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lombian authorities in 1980. The firm's technology will be used by a Medellin-based facility, and royalties are set at 2.5%. The other firm is a US paper manufacturer with operations also in Medellin. Royalties are fixed at 1%. Otherwise, terms usually run for two or three years.

The only outright rejections involved two US chemical firms. One submitted an application for a 3% royalty to be paid by a plant in Medellin. The other was after a higher 5% payment. Both were turned down.

Contracts negotiated in the textile and clothing industries also placed a premium on exports. One US textile manufacturer won a three-year contract including a 3% royalty for exports vs a slimmer 2% for internal sales. Two other US firms in the apparel industry hammered out the same royalty levels on two-year trademark contracts.

The official data also show some adjustments of terms included in a few companies' original applications. A Brazilian company in the electrical equipment sector requested a 2.5% royalty plus a $3,000 payment for a trademark and technical assistance package. The final ruling came through with only a 2% royalty, and the additional payment was dropped. Another adjustment involved a European firm that accepted a 0.5% royalty instead of a 1% payment on a technical assistance contract. A major US manufacturer settled for a 3.5% ruling instead of the 4% it originally proposed. But, in most instances, applications came through essentially intact.

Some firms are finding ways to obtain extra payment through non-royalty-related routes. One food-processing firm, which has been denied royalty payments since 1971 on grounds that the firm's technology is available in the country, is making up the difference through technical service fees ruled on by the central bank.

A frequent complaint voiced by companies centers around the short duration of contracts. Capital goods producers, which need longer periods to set up production, feel particularly vulnerable on this account. One US firm recently grappled unsuccessfully with the problem. The company asked for a 10-year term but was forced to settle for five. Authorities, however, are usually willing to renegotiate at the end of contract terms.

Costa Rica's 1981 Budget Creates Brouhaha

Costa Rica's President Rodrigo Carazo is embroiled in a major dispute over his 1981 budget proposal, highlighting some of the problems the country is facing. The controversy—which has resulted in soured relations with the legislature and aggravated Carazo's poor standing with important segments of the business community (*BL* '80 p. 407)—has brought into question the government's financial policies and engendered renewed cries for an official devaluation of the floundering colon to help solve the country's economic ills.

At the heart of the budget wrangle is President Carazo's initial package calling for a big spending hike at a time when the country could ill afford it. After much angry debate, Congress slashed more than C1 billion (C8.60: $1) from the proposal, bringing the total to C8.62 billion, representing a 5% increase over 1980 outlays. The new budget covers the expenses of the 13 government ministries and the legislative and judicial branches but does not include the allocations requested for the autonomous state agencies. The principal outlays are the following: 32% of total expenditures for the Finance Ministry; 27% for education (this sector has typically received the lion's share of past budget allotments); 10% for public works; 3.8% for health; 2.4% for security; and 1.5% for culture.

Financing the budget has been a central issue in the dispute. The government states that 71% will be funded solely from internal tax revenues, mainly from income, real estate and sales taxes. Domestic bond sales and loans from the local banking system are to account for 21.7%, and the remaining 7.5% will come from foreign loans. Officials say they can meet the tax revenue target without an administration tax package—not yet approved by Congress—that would raise more than $80 million in the coming year.

Financing troubles

Critics believe the administration is overly optimistic. Congress nailed on to the budget bill a rider limiting the government's internal borrowings to no more than C1 billion, and its ability to secure loans abroad could be jeopardized by its resistance to an official devaluation of the colon. (The government is under IMF restrictions to restrain spending and curb foreign financing.) In the absence of foreign loans, observers believe Carazo's only alternative left is to increase sales taxes, which he could do without congressional approval. But the inflationary impact of such a move would impair relations with the IMF and provoke labor unrest.

According to many groups in the country, an official devaluation would restore confidence in the government, open up more credit sources and also ease the balance-of-payments crunch. One of the most weighty proponents of a devaluation is the World Bank, which proposed in a report to the administration a few months ago that it should devalue by 20–25%, based on the currency's value at end-1979, to be followed by another 20% devaluation. Recently, the free-market rate has been fluctuating wildly, reaching nearly double (C16.30:$1) the colon's official value. The exchange rate is currently averaging C13–14:$1 because of Central Bank intervention. It is difficult to see how the government can resist the pressure, and the rumor mill has it that a devaluation could be announced sometime in January.