

United States-Central America-Dominican Republic Free Trade Agreement

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What's at Stake for Dairy?

On August 5, 2004, the United States signed the United States-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) with Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. The agreement, which Congress must now approve and enact implementing legislation, will provide America's farmers, ranchers, food processors, and the businesses they support with improved, and in many cases, new access to this growing regional market of 44 million consumers. The CAFTA-DR calls for eventual duty-free, quota-free access on essentially all products, and addresses other trade measures among the parties as well. Under the existing terms of the Caribbean Basin Initiative, which the CAFTA-DR replaces, nearly all agricultural exports from the CAFTA-DR countries to the United States already receive duty free treatment. The CAFTA-DR levels the playing field, providing U.S. exporters market access that is better than, or at a minimum equal to, that given to other competitor countries.

U.S. Gains Improved Access to the Dominican and Central American Dynamic Economies

Before CAFTA-DR. . . Depending on the country and product, U.S. dairy product exports faced a range of different tariff-rate quotas (TRQs) and import tariffs as high as 65 percent, while World Trade Organization (WTO) permits tariffs as high as 100 percent. For example, Costa Rica applied a 65-percent tariff on dairy product imports, while Guatemala imposed a TRQ with high protective tariffs on over-quota quantities. Without preferential access, U.S. dairy products face stiffer competition from the European Union, New Zealand, and Canada. From 2002 through 2004, U.S. suppliers annually shipped on average 20,700 metric tons of dairy products valued at \$52.4 million to all six countries combined, and the U.S. share of their import market was 10-15 percent. During this period, Guatemala was the largest market accounting for an annual average of 5,703 metric tons valued at \$15 million.

After CAFTA-DR. . . . The agreement on dairy products establishes a two-track approach with the objective of achieving free trade within 20 years. The first step is the establishment of reciprocal duty-free TRQs (with the exception of the Dominican Republic, which will provide additional TRQ access for the United States). The 5 Central American countries and the Dominican Republic combined permit immediate access for over 10,000 tons of U.S. dairy products. In the Central American countries these duty-free TRQs then expand at an annual compound rate of 5 percent. In the Dominican Republic the TRQs grow at a simple rate of 10

percent annually. Individual country dairy product TRQs are divided into product categories with their respective quantitative limits.

The second and concurrent step involves the immediate elimination of in-quota tariffs on dairy products. The over-quota dairy import tariffs and safeguard duties are phased out over a 20-year transition period (for some products the time period is 10-15 years). Over-quota tariffs on dairy TRQs, remain at base rates for years 1 through 10. Beginning the 11th year, over-quota tariffs are reduced in 10 equal stages until all tariffs are eliminated in the 20th year. The provisions for the activation of safeguard duties are identical for all CAFTA-DR members. When imports surpass the quota by 30 percent a safeguard measure may be used, which raises the tariff up to the base tariff rate in years 11 through 14. In years 15 through 17 a safeguard duty of 75 percent of the difference between the current applied tariff and the base tariff may be imposed. During years 18 and 19 the safeguard duty falls to 50 percent of the difference between the current applied tariff and the base tariff. Safeguards are only available until duties are fully eliminated.

The following table outlines the quotas (in metric tons) the United States receives in the 1st year of the CAFTA-DR:

	Cheese	Milk Powder	Butter	Other Dairy Products	Ice Cream	Total
Costa Rica	410	200	150	140	150	1,050
El Salvador	410	300	100	140*	120	1,070
Guatemala	450	400	100	182	160	1,292
Honduras	410	300	100	140	100	1,050
Nicaragua	575	650	150	50	75** 72,815 liters	1,500
Dominican Republic	414	2,970	220	330*	165	4,099
Total	2,669	4,820	820	982	770	10,061

* includes quotas allocated for liquid dairy and yogurt

* actual commitment in liters

U.S. Consumers Benefit

Before CAFTA-DR. . . Under the Uruguay Round Agreement, the United States bound all tariffs applied to U.S. dairy product imports, and established TRQs on many of these products. While all CAFTA-DR nations had access to these TRQs, only Costa Rica had a specific TRQ allocation of 1,550 mt for the “other cheese” category. Under the CBI program, CAFTA-DR countries receive zero duties on in-quota TRQs. U.S. dairy imports above TRQ levels face high over-quota tariffs. Dairy products not covered by TRQs receive zero duties as part of the CBI program. From 2002 through 2004, U.S. companies annually imported on average 18,290 mt of dairy products valued at \$7.4 million from the 6 CAFTA-DR nations combined, and their share of the U.S. dairy import market was less than 3 percent.

After CAFTA-DR... Under the reciprocal terms of the agreement, the United States also establishes duty-free TRQs for over 6,800 tons of imported dairy products. The TRQs are allocated among the 6 CAFTA-DR countries and sub-divided into product categories. These TRQs expand at a 5 percent annual compound rate for Central American countries, 10 percent simple growth for the Dominican Republic. These preferential TRQs have zero in-quota tariffs. The over-quota base tariffs remain at current levels for years 1 through 10 of the implementation, and are then reduced in 10 equal annual steps until all tariffs are eliminated in the 20th year. The United States has recourse to safeguard duties during the implementation period, and the criteria for these safeguards are identical to the criteria for CAFTA-DR countries outlined above.

The following table outlines the 1st year for U.S. duty-free TRQs (in metric tons) on imports of dairy products from the 6 CAFTA-DR nations:

	Cheese	Milk Powder	Butter	Other Dairy	Ice Cream*	Fluid Fresh, Sour Cream*	Total
Costa Rica	300	50	50	150	100 <i>97,087 liters</i>	400 <i>407,461 liters</i>	1,050
El Salvador	450	n.a.	60	120	80 <i>77,670 liters</i>	360 <i>366,715 liters</i>	1,070
Guatemala	500	n.a.	n.a.	250	200 <i>194,174 liters</i>	300 <i>305,596 liters</i>	1,250
Honduras	350	n.a.	100	n.a.	50 <i>48,544 liters</i>	550 <i>560,259 liters</i>	1,050
Nicaragua	875	n.a.	n.a.	100	275 <i>266,989 liters</i>	250 <i>254,663 liters</i>	1,500
Dominican Republic	413	n.a.	n.a.	330	165 <i>160,194 liters</i>	n.a.	908
Total	2,888	50	210	950	870	1,860	6,828

* actual commitment in liters