa Rica has 12 FTAs in force governing trade with 44 trading partners that account for 84.4% of the country's overall trade, 86.4% of total exports and 83.2% of all imports.

3.2. The country's trade platform has been instrumental in making the economy more diversified and sophisticated over recent decades. From being an economy which up to the 1980s had been highly dependent on traditional agricultural produce (bananas, coffee, meat and sugar), the country went on to establish *maquila* (in-bond manufacturing and processing) industries, and later on, advanced electronics industries, software development centres, engineering and design centres, shared service centres and medical device manufacturing. Costa Rica currently exports over 4,500 products to 146 countries worldwide, and this is a reflection of the sound diversification of exports and export markets.

3.3. On this basis, the national foreign trade agenda is organized around three fundamental pillars: expanding, consolidating and streamlining the foreign trade platform, optimizing its operation, and using it to maximum advantage.

3.4. As regards the first pillar, the main policy actions during the review period included the negotiation, approval and implementation of the FTAs with the Dominican Republic, Central America and the United States (CAFTA-DR), Panama, China, Peru, Singapore, Central America-Mexico and the European Union. In addition, trade agreements were signed with Colombia and the European Free Trade Association, and it is hoped that they will obtain congressional approval before the end of 2013.

3.5. With respect to optimizing the operation of the platform, Costa Rica has focused on designing and implementing inter-institutional plans to address priorities set jointly with the private sector. Chief among these are the modernization of border posts by building infrastructure and simplifying and streamlining procedures, as well as the launch of a new version of the Single Window for Foreign Trade (VUCE) run by the Foreign Trade Promotion Agency (PROCOMER), the aim of which is to improve the technological platform for the administration of the system and simplify import and export procedures.

3.6. As regards maximizing the use of the foreign trade platform, the main objectives are to expand the user base of producers, exporters, importers and investors, as well as to boost the country's competitiveness. The tasks encompass export promotion – including the promotion of export activities of small and medium-size enterprises – attracting FDI, encouraging the country's participation in global value chains and improving the business climate, all in coordination with PROCOMER and the Costa Rican Coalition for Development Initiatives (CINDE).

3.1 Multilateral trading system

3.7. Costa Rica is a country fully committed to the multilateral trading system.The WTO is the foundation of its trade policy and the main forum of discussion with its trade partners. Respect for the rules and principles of the WTO, the expansion and modernization of the multilateral trading system, as well as the important role being played by the Organization in keeping markets open and combatting protectionism are vital for a developing country like Costa Rica, which is highly dependent on international trade. While visiting the WTO in September 2011, Ms Laura Chinchilla, President of Costa Rica, stressed the crucial role of this Organization for the country:

> "The free trade that Costa Rica is promoting would not have been possible without the WTO. This Organization provides the legal and institutional framework that enables us to meet our aims. At the WTO, my country found itself shoulder to shoulder with the richest

countries - sometimes in disputes that led to the restoration of our rights, and sometimes in negotiations involving interests that were difficult to reconcile. However, more often than not we were participating in alliances that sought to obtain common benefits in a context of greater liberalization.

Thanks to the WTO, a small country like ours is also able to speak on an equal footing with the larger countries, and we have not hesitated to do so. Pursuing our vocation and acting in accordance with the law, we found a place where we could defend ourselves, where we could use our comparative advantages and where we could claim our rights under the WTO Agreements. Because this is a legal environment that reaffirms the confidence of peoples in public international law, we must not waver in the face of the tasks that await us as we seek to further strengthen multilateral trade and investment institutions."

3.1.1 Participation in ongoing negotiations

3.8. Despite the delay in the Doha Round negotiations, Costa Rica is committed to achieving an ambitious outcome for the benefit of all WTO Members. This is particularly critical at a time when the world economy has yet to recover from the crisis affecting it.

3.9. Under the Doha Round, Costa Rica continues to support efforts to better integrate developing countries in the global economy. Hence the importance that has been given in all spheres to the export or offensive dimension of special and differential treatment as the best way to further the development and growth of these countries. Amongst other things, Costa Rica is the coordinator of a group of developing countries that share the goal of successfully fulfilling the mandate to liberalize trade in tropical products, and welcomes the important agreements reached at the end of 2009 amongst Members concerned by this topic.

3.10. One of the main achievements in the period under review was the conclusion of the Geneva Agreement on Trade in Bananas in December 2009, which ended one of the longest disputes in the annals of the GATT and the WTO. The Agreement addresses matters regarding the modification of the European Union's tariff schedules through GATT Article XXVIII and the transition to a tariff-only system, and, *inter alia*, constitutes an early outcome of the Round Doha. This agreement was signed by Costa Rica, the EU and the other Latin American countries on 31 May 2010 and took effect in March 2011.

3.11. The Dispute Settlement Understanding is a cornerstone of the WTO as a guarantee of compliance with multilateral rules and commitments and an assurance of the integrity and credibility of the multilateral trading system. Costa Rica therefore attaches paramount importance to the negotiations to review and strengthen it.

3.12. Costa Rica is concerned over the failure to conclude the Doha Round, a fact that raises doubts about the capacity of the multilateral trading system to deliver results and which could weaken its credibility in the medium term. Costa Rica will therefore continue to participate actively and constructively in the collective endeavours to achieve results in these negotiations and in exploring different negotiating approaches, as agreed at the Eighth Ministerial Conference of the WTO in December 2011.

3.13. The Ninth Ministerial Conference of the WTO in Bali promises to be an invaluable opportunity to boost confidence and revitalize the role of the WTO as a negotiating forum, by means of modest but substantial outcomes in the areas of trade facilitation, some agricultural issues and special and differential treatment, including topics of interest to the least developed countries.

3.14. Reaching an agreement on trade facilitation is a priority for Costa Rica, and it will therefore support its approval for the forthcoming Bali Ministerial Conference. The country takes the view that the proposed measures are indispensable tools for enhancing private sector competitiveness, especially that of small and medium-sized enterprises, which are the ones most affected by the costs associated with inefficiency in trade procedures. Moreover, for a developing country this is a necessary step towards becoming effectively integrated into global value chains. Similarly, it is recognized that the commitments on trade facilitation must go hand-in-hand with assistance to enable developing countries to acquire the requisite capability to implement their commitments.

3.15. Costa Rica remains committed to the process of agricultural trade reform and supports the attainment of ambitious outcomes in the three pillars of these negotiations. However, recognizing the delay in the negotiations and the difficulties of concluding the Single Undertaking of the Doha Round in the near future, we support the search for pragmatic approaches that make for progress in areas that are of direct benefit to all Members.

3.16. Accordingly, and as a member of the Cairns Group, the country would like the outcome of the Ninth Ministerial Conference in Bali to include results in some facets of the agricultural negotiations as an "early harvest". However, Costa Rica still attaches great importance to the successful conclusion of the agricultural negotiations of the Doha Round, including a substantial improvement in market access for these products, mainly through the implementation of the agreements reached in December 2009 between the Members concerned by the liberalization of trade in tropical products, an issue that should be high on the post-Bali agenda.

3.17. The WTO provisions on special and differential treatment are an important means by which developing countries can become integrated and participate fully in the multilateral trading system and reap its benefits. This is why the results of the Ninth Ministerial Conference of the WTO should be aimed at facilitating the integration of developing countries, in particular of the least developed countries, through mechanisms that promote and facilitate the fulfilment of commitments assumed in the WTO.

3.18. After the Ninth Ministerial Conference, Members should continue the quest for the best way to conclude the Doha Round negotiations. A successful outcome at Bali will undoubtedly lay the groundwork and contribute meaningfully to attaining this broader objective.

3.19. Costa Rica furthermore recognizes other opportunities at the multilateral level to move the trade liberalization agenda forward, and therefore participates actively in discussions on expanding the reach of the Information Technology Agreement (ITA). Specifically, it shares the wish of other Members that in expanding the scope of the ITA, account should be taken of the changes emanating from advances in information technology during its 16 years in force, and that the rules be further clarified. Costa Rica therefore supported the proposal on expanding the ITA submitted in March 2012 and has played an active part throughout the negotiation process. It also shares the expectation of the other members of the negotiating group that an outcome favourable to the parties will be obtained before the Ninth Ministerial Conference in Bali.

3.20. In the same vein, Costa Rica is involved in the negotiation of the Trade in Services Agreement (TISA). Over the past ten years its economy has undergone a radical transformation related to the growth of the services sector. In 2012 this sector's output accounted for 68.6% of GDP and it employed 67.1% of the country's total workforce, both figures being ten percentage points higher than in 2000. From 2007 to 2012 the average real growth rate of service production was 4.6% while services exports grew at an average annual rate of 9.4%, which meant that by 2012, exports of services accounted for 33% of total goods and services exports. At the same time, the share of services in FDI rose from 4.2% in 2000 to 40.2% in 2012. This performance is bound up with the ending of the monopolies on insurance and telecommunications, access to external markets under non-discriminatory conditions, and the legal certainty afforded to foreign investment, all of the foregoing derived largely from trade and investment agreements signed by Costa Rica. Costa Rica is therefore determined to continue to expand trade and investment opportunities in the services sector and hence formally joined in the TISA discussions in March 2012 and has so far participated actively in the ten meetings that have been held.

3.21. Costa Rica is of the view that the TISA must have substantial sectoral coverage, without a priori exclusions and envisaging all modes of supply. Costa Rica will bind the broadest liberalization of the trade services it has undertaken outside the GATS, whether autonomously or based on the best trade agreement it has signed. Besides, it is crucial for the TISA to include disciplines regarding sectors in which the country has competitive advantages or in which it has major future opportunities such as information technologies, telecommunications, e-commerce, financial services and government procurement of services, amongst others.

3.22. Costa Rica hopes that the WTO will continue to be a major forum for dealing with all trade-related issues. It therefore warmly welcomes the initiatives to discuss the phenomenon of global value chains and ways in which countries can be better integrated into them, as well as others that may be tabled in the future to address key aspects of the global economy.

3.1.2 Dispute settlement mechanism

3.23. Costa Rica is firmly committed to upholding the fulfilment of obligations assumed within the multilateral trading system. The country has never been a defendant in any dispute settlement procedure, and at the same time has always played an active part in the Dispute Settlement Mechanism. Over the last twenty years, it has been a complaining party in five disputes and a third party in fifteen disputes.

3.24. More specifically, during the review period Costa Rica has participated as a complainant in the case known as "Dominican Republic – Safeguard Measures on Imports of Polypropylene Bags and Tubular Fabric" and as a third party in the case "European Communities and its Member States – Tariff Treatment of Certain Information Technology Products." In both cases, the outcome was positive for Costa Rica's commercial interests, a fact that confirms the country's confidence in the WTO dispute settlement mechanism.

3.2 Trade and investment agreements (2007-2013)

3.25. Costa Rica has free trade agreements with Central America, Mexico, Canada, Chile, the Dominican Republic, the Caribbean Community (CARICOM), the Dominican Republic, Central America and the United States (CAFTA-DR), Panama, China, Singapore, Peru and the European Union. Free trade agreements were also signed with Colombia and the countries of the European Free Trade Association (EFTA).

3.26. During the review period Costa Rica negotiated agreements on the promotion and reciprocal protection of investments with the People's Republic of China and Qatar, as well as chapters on the topic in the CAFTA-DR and with Panama, Singapore and Peru which are now in force; chapters were also negotiated with the EU, Colombia and EFTA.

3.2.1 Agreements in force

3.27. The Free Trade Agreement between the Dominican Republic, Central America and the United States (CAFTA-DR) was signed on 5 August 2004 and took effect for Costa Rica on 1 January 2009. Since that time, trade with the United States has grown at an annual average of 17%. In 2012, total exports amounted to US$4,451 million while imports were valued at US$8.754 million.

3.28. Costa Rica made commitments under the CAFTA-DR to open its domestic insurance market as well as some telecommunications services to competition. Implementing the CAFTA-DR therefore entailed making a series of reforms to Costa Rica's domestic laws, mainly as regards intellectual property, telecommunications and insurance.

3.29. The Free Trade Agreement between Central America and Panama as well as the Bilateral Protocol between Costa Rica and Panama to that Agreement were adopted by Law No. 8675 of 17 October 2008, effective as from 23 November of that same year. During the period of validity of the Agreement, exports to that market increased by 33% and imports by 78%. However, in 2012 Costa Rican exports exceeded imports from the Panamanian market by US$197 million, which translated to US$1.5 exported for every dollar imported.

3.30. The FTA between Costa Rica and China took effect in August 2011 and since then bilateral trade has shown strong growth both in terms of mutual trade and the diversification of the goods and services traded. While trade between the two countries totalled US$155 million at the start of the decade, it reached a record US$1,771 million in 2012. Between 2002 and 2012, trade (both exports and imports) grew at an average annual rate of 36.9%.

3.31. The Free Trade Agreement negotiated between Costa Rica and Peru was signed in May 2011 and became effective on 1 June 2013. There is enormous potential for growth in the trade between the two countries. It was worth US$358.7 million in 2007 and US$389.6 million by 2012. For that period, exports grew at an average rate of 4.3% and imports 1.2%.

3.32. The negotiation of the Free Trade Agreement between Costa Rica and Singapore ended in April 2010. It was approved by the Legislative Assembly of Costa Rica on 28 February 2013 and took effect on 1 July 2013. Bilateral trade flows between the two countries were dynamic from 2002 to 2012. While total trade was valued at US$24.8 million in 2002, it increased to US$103.9 million in 2012, recording an average annual growth rate of 15.4%. Costa Rican exports to that market amounted to US$61.7 million in 2012.

3.33. After more than ten years of operation of the three free trade agreements between the countries of Central America and Mexico, the Presidents of Central America and Mexico deemed it necessary for them to be updated and made more convergent in order to adapt them to modern rules and to the realities of production in the region, which have evolved over recent years. This process of convergence began formally in May 2010 and ended with the signature in November 2011 of an agreement that took effect on 1 July 2013. The main results of this agreement include the creation of an expanded economic area between the Central American countries and Mexico with common rules that will facilitate trade in the region, the maintenance of tariff preferences established in the bilateral treaty between Costa Rica and Mexico and in force since 1995, and better treatment for some products that had been excluded. It also facilitates cumulation of origin by permitting the use of materials originating in the region for the production of final goods; mechanisms are also established to expedite, simplify and automate customs procedures.

3.34. During the 18 years of existence of the bilateral agreement, trade with Mexico has expanded at an average annual rate of 13% from a total volume of US$199.4 million in 1995 to US$1,488.5 million in 2012. Exports grew over this same period at an average annual rate of 19% and imports at an average 11.5% per annum, with duty-free access being accorded to 98% of goods in both directions. The number of products exported to the Mexican market increased by 335 during this period, and the number of exporting firms increased 2.6 times from 67 to 172.

3.35. Costa Rica concluded the negotiation of the Association Agreement between Central America and the European Union (AACUE) on 19 May 2010. It was signed on 29 June 2012 and the text could then be submitted for congressional approval in the countries that are party to it. The Agreement has now been approved by the Congress of Costa Rica and the trade component will take effect provisionally as of 1 August.

3.36. The AACUE consists of three pillars: political dialogue, cooperation and trade. From a trade standpoint, the AACUE substantially improves the conditions of access for goods and services from Central America to the market of the European Union (EU). More specifically, the agreement consolidates and improves the unilateral preferences granted by the EU through the Generalized System of Preferences and opens up new opportunities for another large number of products to enter the European market, including sugar, meat, cassava and textiles. What is special about this instrument is that it is an agreement negotiated region-to-region and embodies a series of rules designed to promote the process of economic integration of the Central American countries in a pragmatic and effective manner.

3.37. Trade with the EU grew substantially over the past decade, doubling in value from US$1,652 million in 2002 to US$3,302 million in 2012, the highest amount for the period. The growth rate was 9.3% between 2011 and 2012. Some 18.2% of exports went to the EU in 2012. Imports were worth US$1,234 million and made up 7% of the country's total imports.

3.2.2 Agreements negotiated

3.38. The negotiation of the free trade agreement between Costa Rica and Colombia ended in March 2013. The agreement provides a legal framework with clear, stable and transparent rules, which also promotes an environment that favours new investments in both directions and increased levels of trade and cooperation. In addition, it contains innovative elements such as promoting the interoperability of the foreign trade single windows so as to simplify and facilitate data transmission in trade transactions; it also embodies consumer protection by means of cooperative mechanisms, notifications and information-sharing between the competent authorities.

3.39. Sales to Colombia have grown at a rate of 9.7% over the past ten years. For that period, Colombia's cumulative investment in Costa Rica exceeds US$480 million. In 2012, Colombia ranked sixth among the countries investing in Costa Rica.

3.40. In December 2012 Costa Rica concluded negotiations on a trade agreement with the Member Countries of the European Free Trade Association (EFTA), Panama also being a party to that agreement. The negotiated agreement improves the conditions of access for Costa Rican goods to the market of the countries that make up this European bloc. Prominent in the agricultural sector is the treatment accorded to products such as bananas, coffee, sugar, some vegetables, flowers and tropical fruits. Moreover, the industrial sector and fisheries were liberalized immediately upon the entry into force of the agreement, which was signed on 24 June in Norway.

3.41. Between 2002 and 2012, trade with EFTA grew by roughly 2.5 times from US$65 million to US$161 million. Of the four countries making up this bloc, Switzerland was the main trading partner with a share of 85% in 2012. Costa Rican exports to this bloc grew remarkably that year to reach US$20 million, or twice the value recorded in 2011. Imports in turn totalled US$141 million in 2012, which was 5.6% higher than in 2011.

3.3 Other forums

3.3.1 Central America

3.42. The countries of the region have intensified the process of building Central American economic integration. To organize and modernize the way they work, the countries agreed in 2010 to adopt a method of half-yearly action plans focused on measures to facilitate trade, eliminate non-tariff barriers, harmonize technical regulations and resolve specific problems in intra-regional trade.

3.43. During this period the Council of Ministers for Economic Integration (COMIECO) signed 98 resolutions implementing tariff reductions or eliminations, technical regulations and sanitary and phytosanitary measures[1], amendments to the specific rules of origin, and certain tariff liberalizations.

3.44. Approval was given in 2012 for the Central American Tariff System (SAC) to be adapted to the changes introduced by the Fifth Amendment to the Harmonized Commodity Description and Coding System (HS), as notified by the World Customs Organization (WCO). The Annex to the Central American Regulation on the Origin of Goods has therefore been amended to align the specific rules of origin with these changes.

3.45. During the period under study, Costa Rica approved the following regional conventions on regional integration:

a. The Framework Convention for the Establishment of the Central American Customs Union.[2]

b. The Central American Uniform Customs Code.[3]

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[1] Four procedures have been approved for the recognition of health registers, as have been 30 technical regulations in sectors covering food, medicines and related products, as well as agricultural inputs, with the aim of harmonizing requirements for the sanitary registration of products that are widely traded regionally and facilitating trade.

[2] Law No. 8903 of 18 November 2010 on the Approval of the Framework Convention for the Establishment of the Central American Customs Union. Published in *La Gaceta* (Official Journal) No. 9 of 13 January 2011.

[3] Law No. 8881 of 6 December 2010.

c. The Convention on Mutual Assistance and Technical Cooperation between Central American Tax and Customs Administrations.[4]

d. The Central American Treaty on Investment and Trade in Services; and the Second Protocol to the Agreement, which includes a chapter on Electronic Commerce. It is under discussion in the Legislative Assembly.

3.46. Costa Rica joined the other Central American countries in pressing decisively ahead with the negotiation process for Panama's incorporation into the Central American Economic Integration Subsystem - a long-standing wish in the region. Panama became part of the subsystem when that country signed and approved the Incorporation Protocol, which took effect in May 2013.

3.3.2 Pacific Alliance

3.47. In April 2011, Colombia, Chile, Mexico and Peru agreed to form the Pacific Alliance as an area of regional integration that would make for even closer integration, foster higher levels of growth, development and competitiveness in their economies, and serve as a platform for policy coordination, economic and trade integration and for outreach to the world, with special emphasis on the Asia-Pacific region.

3.48. Because it fully espouses the objectives and principles of the Alliance and has signed agreements with its four member countries, Costa Rica set itself the goal of joining in the initiative. As a first step in that direction, Costa Rica became an Observer Country in June 2012, and subsequently, in October of that year, became a candidate Observer Country with a view to membership in the Alliance. In May 2013 Costa Rica submitted its application for full membership, which was welcomed by the Member Countries, and it was agreed to establish a working group to launch the accession process.

3.3.3 Organisation for Economic Co-operation and Development (OECD)

3.49. In 2010 Costa Rica began a process of rapprochement with the OECD and that process has gained momentum over the past year, paving the way for the country to be considered as a candidate for the start of the process of accession to the Organization. Costa Rica accordingly requested admission to various committees and working groups and adhered to the Declaration on Green Growth and the Recommendation on Principles for Internet Policy Making. It has also participated in forums and initiatives of the Organization, and studies have been launched for the improvement of public policies.

3.50. Following up on the country's political endeavours, the OECD Council agreed in May 2013 to work closely with Costa Rica to prepare its process of accession to the Organization. The Council will review the situation in order to begin accession talks with Costa Rica in 2015.

4 PRINCIPAL REFORMS 2007-2012

4.1. Over recent years Costa Rica has made major changes in the area of investment that have enabled it first and foremost to live up to its commitments under the WTO Agreement on Subsidies and Countervailing Measures (ASCM). They have also opened up new opportunities for investors in sectors that were previously reserved for the State and thereby improved competitiveness thanks to this private participation in a wide range of industries and activities, particularly in the provision of certain services such as telecommunications and insurance.

4.1 Reforms to the free zone regime

4.2. In 2010 Costa Rica amended Duty-Free Zone Regime Law No. 7210 of 23 November 1990 by means of Law No. 8794 of 12 January 2010 published in the Official Journal *La Gaceta* on 22 January 2010. This reform was meant to implement a modern scheme, provide legal certainty for foreign investors setting up operations in the country and fulfil Costa Rica's

[4] Law No. 8880 of 1 November 2010 on the Convention on Mutual Assistance and Technical Cooperation between Central American Tax and Customs Administrations. Published in *La Gaceta* (Official Journal) No. 243 of 15 December 2010.

commitments under the WTO ASCM ahead of schedule. The reform introduced some major changes, of which the following are noteworthy:

a. The obligation to export as a condition for benefitting from incentives prescribed in the law was eliminated. This change made the regime consistent with Costa Rica's WTO commitments.

b. Companies can now be classified simultaneously in different categories (i.e. both manufacturing and services).

c. Companies that are not beneficiaries of the free zone regime can now set up in industrial parks, thereby facilitating the supply of goods and services to companies covered by the regime operating in the parks.

d. It was agreed to promote investment in less developed areas, foster the development of local suppliers and to channel FDI inflows by determining strategic sectors.

4.3. The reform put in place a scheme that is in line with Costa Rica's international commitments, enables the country to remain an attractive destination for investment, and better meets private sector needs.

4.2 Opening up of the telecommunications sector

4.4. One of the major commercial and economic changes taking place in Costa Rica during the past five years has been the opening up of its telecommunications market. Until mid-2008, only the Costa Rican Electricity Institute (ICE) and Radiográfica Costarricense (RACSA) held concessions granted by law to provide telecommunication services. RACSA had been limited to providing Internet and global network services, while the ICE was able to provide all services, including mobile and fixed telephony. Some telecommunications services were in fact opened up to competition in 2008 in line with Costa Rica's commitments under the CAFTA-DR.

4.5. In addition to the orderly and gradual opening of the telecommunications market, the country assumed a series of commitments to modernize its legal and institutional framework. Annex 13 of the CAFTA-DR contains the specific commitments by Costa Rica with respect to telecommunications services, which entailed adopting a legal framework to strengthen the ICE, opening up private network services, Internet services and mobile wireless services, and the enactment of a regulatory framework for telecommunications services that includes provisions on, among other things, the non-discriminatory administration of the universal service, the establishment of an independent regulatory authority with sufficient powers to enforce that framework, ensuring interconnection between telecommunications service providers, guaranteeing access to and the use of networks, as well as preventing anti-competitive practices and offering flexibility in the selection of technological options.

4.6. The commitments made under the CAFTA-DR took effect with the adoption of the General Law on Telecommunications, Law No. 8642 of 4 June 2008 and the Law on the Strengthening and Modernization of Public Entities in the Telecommunications Sector, Law No. 8660 of 8 August 2008, and with the approval of three regulations: the Regulation on the Telecommunications Competition Regime; the Regulation on Universal Access, Universal Service and Solidarity; and the Regulation on Access to and Interconnection of Telecommunications Networks. This legislation also created the Supervisory Authority for Telecommunications (SUTEL), which is attached to the Public Services Regulatory Authority (ARESEP).

4.7. SUTEL is the regulatory authority of the telecommunications sector while overall supervision rests with the Ministry of Science, Technology and Telecommunications (MICITT). SUTEL is responsible for regulating, applying, overseeing and monitoring the legal framework for telecommunications. It is a fully autonomous body attached to the Public Services Regulatory Authority (ARESEP) and is independent of all network operators and telecommunications service providers. SUTEL's functions also include promoting the diversification of telecommunications services and introducing new technologies, as well as ensuring access to the limited resources associated with the operation of networks and the provision of telecommunications services, in a manner that is objective, proportional, timely, transparent, efficient and non-discriminatory.

4.8. The market opening covered the three areas of mobile services, Internet services and private networks. The provision of telecommunications services is allowed through the grant of three types of operating permits, namely authorizations, concessions and licences. A concession is required for the use and exploitation of the radio frequencies needed to operate and exploit public telecommunications networks. Authorization is required to operate and exploit public networks as well as to operate private telecommunications networks that do not require the use of the radio spectrum. Licences are granted for the use of frequency bands for non-commercial, official and security-related purposes and for assistance and emergencies.

4.9. The regulatory framework now in place is oriented towards convergence, which means that when a concession or authorization is granted, the network operator is permitted to provide all the services of which he is technologically capable. Operators are subject to obligations as pertains, *inter alia*, to access and interconnection, universal service and competition.

4.10. National and foreign private providers are currently allowed to provide their services directly to consumers based on non-discrimination and under conditions of effective competition. The legal framework governing the telecommunications sector promotes foreign investment and contains no barriers to national treatment or market access.

4.11. This new trade regime has strongly boosted investment in telecommunication services in Costa Rica. From 2011 to December 2012, payments from the radio spectrum auction brought in US$804.0 million, or 25.9% of the total FDI flowing into the services sector during that period, and 18.2% of total FDI inflows since 2011 (see Table 1). The contribution of the telecommunications sector to GDP rose from 6.96% in 2005 to 9.14% in 2012. In 2011, new mobile operators generated some 600 new jobs upon their entry into the market, bringing the number of employees in the telephone services sector to approximately 7,500.

4.12. The number of telecommunications service providers in the country has also grown substantially and there has been a rapid shift from a monopolistic model with a single service provider to a competition-based one with five IP telephony companies, five mobile telephony companies and 45 companies providing Internet access services. This increased investment and the rise in the number of providers has brought about a substantial improvement in connectivity indices. In 2012, 33.6% of Costa Rican households had Internet access and 43.4% of citizens had Internet accounts, as compared with 11.8% and 3.8% respectively in 2007. Similarly, the number of mobile telephone lines per 100 inhabitants increased fourfold in a five-year period, moving from 34.4% in 2007 to 132% in December 2012. The Digital Divide Index declined markedly by 35% between 2007 and 2012 and currently stands at 3.01%.

4.13. All these changes have brought tangible benefits for consumers, both quantitatively and qualitatively. The International Telecommunication Union has determined that the cost of mobile telephony in Costa Rica is the lowest in the Americas and is amongst the 14 cheapest in the world, representing a mere 0.6% of gross national income per capita. Similarly, an analysis of the quality indicators shows that they have all risen since 2011, with the rise (14 percentage points) in the level of user satisfaction with telecommunications services being especially prominent. The number of calls successfully placed in both mobile telephony (eight percentage points) and fixed telephony (ten percentage points) has also improved by comparison with 2011. Similarly, consumers have greater opportunities to access new and more efficient technologies, as evidenced for example, by the growth of three percentage points in international bandwidth access by comparison with 2011.

4.3 Opening up of the insurance sector

4.14. As in the case of telecommunications, Costa Rica assumed the obligation under the CAFTA-DR to open up its insurance market. The specific commitments made were to modernize the INS, create an independent and impartial regulatory body with powers to discharge its functions and with activities consistent with international insurance supervision principles, and to allow non-discriminatory cross-border trade in insurance and insurance-related services, as well as to enable insurance service providers to set up operations in the country in any legal form.

4.15. The implementation of the insurance-related commitments assumed by Costa Rica under the CAFTA-DR led to the upgrading of the relevant legislation, which dated back to 1920. The commitments under that agreement became effective with the enactment of the Law Regulating the Insurance Market, Law No. 8653 of 22 July 2009, and with the enactment of specific regulations. This legislation allows for the participation of insurers and reinsurers, as well as intermediaries such as insurance agencies, insurance agents, insurance brokerage firms and insurance brokers. The law authorizes the provision of insurance services in Costa Rica under two modes, namely commercial presence and cross-border trade.

4.16. The Law Regulating the Insurance Market created the General Supervisory Authority for Insurance (SUGESE), which discharges its functions in accordance with the basic principles of the International Association of Insurance Supervisors (IAIS). Before this reform the country lacked a supervisory body for safeguarding consumer interests *vis-à-vis* the actions of the sole market operator (INS), and it is therefore of the utmost importance for generating confidence and providing legal certainty for all market players.

4.17. The insurance market opening is very broad. Hence, for example, there are no restrictions on the number of foreign insurance companies or subsidiaries allowed to set up operations in the country, provided that they comply with the legal and regulatory requirements for engaging in the insurance business. Neither is there any limitation on the type of services that may be provided in the country by foreign insurance entities duly authorized by the Supervisory Authority in line with the category approved for their operation, so long as they entail insurance activities prescribed by law.

4.18. The benefits of market opening are obvious from the growth of the sector's share in national production. Since 2006, the insurance industry has grown at an average annual rate of 12.5%, doubling its added value from US$183.0 million to US$371.6 million.

4.19. The market opening process has brought benefits for consumers in that they are able to choose between different insurers and intermediaries, which contrasts with the situation that had prevailed for more than 80 years, in which insurance services could only be contracted with the INS under monopolistic conditions. Moreover, the benefits of opening have also been reflected in greater competition amongst operators, which are now offering new insurance products to consumers. Premiums have fallen and customer service has also improved.

4.20. The structure of the insurance market has changed radically. Whereas in July 2009 there was just one insurance company, by March 2013, 12 insurance companies had been authorized to operate in the country. The insurance entities so far authorized are mainly limited liability companies with foreign private capital, most predominant amongst which are companies authorized in the category of personal insurance. The number of authorized insurance intermediaries (insurance agencies, insurance agents, insurance brokerage firms and insurance brokers) increased dramatically. As at March 2013, altogether 17 brokerage firms, 168 insurance brokers, 63 agencies and 1,645 insurance agents had been authorized to operate.

4.21. Similarly, by March 2013 there were 52 operators in Costa Rica authorized to sell off-the-shelf insurance *(seguros autoexpedibles),* which protects against risks common to all or most natural persons, and which can be standardized and mass-marketed, and is issued without need for a prior process of risk analysis and selection.

4.22. Under the CAFTA-DR, the country also adopted a commitment to allow insurance service providers from other members of the Agreement to compete effectively on a non-discriminatory basis in delivering cross-border insurance services directly to the consumer. Such providers must be registered with the SUGESE, and there are so far two registered entities (one insurer and one intermediary).

4.23. Costa Rican law likewise permits any person to enter into a contract under the mode of cross-border trade with insurers or providers of intermediation services or auxiliary services from a country towards which Costa Rica has assumed such commitments by signing up to a valid international agreement. Under this mode it is possible to contract only the services foreseen in the international agreement concerned and on the terms specified therein. In addition to the commitments undertaken *vis-à-vis* the members of the CAFTA-DR, Costa Rica acquired cross-border trade obligations under the Association Agreement between Central America and the European Union and in the treaties signed with Colombia and the EFTA countries.

4.24. Between March 2010 and March 2013, 274 new products were registered with the SUGESE, representing growth of 190%. During that same period, the volume of cumulative direct premiums increased by 28% from US$195.4 million to US$250.4 million.

5 OTHER IMPORTANT INITIATIVES

5.1 Participation in global value chains

5.1. Costa Rica has joined the international production schemes of today's world. The fact is that almost 38% of its total goods exports are integrated in global value chains and services exports are becoming ever more bound up with these schemes. The country's participation in global value chains has made it possible not only to increase and diversify exports and raise their level of sophistication, but also to generate skilled employment, promote technology transfer and improve productivity.

5.2. Given the importance of continuing to promote Costa Rica's incorporation into and upward movement in global value chains, the country has launched a series of initiatives designed to map out and understand its participation in international production schemes, better understand their functioning and strengthen the national agenda to enhance the conditions for boosting the country's position in these chains.

5.3. On this basis, the country has struck up strategic alliances with various agencies and institutions that are very actively engaged in studying the topic, such as the WTO, IDE-JETRO of Japan, the OECD, the United Nations Statistics Division, and the Center on Globalization, Governance and Competitiveness, Duke University. It is hoped that these endeavours will enable Costa Rica in the near future to become part of the initiatives to measure trade flows in value added terms and build integrated data systems based on input-output ratios.

5.4. Aware of the role of global value chains in world trade and the opportunities they open up to developing countries, Costa Rica attaches high priority to negotiation initiatives designed to bring down trade barriers and improve efficiency in the framework of global value chains, such as the negotiations to expand the scope of the WTO Information Technology Agreement, the Agreement on Trade Facilitation and the plurilateral initiative for an Agreement on Trade in Services.

5.2 Trade facilitation

5.5. Costa Rica has adopted a strategy to optimize and reduce the costs of trade-related customs and administrative procedures. As of 2010, trade facilitation efforts were stepped up by means of inter-institutional plans to address priorities set jointly with the private sector.

5.2.1 Customs procedures

5.6. The customs IT system – TICA (Information Technology for Customs Control Scheme) – was implemented in 2005 and centralizes all the formalities and information necessary for customs control in the trade of goods. The system is being constantly upgraded to incorporate procedures under different regimes (such as international transit, inward processing and free zones), electronic services and payments, as well as the latest IT updates. A comprehensive overhaul of the system will begin in 2014 so as to improve control and traceability, modernize risk management, enhance security and improve the user experience.

5.7. In January 2012 the International Goods Transit (TIM) system was brought on stream through the TICA and operates in all the countries of Central America. The TIM makes possible electronic information sharing on the overland transport of goods in the region, thereby guaranteeing traceability and reducing border crossing times.

5.8. To strengthen the relationship between the customs authority and the private sector and to secure and facilitate trade, Costa Rica in 2011 introduced the Authorized Economic Operator (OEA) programme for the export regime by means of the Regulation on the Customs Facilitation

Programme for Reliable Trade in Costa Rica (PROFAC). The programme's development strategy envisages its phased extension to the entire logistics chain, to include importers in 2013, and transporters and other operators at a later date. The programme is managed by the Directorate-General of Customs.

5.2.2 Administrative and border procedures

5.9. PROCOMER determined that the single window system, which is used for the electronic preparation of export documents and export and import permits, was in need of reform so as to modernize its technological platform and update it on the basis of international best practices. Consequently, a renovation project was started in 2011 with a view to substantially reducing waiting times and costs to users by means of automated procedures, interoperability with all institutions that regulate trade, and by expanding the service to 24 hours, seven days a week.

5.10. The main feature of the new single window system (VUCE 2.0) is that it will bring together on a single electronic platform all the documents relating to authorizations and permits from the various public institutions that are needed for export and import. The data pertaining to any commercial transaction will be digitized just once, making for quicker interactions, more efficient approvals and minimizing potential errors. The system will also be capable of sharing information with similar systems in other countries and as such will facilitate preliminary procedures and risk management. The VUCE 2.0 will come on stream in January 2014.

5.11. The Government has furthermore begun the task of modernizing Costa Rica's main border crossings with Nicaragua and Panama. As part of this project, more than US$4 million have been invested over the past two years in the Peñas Blancas border post – the principal point of exit for exports to Central America – in infrastructure modernization and construction, as well as in the implementation of more efficient procedures. It is planned to invest US$80 million over the next three years in construction work, equipment and the improvement of procedures as part of the ongoing upgrading of this and other border crossings.

5.12. As regards ports, a concession was awarded to APM Terminals in 2011 to modernize the Moín Container Terminal located on Costa Rica's Caribbean coast. This project will make it possible to store 29,000 containers at a time and handle more than 2 million containers per year.

5.3 Elimination of price setting for rice

5.13. During the period under review, several members questioned Costa Rica about the granting of domestic subsidies for rice production through a system of guaranteed minimum producer prices known as the "Price Support Mechanism" (MSP), the amount of which exceeded the ceiling set under the Uruguay Round commitments. The current Aggregate Measure of Support bound by Costa Rica has an annual limit of US$15,945,000. That limit nevertheless began to be exceeded as of 2007 when the figure reached US$23,291,081, moving to US$62,477,559 in 2008, US$91,743,858 in 2009, US$109,676,320 in 2010, US$104,486,938 in 2011 and US$81,850,472 in 2012. Those support levels were duly notified to the Committee on Agriculture.

5.14. In 2011, the Government of Costa Rica set itself the goal of finding technical solutions to the problem and devising a support regime for the rice subsector that was consistent with the country's multilateral obligations. The outcome of this was the issuance of Executive Decree No. 37699-MEIC, published in the Official Journal *La Gaceta* on 20 May 2013, eliminating the price support mechanism for rice as of 1 March 2014.

6 FUTURE POLICY DIRECTIONS

6.1. Costa Rica will continue to work assiduously to further strengthen the multilateral trading system, both as regards promoting the substantive topics of the Doha Round and in the negotiations under the Bali agenda on trade facilitation, agriculture and development, as well as on the extension of the Information Technology Agreement and the finalization of the Agreement on Trade in Services.

6.2. Costa Rica's foreign trade policy will continue to be oriented towards buttressing each of its three pillars, namely expanding, consolidating and streamlining the foreign trade platform, optimizing its operation and taking maximum advantage of the opportunities that it generates. Likewise, the country will continue its endeavours to facilitate trade, such as the modernization of border posts and the roll-out of the VUCE 2.0. It will also be striving to take advantage of the foreign trade platform by promoting exports and investments, strengthening, expanding and boosting the country's participation in global value chains, as well as by taking steps to improve competitiveness and the business climate.

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