THE AMERICAS

Regional Analysis and Trade Policy

CAFTA-DR Will Open Markets

With the U.S. food and agricultural marketplace mature and farmers and ranchers producing more than ever, the only avenue to assure growth and profitability for U.S. farmers is to develop foreign markets.

Steadily expanding demand in foreign nations (with 96 percent of the world's population) has helped U.S. exports increase over time, from $7.3 billion in 1970 to last year's record $71.2 billion.

CAFTA-DR, the Central America-Dominican Republic-U.S. Free Trade Agreement, promises nearby expansion of exports, as member countries approve the agreement. In calendar 2003, 46 million customers in Central America and the Dominican Republic purchased $1.6 billion worth of U.S. agricultural products. Averaging a $70-million per year growth rate, this market promises bountiful returns as reduced tariffs and other market access provisions of the agreement click in.

Member countries include five Central American signees—Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The Dominican Republic came on board later.

U.S. commodities expected to gain—and in some cases regain—market share lost to countries with existing trade preferences include poultry, beef and dairy products, soybean products, rice, apples, pears and cherries.

The United States is the region's single largest foreign source of agricultural

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CAFTA-DR Work In Progress

With the ink barely dry on this free trade agreement, representatives from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua are regularly meeting with technical experts from the Office of the U.S. Trade Representative and USDA. The meetings provide a forum to combine trade capacity building and SPS (sanitary and phytosanitary) technical assistance areas.

Priorities include ironing out disparities in integrated SPS regulatory information systems, upgraded laboratory infrastructure and analytical methods capacity, risk assessment methodologies and risk mitigation methods.

goods, accounting for 41 percent of imports by value in 2001. However, U.S. share declined from 54 percent of total imports in 1995, due in large part to preferential access conditions afforded third countries through bilateral trade agreements with Central American nations.

What CAFTA-DR Means for U.S. Agriculture...

More than half of current U.S. farm exports to Central America will become duty-free immediately, including high-quality beef cuts, cotton, wheat, soybeans, key fruits and vegetables, processed food products and wines. Other tariffs will be phased out over differing time periods.

...and the Central American and Dominican Republic Economies

Historically, free trade promotes economic prosperity and democratic princi-


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ples in developing countries, even in the face of economic challenges. The agreement promises new hope for easing poverty, fostering development and strengthening democracy.

The rule of law will be strengthened as will transparency to counter corruption. Strengthening trade ties will create new economic opportunity, eliminate tariffs, open markets, promote transparency and establish state-of-the-art rules for 21st century commerce.

Guatemala Leads in GDP and Population

Country	Population	GDP (gross domestic product)	Government
El Salvador	6.6 million	$31 billion	Republic
Guatemala	14.3 million	$56.5 billion	Constitutional democratic republic
Honduras	6.8 million	$17.55 billion	Constitutional democratic republic
Nicaragua	5.4 million	$11.6 billion	Republic
Costa Rica	4 million	$35.34 billion	Constitutional democratic republic
Dominican Republic	8.8 million	$52.7 billion	Representative democracy

Tariffs Take Bite Out of Profits

Average allowed tariffs for these countries under their WTO (World Trade Organization) commitments are high: Costa Rica averages 42 percent; El Salvador, 41 percent; Guatemala, 49 percent; Honduras, 35 percent; Nicaragua, 60 percent; and the Dominican Republic, over 40 percent.

Although applied tariffs for many products are lower, these tariffs restrict U.S. exports. Elimination of these tariffs will create many preferences for U.S. exporters over other suppliers, such as those in Canada, Europe, South America and other Central American countries, helping restore lost U.S. market share and expand overall U.S. exports.


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The agreement also provides a secure, predictable legal framework for U.S. investors in the region and establishes a working group process to coordinate and resolve trade issues among the countries.

U.S. Door Open

Over 99 percent of agricultural exports (on a trade-weighted basis) from Central America and the Dominican Republic enter the United States duty-free. The United States imported over $2.3 billion from the region in 2003. The vast majority of these imports are crops in which the United States is not competitive, such as coffee and tropical fruits. ■

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www.ustr.gov/Trade_Agreements/Bilateral/CAFTA-DR/Section_Index.html

Many U.S. Best Sellers Will Benefit

Commodity	Tariff Before Agreement	Tariff After Agreement	Average Value of U.S. Exports to Region (2003)
Feed grains	Up to 45 percent	For yellow and white corn, combination of immediate elimination to phase-outs over 4 years to duty-free TRQs (tariff-rate quotas) in perpetuity or phased out over 15 years; for barley, oats and rye, immediate tariff elimination	$280 million in corn; $10 million in other feed grains
Food grains	0-1 percent for wheat; 15-60 percent for rice	Immediate tariff elimination for wheat; flour tariffs phased out over 12-15 years; duty-free TRQs for rice over 10-20 years	$178.3 million in wheat; $84 million in rice
Soybeans and meal	1-5 percent import tariffs in 3 countries; WTO-bound duty rates in 3 countries	Tariffs eliminated in all but Costa Rica, where meal tariffs phased out over 15 years	$201 million
Poultry meat	WTO-bound tariffs of 30-250 percent; applied up to 164 percent	All tariffs to be eliminated, many within 10 years; up to 18 years for others; TRQs established for some; recognition of U.S. poultry inspection system	$61 million
Fruits and nuts	15-30 percent	Over 70 percent duty-free; another 26 percent phased out over 5-10 years	$58.5 million
Cotton	0-1 percent applied tariff; bound duties from 35 to 60 percent	Raw cotton duty phased out over 15 years	$55.4 million
Dairy products	Range of TRQs; import tariffs up to 65 percent; bound rates as high as 100 percent	Two-track approach to achieve free trade in 20 years; immediate duty-free access for 10,000 metric tons; immediate duty-free access for in-quota TRQs	$44.1 million
Vegetables and preparations	15-47 percent	Most at 0 percent; others phase out over 5 years	$41 million
Soybean oil	0-20 percent; TRQs	Immediate elimination of some tariffs; others phased out over 12-15 years	$37.6 million
Pork	15-47 percent	All tariffs to be eliminated within 15 years; TRQs set for some products; recognition of U.S. plant inspections	$18.4 million
Soups and broth (dried)	15-20 percent	Immediate tariff elimination	$12 million
Edible dry beans	5-25 percent; over-quota tariffs up to 89 percent	Immediate eliminations of some tariffs; others phased out over 5-15 years	$10.7 million
Pet foods	15-20 percent	Immediate elimination for some products; others phase-out over 5-15 years	$10.5 million
Cookies	0-20 percent	Immediate elimination for some products; others phased out 5-15 years	$2.4 million
Peanuts and peanut butter	0-20 percent	Some countries eliminate tariffs immediately; others over 5-15 years	$1.1 million