Order Code RL32110

CRS Report for Congress
Received through the CRS Web

Agriculture in the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA)

Updated December 22, 2005

Remy Jurenas
Specialist in Agricultural Policy
Resources, Science, and Industry Division

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Summary

On August 2, 2005, President Bush signed into law the bill to implement the Dominican Republic-Central American Free Trade Agreement, or DR-CAFTA (P.L. 109-53, H.R. 3045). Drawing much attention during congressional debate were the agreement's sugar provisions to allow additional sugar from the region to enter the U.S. market. To assuage concerns expressed by some Members, the Administration pledged prior to Senate passage to take steps to ensure that all sugar imports, including those under DR-CAFTA, do not exceed a "trigger" that could undermine the U.S. Department of Agriculture's ability to manage the domestic sugar program. Sugar producers and processors responded that USDA's pledge did not address their long-term concerns, and continued last-minute efforts to defeat the agreement.

In DR-CAFTA, the United States and six countries will completely phase out tariffs and quotas — the primary means of border protection — on all but four agricultural commodities traded between them in stages up to 20 years. The four exempted products are as follows: for the United States, sugar; for Costa Rica, fresh onions and fresh potatoes; and for the four other Central American countries, white corn. The Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua have also approved the agreement; Costa Rica's legislature will debate it in the first half of 2006. Once it takes effect, the U.S. agricultural sector will over time gain free access to the six highly protected markets on a reciprocal basis, matching these countries' current duty-free entry for nearly all their agricultural exports to the United States. Other agricultural provisions establish safeguards for specified agricultural products to protect U.S. and the region's producers from sudden import surges; prohibit the use of export subsidies between partners; and establish a mechanism to address sanitary and phytosanitary barriers to agricultural trade.

DR-CAFTA's provisions, once fully implemented, are expected to result in trade gains, though small, for the U.S. agricultural sector. The U.S. International Trade Commission (ITC) estimates that \$328 million in additional exports (primarily grains, meat products, and processed food products) would be offset by a \$52 million increase in imports (largely reflecting additional access granted for sugar and beef from the six countries). Of the \$2.7 billion increase in total U.S. exports that the ITC projects under DR-CAFTA, 12% would be attributable to the U.S. agricultural sector.

Most U.S. commodity organizations, agribusiness and food manufacturing firms, and the American Farm Bureau Federation (a general farm organization) supported DR-CAFTA, expecting to benefit from the guaranteed increased access to the markets of the six countries. Cotton producers announced their support only after one major textile trade association came out in favor of it. The U.S. sugar industry strongly opposed the additional access for sugar imports from these countries, fearing its economic impact on domestic producers and processors. This sector views DR-CAFTA as setting a precedent for including sugar in the other free trade agreements that the Bush Administration is negotiating. Two cattlemen trade organizations held differing positions on the agreement's beef provisions. The National Farmers Union (a general farm organization) opposed DR-CAFTA. This report will be updated.

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FOR MORE INFORMATION, SEE THE FOLLOWING CRS PRODUCTS:

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J.F. Hornbeck.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RS21868, *U.S.-Dominican Republic Free-Trade Agreement*, by Lenore Sek.

Agriculture in the U.S.-Dominican Republic-Central American Free Trade Agreement

Most Recent Developments

On December 19, 2005, a spokesperson for the Office of the U.S. Trade Representative (USTR) stated the United States is prepared as soon as possible to implement the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) with any country determined to have made sufficient progress in adopting new laws and regulations to meet their commitments. Should any country be ready by January 1, 2006, USTR will announce this before the end of 2005, even if only one is prepared. After January 1, he noted that the United States will put the DR-CAFTA into force with other countries on a "rolling basis" — as each becomes ready. The spokesman also signaled that a partner country for whom DR-CAFTA enters into force by April 1, 2006, will be able to take full advantage of their entire 2006 agricultural quotas (e.g., be able to ship to the U.S. market the full amount of a commodity or food product covered by a quota). How quotas will be handled after that date as a country becomes ready to implement the agreement "will be determined as appropriate."

U.S. Agricultural Trade with DR-CAFTA Countries

Exports. U.S. agricultural exports in 2004 to the six countries covered by the DR-CAFTA (Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua) totaled $1.7 billion, and represented 2.8% of U.S. worldwide sales (see **Table 1**). These countries combined represented the seventh-largest export market for U.S. agricultural products after Canada, Japan, Mexico, China, South Korea, and Taiwan. Leading exports were corn, wheat, rice, soybean meal, and tobacco. The Dominican Republic was the largest market — with $461 million in sales that accounted for 27% of all agricultural exports to the region, followed by Guatemala ($383 million with a 23% share). U.S. farm exports accounted for 11% of total U.S. merchandise exports to the six countries, and have increased 56% in value terms since 1995.

Imports. Agricultural imports from these six countries equaled almost $2.5 billion, or almost 5% of all U.S. farm and food imports (see **Table 1**). These countries combined ranked as the fourth-largest source of U.S. agricultural imports in 2004. U.S. purchases of bananas, raw coffee, other fresh fruit, raw cane sugar, and fresh and frozen vegetables led the list. Costa Rica was the largest supplier of food products — shipping $903 million, or 37% of all agricultural imports from the region, followed by Guatemala ($784 million, or 32%). U.S. farm imports accounted for 14% of total U.S. merchandise imports from the six countries, and have grown by 23% in dollar terms over the last decade.

Trade Balance. The United States in 2004 recorded an agricultural trade deficit of $765 million with the six countries covered by the DR-CAFTA. However, if shipments of bananas and coffee — two tropical products produced in very small amounts domestically — are excluded from U.S. imports from this region, bilateral trade with these countries would result in an agricultural trade surplus of $354 million in 2004.

Table 1. U.S. Agricultural Trade with Countries Covered by the DR-CAFTA, 2004

Country/ Region	U.S. Agricultural Exports	Share of U.S. Ag Exports To Region	U.S. Agricultural Imports	Share of U.S. Ag Imports From Region
	million $	*percent*	*million $*	*percent*
Costa Rica	282	16.5	903	36.5
Dominican Republic	461	27.0	261	10.6
El Salvador	246	14.4	101	4.1
Guatemala	383	22.5	784	31.7
Honduras	220	12.9	264	10.7
Nicaragua	113	6.6	114	6.4
Total	$1,705	100.0	$2,470	100.0
DR-CAFTA Share To / From World	2.8% [a]		4.6% [b]	

Source: U.S. Department of Agriculture (USDA), Foreign Agricultural Service; and U.S. International Trade Commission (ITC).

Notes: Exports refer to domestic exports. Imports refer to imports for U.S. consumption only.

[a] of U.S. agricultural exports of $61.3 billion to the world.
[b] of U.S. agricultural imports of $54.0 billion from the world.

Entries under two unilateral U.S. trade preference programs (the Caribbean Basin Initiative and the Generalized System of Preferences) accounted for 45% of U.S. agricultural imports from the six countries in 2003 — meaning they entered duty free. Practically all other agricultural imports (primarily tropical products such as bananas and raw coffee) entered at MFN zero duty rates.[1] Though imports of certain

[1] The United States grants eligible developing countries unilateral preferential tariff (continued...)

commodities (sugar, beef, dairy products, peanuts, tobacco, among others) that the United States protects using tariff-rate quotas (TRQs) generally enter free, amounts allowed to enter are limited by quotas.[2]

Barriers to Agricultural Trade Used by Central America, the Dominican Republic, and the United States

The United States and the six countries primarily use tariffs and TRQs to protect their agricultural sectors. The five Central American countries and the Dominican Republic committed under the multilateral Uruguay Round Agreement on Agriculture (URAA) to bind their average tariffs on agricultural imports at relatively high levels (ranging from Honduras's 35% to Nicaragua's 73%), compared to the U.S. commitment to bind its average rate at 12%.[3] However, in practice, the six countries generally have imposed much lower average tariffs on agricultural imports (with applied tariffs ranging from 6.7% in Nicaragua to 23.3% in the Dominican Republic), and at times have allowed larger amounts of commodities than spelled out in their TRQ minimum commitments to enter duty free or at a lower duty.[4] The average U.S. applied tariff on imports from these six countries is very low (0.2%) when U.S. trade preference benefits are taken into account (see **Table 2**). These applied tariff averages, though, understate the higher level of border protection the United States and the six countries provide their most sensitive agricultural products through the use of quotas and other restrictive measures.

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[1] (...continued)
treatment under these two and other programs, meaning imports are eligible for lower than MFN (most favored nation) rates (in practice, zero or very low duty). Such treatment gives their products a competitive advantage in the U.S. market.

[2] A TRQ combines two policy instruments that nations use to restrict imports: quotas and tariffs. In a TRQ, the quota component works together with a specified tariff level to provide the desired degree of import protection. Imports entering under the quota portion of a TRQ are usually subject to a lower, or sometimes a zero, tariff rate. This "in-quota" amount represents the minimum that a country has committed to allow to enter under multilateral or other trade agreements. Imports above the quota's quantitative threshold (referred to as above-quota) face a much higher (usually prohibitive) tariff.

[3] The global average bound tariff on agricultural imports is 62% (U.S. Department of Agriculture (USDA), Economic Research Service, *Profiles of Tariffs in Global Agricultural Markets*, January 2001, p. 11). A "bound" tariff rate represents the maximum that a country agrees to impose on the value of imports of a particular product, and is based on the outcome of negotiations under the last multilateral negotiations (the Uruguay Round). These bound rates are incorporated as an integral component of a country's schedule of concessions or commitments to other World Trade Organization members. However, for various reasons, a country may decide to impose a lower, or "applied," tariff rate.

[4] For example, for 2005, Guatemala increased the TRQ on yellow corn imports to 600,000 metric tons (MT). Imports within the TRQ are subject to a 5% tariff; imports above the quota amount face a 35% tariff (*F.O. Licht's World Grain Markets Report*, January 12, 2005, p. 11). Under its WTO commitments, Guatemala agreed to a minimum corn TRQ of 88,670 MT, but has raised this several times.

Once DR-CAFTA takes effect, almost all tariffs and quotas on agricultural products imported by the six countries from the United States, and by the United States from these countries, will be phased out completely (see below for details). Each country's agricultural imports from the rest of the world, though, will continue to be subject to the tariff levels and quotas negotiated under the URAA or under separate bilateral FTAs signed with other trading partners.

Negotiating Objectives for Agriculture

U.S. objectives in negotiating DR-CAFTA's agricultural provisions were to (1) eliminate Central American and Dominican Republic tariffs, quotas, and non-tariff barriers to trade, (2) provide adequate transition periods and relief mechanisms for the U.S. agricultural sector to adjust to increased imports of sensitive products from the region, (3) eliminate any unjustified sanitary and phytosanitary (SPS) restrictions imposed by the six countries and seek their affirmation of their World Trade Organization (WTO) commitments on SPS measures, and (4) develop a mechanism with its FTA partners to support the U.S. objective to eliminate all agricultural export subsidies in the WTO and Free Trade Area of the Americas (FTAA) negotiations.[5] The U.S. position called for no product or sectoral exclusions from the final agreement. U.S. officials also repeatedly made clear that the issue of U.S. farm support or subsidies, which the Central American countries sought to place on the negotiating table, should only be addressed in WTO multilateral negotiations.

Almost all of the agricultural exports to the United States from the FTA partner countries already enter duty free under trade preference programs or at MFN zero rates. Consequently, the six countries were most interested in securing unrestricted market access for those commodities now subject to U.S. TRQs: sugar and certain sugar-containing products, beef, dairy products, peanuts, tobacco, and cotton. However, Central American and Dominican Republic negotiators expressed fears that opening up their markets to U.S. corn and rice would undermine the region's small subsistence farmers unable to compete against subsidies that U.S. producers

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[5] The WTO Doha Development Agenda (DDA) Round's objectives for agriculture are to substantially improve market access for agricultural products, reduce and phase out export subsidies, and substantially reduce trade-distorting domestic support. For more information, see CRS Report RL33144, *WTO Doha Round: Agricultural Negotiating Proposals*, by Charles Hanrahan and Randy Schnepf. For an explanation of agricultural trade liberalization in the last multilateral agreement, see CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*, by Randy Schnepf. The FTAA's stated objectives are to reduce and eliminate barriers to trade in goods (including agricultural commodities and food products) and services, facilitate cross-border investment, among others, to allow 34 countries of the Western Hemisphere (excluding Cuba) to trade and invest with each other under the same rules. Participating countries initiated formal talks in 1998 with a target of creating a hemispheric free trade area by January 2005, which was not met. Many observers do not expect the FTAA process to proceed, until substantial progress occurs in the DDA Round negotiations. For additional background, see CRS Report RL30935, *Agricultural Trade in the Free Trade Area of the Americas*, by Remy Jurenas,. and CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J.F. Hornbeck.

Table 2. Average Tariffs and Tariff-Rate Quotas on Agricultural Imports: United States and the Six Countries Covered by DR-CAFTA

	WTO Bound Rate[a]	Applied Tariff Rate	Tariff-Rate Quotas
	percent		
United States	12.0	12.0 [b]	dairy products, sugar, sugar-containing products, peanuts, tobacco, cotton, beef
Costa Rica	48.0	14.6	pork, poultry, dairy products, beef, rice, corn, beans, sugar, tobacco
Dominican Republic	40.0	23.3	chicken meat, onions, garlic, powdered milk, dry beans, corn, rice, sugar
El Salvador	43.2	10.3	beef, dairy products, yellow corn, vegetable oils, sugar, tobacco
Guatemala	58.3	9.9	apples, yellow corn, rice, wheat or meslin flour
Honduras	35.0	11.1	None — uses a price band for grains and a commodity absorption arrangement
Nicaragua	73.4	6.7	corn, rough & milled rice, sorghum, vegetable oil, beans, beef, poultry, dairy products, sugar

Source: U.S. Trade Representative (USTR) and U.S. International Trade Commission (ITC) for bound and applied rates; World Trade Organization (WTO) for commodities subject to TRQs.

[a] 2001 for United States, 2000 for the Central American countries and the Dominican Republic.
[b] The U.S. applied tariff on agricultural imports from the five Central American countries and the Dominican Republic is much lower — 0.02%, reflecting duty-free treatment of imports that entered under two trade preference programs and the commodity/product composition of imports.

receive under current farm programs. Though these countries had pressed to include the subsidy issue on the negotiating agenda, they eventually did accept the U.S. position that this issue should be addressed multilaterally in the WTO context.

DR-CAFTA's Main Agricultural Provisions

In the agreement, the United States and the six countries agreed to completely phase out tariffs and quotas — the primary means of border protection — on all but four agricultural commodities and food products in six stages: immediately, 5 years, 10 years, 12 years, 15 years, and more than 15 years. The four most sensitive commodities — fresh potatoes and fresh onions imported by Costa Rica, white corn imported by the other four Central American countries, and sugar entering the U.S. market — will be treated uniquely. After a specified period, the size of the quotas established for these four commodities will increase about 2% each year in perpetuity. In other words, a cap limiting imports will always be in place. The tariff on entries above the quota level (frequently referred to as the over-quota tariff) will not decline at all, but stay at current high levels to keep out above-quota imports, in order to protect producers of the four commodities.

For all other sensitive products that fall into any of the over-10-year transition periods, negotiators on all sides agreed to provide some measure of protection. While details vary by commodity and food product, these will take the form of tariff-rate quotas effective only during the transition to free trade, long tariff and quota phase-out periods, nonlinear tariff reductions, and the use of an import safeguard mechanism. Nonlinear refers to a practice known as "backloading," where most of the decline in a tariff occurs in the last few years of the transition period. Safeguards will serve to protect agricultural producers from sudden surges in imports, triggered when quantities increase above specified levels. When triggered, an additional duty — temporary in duration — is applied to provide protection, according to detailed terms found in annexed schedules. Each country negotiated its own list of agricultural products eligible for safeguard protection. A country's right to use safeguards will expire at the end of the transition period.

All countries commit under DR-CAFTA not to introduce or maintain agricultural export subsidies to sell commodities or food products to each other. Such subsidies, though, *are* allowed to counter the trade-distorting effects of exports subsidized by third countries if an exporting country and an importing country fail to agree on counter measures.

Rules of origin specify what is required for a product to be considered to have been produced or processed in a country that is a party to a trade agreement. They are used to determine whether a product benefits from an FTA's preferential terms (e.g., duty-free and/or additional quota access).

The agreement commits all countries to apply the science-based disciplines of the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures to facilitate trade.[6] Should disagreements arise, a working group will serve as a forum for consultations and resolving technical issues. The text precludes the use of DR-CAFTA's dispute settlement provisions to resolve differences when SPS problems cannot be resolved.

Market Access for U.S. Agricultural Products Sold to Central America and the Dominican Republic

The DR-CAFTA will grant immediate duty-free status to more than half of the U.S. farm products now exported to the six countries, according to the Office of the

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[6] This multilateral agreement includes understandings or disciplines on how countries will establish and use measures to protect "human, animal or plant life or health," taking into account their direct or indirect impact on trade in agricultural products. It requires countries to base their SPS standards on science, and encourages countries to use standards set by international organizations to guide their actions. The agreement seeks to ensure that countries will not use SPS measures to arbitrarily or unjustifiably discriminate against the trade of other WTO members or to adopt them to disguise trade restrictions.

U.S. Trade Representative (USTR).[7] Such treatment will apply to high-quality beef cuts, cotton, wheat, soybeans, certain fruits and vegetables, processed food products, and wine destined for the five Central American countries. U.S. exports of corn, cotton, soybeans, and wheat to the Dominican Republic will benefit also from immediate duty-free treatment. Central American tariffs and quotas on most other agricultural products (pork, beef, poultry, rice, other fruits and vegetables, yellow corn, and other processed products) will be phased out over a 15-year period. Longer transition periods will apply to imports from the United States of rough/milled rice and chicken leg quarters (18 years) and dairy products (20 years). Dominican Republic tariffs and quotas on most other U.S. agricultural products (beef, pork, and selected dairy and poultry products) will be eliminated over 15 years. However, 20-year transitions will cushion the impact of the entry of U.S. chicken leg quarters, rice, and certain dairy products (cheese and milk products).[8] An overview of these countries' DR-CAFTA commitments with respect to imports from the United States of selected commodities appears in the section "U.S. Agriculture and Food Sectors' Views on DR-CAFTA's Agricultural Provisions," below.

With El Salvador, Guatemala, Honduras, and Nicaragua designating white corn as their most sensitive agricultural commodity (produced by subsistence farmers and used as a staple to make tortillas), negotiators agreed to establish a quota (i.e., equal to the current import level) that increases about 2% annually in perpetuity. Compared to all other commodities imported from the United States, there will be no reduction in the over-quota tariff for white corn. U.S. exports of fresh potatoes and onions to Costa Rica would be subject similarly to quotas that increase slowly in perpetuity but face permanent high over-quota tariffs.

USTR further states that U.S. agricultural products will have "generally better" access to the Central American countries than is given to similar imports from Canada, Europe, and South America. The six FTA partners also agreed to "move toward recognizing export eligibility for all U.S. plants inspected under the U.S. food safety and inspection system."

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[7] USTR, "Free Trade with Central America: Summary of the U.S.-Central America Free Trade Agreement," December 17, 2003; "Putting CAFTA into Perspective: Fact Sheet on Agriculture," February 9, 2004; "Fact Sheet on Specific Agricultural Products in CAFTA," March 9, 2004; "Adding Dominican Republic to CAFTA: Combining to Create America's Second-Largest Export Market in Latin America," March 15, 2004 (available at [http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/Section_Index.html]).

[8] The U.S. Department of Agriculture has issued fact sheets that detail the DR-CAFTA's provisions for beef, cookies, cotton, dairy products, pet food, feed grains (corn, sorghum, barley) and food grains (wheat and rice), fruits and nuts, peanuts and peanut butter, pork, poultry, pulses (beans, lentils, peas), soups, soybean oil, soybeans and soymeal, sugar, and vegetables (at [http://www.fas.usda.gov/info/factsheets/CAFTA/commodity.html]).

Market Access for Central American and Dominican Republic's Agricultural Products Sold to the United States

Almost all agricultural imports (in value terms) from the six countries already enter the U.S. market duty free. DR-CAFTA, according to USTR, "will consolidate those benefits [immediately] and make them permanent." For the U.S. sensitive agricultural products (sugar, sugar-containing products, beef, peanuts, dairy products, tobacco, and cotton), U.S. negotiators granted duty-free access in the form of country-specific preferential quotas. These quotas would be in addition to (i.e., not carved out of) the existing agricultural TRQs established by the United States under its existing WTO commitments, which the six countries have taken advantage of historically to export to the U.S. market.

Because of its sensitivity, the United States will similarly treat sugar imports as the four Central American countries protect white corn imports. The new sugar quotas would expand gradually each year, but the high and prohibitive over-quota tariff will remain unchanged, in perpetuity. Details on the U.S. provisions for sugar and other selected commodities are provided in the section "U.S. Agriculture and Food Sectors' Views on DR-CAFTA's Agricultural Provisions," below.

Potential Impacts of DR-CAFTA on Agricultural Trade and Sectors

In an economy-wide, *quantitative* analysis of the DR-CAFTA, the U.S. International Trade Commission (ITC) projects that 12% of the agreement's overall export gains would flow to U.S. agriculture.[9] Two-thirds of the export gains would be realized by the U.S. manufacturing (36%) and textile (30%) sectors (see **Table 3**).

Textile imports from the six countries would account for almost all of the growth in total U.S. imports under full implementation of the agreement, according to the ITC. Additional U.S. agricultural imports would represent almost 2% of the import change under DR-CAFTA. The ITC analysis shows small negative changes in imports of manufactured products, energy and other raw materials, and services (see **Table 3**).

[9] U.S. International Trade Commission (ITC), *U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, Publication 3717, August 2004 (available at [http://www.usitc.gov/WAIS/pub3717.PDF]). This summary is based on Tables 4-4 and 4-5 (pp. 75-76) and the accompanying text. This assessment used a general equilibrium simulation to look at the impact of the agreement's market access provisions *on all U.S. economic sectors*, taking also into account each sector's relative economic importance. Because the ITC used two different data and analytical frameworks, this quantitative assessment is not directly comparable to the sectoral analyses for the grains and sugar sectors. The latter involved ITC's *qualitative* analysis of the agreement's detailed provisions, which are summarized in the following paragraphs.

Table 3. Impact of DR-CAFTA on U.S. Trade, by Economic Sector

	U.S. Exports to DR-CA			U.S. Imports From DR-CA		
	Base Value before FTA	Change to Base after FTA Full Implementation	Share of Export Change	Base Value before FTA	Change to Base after FTA Full Implementation	Share of Import Change
	million $		*percent*	*million $*		*percent*
Agriculture	1,921.9	**+ 328.4**	+ 12.3	4,065.7	**+ 52.1**	+ 1.9
Textile, Apparel, & Leather Products	5,350.0	+ 802.8	+ 30.1	11,763.9	+ 3,067.5	+ 110.5
Manufactured Products	5,561.5	+ 967.8	+ 36.3	3,434.7	- 170.3	- 6.1
Energy, Minerals & Other Raw Materials & Related Products	3,770.6	+ 533.5	+ 20.0	1,306.1	- 73.2	- 2.6
Services	710.4	+ 32.8	+ 1.2	1,738.3	- 100.0	- 3.6
TOTAL	17,314.0	+ 2,666.6	100.0	22,308.6	+ 2,776.2	100.0

Source: Adapted by CRS from Table 4.4 in ITC's *U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, p. 75.

Increases in U.S. sugar, meat, and dairy imports (due to the expansion and/or elimination of U.S. agricultural TRQs under DR-CAFTA) would be offset to some degree by a drop in imports of vegetables, fruits, nuts, processed food and tobacco products, and other crops imported from the six countries. According to the ITC, these small declines would largely reflect the movement of labor and resources in the DR and Central American countries away from producing the latter products (which already benefit from preferential duty-free access to the U.S. market) to the more profitable textile, apparel, leather products, and sugar sectors, which expand output to take advantage of the agreement's openings in the U.S. market. Under DR-CAFTA, U.S. agricultural imports from the six countries would increase 1.3% (**Table 4**). This $52 million in net imports would equal one-tenth of 1% of total U.S. agricultural imports ($73 billion, according to the ITC).

ITC's *qualitative* analysis examined how two agricultural commodity sectors would be affected *over time* — grains and sugar. U.S. corn and rice exports to the region would see little change in the short term, but would rise as the six countries' quotas expand. Once quotas are fully phased out, U.S. grain exports are expected to increase substantially. The ITC estimates that by the end of the 15-20 year transition period, annual U.S. grain exports to the region likely would increase by at least 20% ($120 million), based on 2003 prices — broken out among corn ($75 million), rough rice ($35 million), and milled rice ($10 million). Though the impact of these additional sales in the long run is small (equal to 1.2% of 2003 U.S. grain exports worldwide), the ITC views the potential increase as offering significant market opportunities for U.S. corn and rice producers. The ITC further found that the U.S.

Table 4. Impact of DR-CAFTA on U.S. Agricultural Trade

	U.S. Exports to DR-CA			U.S. Imports From DR-CA		
	Base Value before FTA	Change after FTA Full Implementation		Base Value before FTA	Change after FTA Full Implementation	
	million $		*percent*	*million $*		*percent*
Agriculture	1,921.9	**328.4**	17.1	4,065.7	**52.1**	1.3
Grains	722.8	157.3	21.8	0.1	0.0	-1.0
Meat Products	204.0	84.1	41.2	79.4	13.2	16.7
Other Processed Food & Tobacco Products	639.7	53.5	8.4	1,126.2	-25.5	-2.3
Other Crops	237.6	17.3	7.3	746.0	-19.3	-2.6
Vegetables, Fruits & Nuts	53.8	7.7	14.2	1,717.5	-31.5	-1.8
Dairy Products	22.9	5.9	25.8	4.7	2.9	62.2
Animal Products n.e.c.	37.3	1.7	4.5	61.8	-0.9	-1.4
Sugar Manufacturing	0.4	0.6	166.4	329.3	113.2	34.4
Cattle & Horses	3.4	0.3	10.2	0.7	0.0	-2.1
Sugar Crops	0.0	0.0	NA	0.0	0.0	NA

Source: Adapted by CRS from Table 4.4 in ITC's *U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, p. 75.

grains sector would, of all economic sectors, experience the most noticeable positive changes, though very small. Grain output, revenues, and employment would rise between one-quarter to one-third of 1%.[10]

The ITC expects that the DR-CAFTA's sugar provisions likely would result in a "small increase" in U.S. sugar and sugar-containing product (SCP) imports from the region equal to the quantities spelled out in the new preferential quotas. Prices (calculated to drop by about 1%) due to increased imports "likely would have an adverse impact on production and employment for U.S. sugar producers." At the same time, lower prices "likely would benefit production and employment for U.S. producers of certain SCPs," particularly of those containing high sugar content. The ITC's analysis further shows that the U.S. sugar manufacturing and sugar crops sectors would both experience the largest percentage decrease of all sectors in domestic output and employment — more than 2%.[11]

[10] Ibid., pp. 51-52, 78-79.

[11] Ibid., pp. 46-47, 78-79.

U.S. Agriculture and Food Sectors' Views on DR-CAFTA's Agricultural Provisions

Most U.S. commodity organizations, agribusiness and food firms, and the American Farm Bureau Federation (a general farm organization) supported this trade agreement, expecting their producer-members and exporters to benefit from the increased access guaranteed to the Central American and Dominican Republic markets. Supporters in the spring of 2005 formed the Agricultural Coalition for DR-CAFTA to present and argue their position to Members of Congress. The U.S. cotton sector initially opposed the agreement, primarily reflecting the concerns of textile firms, but in early May 2005 came out in favor following the decision by a major textile trade association to support it.

Other commodity groups concerned about the competitive pressures they expect to face under DR-CAFTA opposed the agreement. These include the sugar industry, and one livestock/beef trade association. The U.S. sugar industry strongly opposed the additional access given to sugar, fearing its economic impact on domestic producers and processors. Sugar producers' and processors' greatest concern was that DR-CAFTA sets a precedent for including sugar in the other FTAs that the Bush Administration is negotiating, a position that the industry strongly opposes. One trade organization representing cattlemen with concerns about free trade agreements in general opposed DR-CAFTA's beef provisions. The National Farmers Union (a general farm organization) opposed the agreement.

Commodity and Food Trade Associations

Many U.S. agricultural commodity and food organizations supported DR-CAFTA, expecting their producer-members and exporters to benefit from the market openings negotiated to increase sales to the six countries. On March 22, 2004, a coalition of 39 groups sent a letter to President Bush "to underscore their support" for this trade agreement. Their letter contended the agreement "will expand U.S. agriculture exports and put U.S. agriculture on an equal footing with its competitors in these markets" that already have FTAs with other countries. They argued that if CAFTA is not implemented, agricultural trade with these countries would continue on a non-reciprocal basis, with U.S. farm exports facing significant barriers, while over 99% of U.S. agricultural imports from these countries would still receive duty-free treatment. Similar coalitions sent nearly identical letters on September 3, 2004, and February 1, 2005, to each Member of Congress.[12]

Processed Foods. Food manufacturers view the six countries as strong markets for U.S. processed food products, pointing out that such exports already account for some 25% of their total food imports and are increasing faster than any other U.S. agricultural export. With processed foods facing average tariffs of 15% in the Central American countries and 20% in the Dominican Republic, an analysis

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[12] Available at [http://www.uscafta.org/articles/view.asp?ID=34], [http://www.uscafta.org/policy/view.asp?POLICY_ID=81], and [http://www.uscafta.org/policy/view.asp?POLICY_ID=112].

prepared for the Grocery Manufacturers Association (GMA) estimated that the elimination of tariffs and quotas on key food products could result in an 84% increase (from $359 million to $662 million) in U.S. exports to the region one year after DR-CAFTA is fully implemented. Growth is foreseen in particular in exports of snack foods, confectionary products, and soups. GMA expects other long-term benefits for its member companies with the adoption of new rules that "will lead to a stronger, more predictable business climate in the region." Examples cited are dealer protections that give manufacturers more flexibility and efficient product distribution, enhanced intellectual property and investor protections that are viewed as better protecting trademarks and providing a more secure business environment for increased sales of branded products, and impetus for further integrating the region's market that results in economies of scale for production and distribution and increased demand for U.S. food products.[13]

Rice. The USA Rice Federation supported DR-CAFTA, noting it achieves market access gains for U.S. rice producers, millers, and exporters. It pointed out that the agreement improves existing access to an already leading market for U.S. rice exports, reduces high import duties, remedies tariff discrimination against certain forms of rice, and extends preferential duty treatment that is not available to any other rice-exporting country. In particular, DR-CAFTA preserves existing access for U.S. rough (unmilled) rice, and provides for immediate guaranteed access for milled and brown rice. The Central American countries agree to establish separate TRQs for rough and milled rice (the Dominican Republic created TRQs for brown and milled rice) totaling almost 407,000 metric tons in year 1, increasing slowly over 18 to 20 years to almost 609,000 MT. This compares to U.S. rice exports to the six countries of 714,000 MT in 2004 (valued at $184 million). In-quota rice imports from the United States would no longer be subject to applied tariffs ranging from 29% to 99%. The separate TRQs, the Rice Federation notes, will allow end users in these countries to chose between rough and milled rice, and over time, enable U.S. exporters to sell higher-value rice to these markets.[14]

Pork. Pork producers represented by the National Pork Producers Council (NPPC) supported DR-CAFTA, because of the immediate benefits created through negotiated market openings. Each country agrees to create duty-free TRQs for pork cuts totaling 13,613 MT in year 1, which then annually rise slowly to equal 29,040 MT in year 15, after which quotas and tariffs disappear altogether. In 2004, U.S. pork sales to all six countries totaled 8,442 MT (valued at $16 million). In-quota pork imports from the United States during this transition will no longer face applied

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[13] GMA's Statement to the House Ways and Means Committee, April 21, 2005. GMA is the trade association for food, beverage, and consumer product companies, with reported U.S. sales of more than $500 billion and 2.5 million employees throughout the country, and advocates reducing trade barriers and increasing market access for processed food products globally. The analysis referred to can be accessed at [http://www.gmabrands.com/public policy/docs/cafta.pdf].

[14] USA Rice Federation Testimony to the Senate Finance Committee, April 13, 2005 (at [http://finance.senate.gov/hearings/testimony/2005test/thtest041305.pdf]). Quota amounts and current in-quota tariffs are from the DR-CAFTA text's general notes and tariff schedule annex for each country.

tariffs that now range from 15% to 47%. The NPPC anticipates that the income growth from free trade with the region will boost demand for pork, even though at present most consumers in the region do not eat meat on a regular basis. The NPPC also notes that SPS discussions have led all countries to recognize the U.S. meat inspection system and to accept pork from any USDA-inspected facility.[15]

Corn and Corn Products. The National Corn Growers Association (NCGA) views the DR-CAFTA as creating new export opportunities for U.S. corn farmers and locking in the current U.S. market share in the region. It expects the agreement to stimulate U.S. exports of corn co-products like corn gluten feed and meal, distillers dried grains (DDGs), corn starches, corn oil, and sweeteners (e.g., high fructose corn syrup (HFCS)). The six countries will reduce tariffs on some corn products (such as HFCS) within 15 years, with tariffs eliminated immediately on corn gluten products, starch, oils, and DDGs. The Corn Refiners Association (CRA) also supported the agreement, seeing excellent export prospects for these value-added products that have averaged $19 million in recent years. CRA notes that the sweetener provisions in DR-CAFTA are "unambiguous," unlike those in NAFTA, which have led to the "total loss" of a market for U.S.-produced HFCS.[16]

Tariff and quota provisions on access for U.S. corn in these markets distinguish between yellow and white corn. Four countries agree to establish duty-free TRQs for *yellow* corn (used primarily as a feed for their livestock sectors) totaling 1.15 million metric tons (MMT) in year 1, rising to 1.74 MMT at the end of transition periods (10 years for Guatemala, and 15 years for El Salvador, Honduras, and Nicaragua). In 2004, all U.S. corn exports to these four countries totaled 1.22 MMT (valued at $150 million); corn exports to Costa Rica and the Dominican Republic were 1.24 MMT ($147 million). Current tariffs imposed by the four countries on yellow corn ranging from 15%-45% will disappear by the end of the transition period. Access to Costa Rica and the Dominican Republic will be duty-free in the first year.

Because of its sensitivity and symbolic status as a staple food, negotiators agreed to treat *white* corn differently. The same four Central American countries will also create duty-free TRQs for white corn totaling 84,660 MT in year 1, growing slowly to reach 116,200 MT in year 20. Thereafter, each country's quota (except Nicaragua's) would increase by about 1.5% each year in perpetuity, but the 10%-45% tariff on over-quota imports (depending upon the country) would remain in place indefinitely. Costa Rica would eliminate its tariff on U.S. white corn over 15 years; the Dominican Republic will continue current duty-free treatment.

Poultry. The National Chicken Council, National Turkey Federation, and the U.S. Poultry and Egg Council supported the agreement. The agreed-upon provisions largely reflect a framework that the U.S. poultry sector developed with the poultry sectors in Central America, which trade negotiators on both sides adopted with minor changes. This framework was based on the consensus reached between the private

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[15] NPPC, "U.S. Pork Producers Support the CAFTA-DR," January 3, 2005 (at [http://www.nppc.org/hot_topics/CAFTABackgrounder010305.pdf]).

[16] NCGA, "Central America FTA," early 2004; CRA, "CAFTA and the U.S. Corn Refining Industry," January 26, 2005.

sectors in the U.S. and the region that there be "restricted access to the most sensitive [poultry] products and more generous access for those products that are less sensitive."[17]

Applied tariffs on fresh and frozen poultry imports imposed by some of these countries can range up to 164%. According to USDA, U.S. poultry exports to the six countries in the 2000-2004 period averaged each year just above 73,000 MT and were valued at $51 million. Chicken leg quarters accounted for some 55% of the value of all U.S. poultry sold to these countries.

Under DR-CAFTA, the six countries will provide immediate duty-free access on chicken leg quarters. Each country will create a TRQ on leg quarters that slowly increases as tariffs are eliminated in 17 to 20 years, depending on country. Costa Rica's TRQ of 330 MT in year one would grow by 10% each year. The other Central American countries (each with its own minimum quota level) will establish a regional TRQ of 21,810 MT in the first year, which would rise slowly through year 12. Beginning in year 13, the TRQ would be not less than 5% of regional chicken output. The Dominican Republic agreed on an initial TRQ for leg quarters of 550 MT, growing by 10% annually. All countries' tariffs on other poultry products (e.g., wings, breast meat, and mechanically de-boned chicken) will be reduced at a faster pace, with many eliminated within 10 years.

The Dominican Republic will also establish separate TRQs for mechanically de-boned chicken (phased out over 10 years) and for turkey products (with a 15-year phase-out).

Dairy Products. The National Milk Producers Federation, the U.S. Dairy Export Council, and the International Dairy Foods Association supported DR-CAFTA. They viewed this agreement as providing an opportunity to export more U.S. dairy products to the region on a duty-free basis while minimizing imports from these countries. The dairy industry noted that U.S. export access to the six countries offsets the market access that U.S. negotiators granted to Australia (a major dairy exporter) under that FTA.[18] The agreement's provisions largely reflect the outcome of discussions held between representatives of the U.S. and Central American dairy sectors. The longest transition period to free trade in DR-CAFTA applies to dairy products traded in both directions, with provisions structured to provide nearly reciprocal access in the amounts traded between the U.S. and the five Central American countries during the 20-year transition period. U.S. dairy exporters, though, will receive more access to the Dominican Republic market than the other way around. The U.S. dairy sector pointed out that the agreement's declining tariffs

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[17] *Food Chemical News*, "U.S. food industry hails CAFTA agreement," December 22, 2003.

[18] The NMPF is the trade association that represents dairy farmers and their marketing cooperatives. The USDEC's objective is to help promote dairy exports by helping member firms increase sales or reduce their costs of doing business. Its membership includes milk producers, dairy cooperatives, proprietary processors, export traders and industry suppliers. IFDA advocates on behalf of the dairy foods industry on domestic and international dairy policies, and represents dairy food manufacturers, marketers, distributors and industry suppliers in the United States, Canada, and other countries.

and preferential quotas will improve U.S. competitiveness vis-a-vis the European Union, New Zealand, and Canada, which also sell to these countries.

For each country, DR-CAFTA creates duty-free TRQs for six dairy products: cheese, milk powder, butter, ice cream, fluid milk and sour cream (U.S. only), and other products. High over-quota tariffs and safeguards (imposed when imports exceed specified volumes) are phased out over the 20-year transition period. Quota amounts agreed upon by negotiators differ by country and by type of product.

The United States will receive quota access in the six markets combined in year 1 for almost 10,100 MT of dairy products. Quotas in the Central American countries will expand by 5% each year; those in the Dominican Republic will increase by 10% annually. For non-quota products, the United States gains immediate duty-free access in these markets for whey and lactose. From 2000 to 2004, U.S. dairy exports (some products subject to quotas, others not) to the six countries averaged 20,700 MT ($52 million) annually, according to USDA.

In return, the six countries together would receive in year 1 duty-free quota access to the U.S. market for over 6,800 MT of specified dairy products. U.S. quotas would each year grow by 5% for the Central American countries, and by 10% for the Dominican Republic. In 2000-2004, U.S. dairy imports from these six countries totaled an annual average of 18,290 MT (valued at $7.4 million).

Sugar. The new preferential quotas offered by the United States for sugar from the six countries are in addition to the minimum level of duty-free access they already have to the U.S. market. Together, they are allowed to sell each year a minimum of 311,700 MT of raw cane sugar under their respective shares of the U.S. sugar import quota. This represents 28% of the 1.117 million MT market access commitment that the United States has entered into with some 40 countries around the world. Under DR-CAFTA, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic each will receive varying levels of duty-free access for a combined additional 109,000 MT of sugar in year 1 — a 35% increase over their current level. Increasing on average about 3% per year, by year 15, these countries will have access for an additional 153,140 MT of sugar in the U.S. market above the 2004/05 current level. Thereafter, their preferential quotas combined will increase by almost 2% (2,640 MT) annually in perpetuity. The U.S. over-quota tariff (calculated by the ITC to be 78% in 2003) will stay at the current high level indefinitely, and not decline. Negotiators agreed upon a "compensation" mechanism that the United States can exercise at its sole discretion in order to manage U.S. sugar supplies. If activated, the United States commits to compensate the six countries for sugar they would not be able to ship to the U.S. market under the above market access provisions.

The U.S. sugar industry (producers of sugar beets and sugarcane and processors of their crops) opposed DR-CAFTA, claiming that the additional sugar imports allowed under its provisions combined with those envisioned in additional FTAs being negotiated "will destroy the domestic sugar industry ... and overwhelm an already abundantly supplied market." The industry has continually advocated that sugar trade issues be instead addressed multilaterally in the WTO trade negotiations. Its membership wrote to President Bush (January 14, 2004), and the lead U.S.

agricultural trade negotiator (March 23, 2004), to restate its opposition and to request that the Bush Administration reconsider the sugar access commitments offered the Central American countries, and withdraw the access commitment granted to the Dominican Republic.[19]

In response, the USTR pointed out that the additional access granted all six countries will equal about 1.2% of current U.S. sugar consumption in year 1, and 1.7% in year 15.[20] The Trade Representative argued that the sugar sector will be protected by the sugar compensation mechanism, a prohibitive tariff on above-quota imports, and the prohibition on third-country transshipments of sugar through any of the six countries to the U.S. market.

The Sweetener Users Association (SUA), composed of industrial users of sugar and other caloric sweeteners and the trade associations that represent them, supported the DR-CAFTA. It argued this agreement will enhance competition in the U.S. sugar market, increase export opportunities for other U.S. food and commodity sectors in the six countries, and have a positive employment effect on the U.S. confectionery and other sugar-using industries by reducing incentives for them to relocate offshore to take advantage of lower-priced world sugar.[21] The International Dairy Foods Association and the National Confectioners Association similarly favored the agreement, because of the access provided for additional imports of sugar. Imperial Sugar Company, an investor-owned sugar processor, supported DR-CAFTA. Since it relies almost completely upon foreign sugar for the raw sugar refined at its cane refinery in Savannah, Georgia, its president argued that the "ability to secure ... imported sugar ... is critical to maintaining our competitiveness" and ability to provide buyers with a sufficient supply of refined sugar.[22]

Responding to the ITC's analysis of DR-CAFTA's impact on the U.S. sugar sector (see pages 9-10), the American Sugar Alliance (ASA), speaking for producers and processors, stated it "seriously underestimates the danger of the [agreement] for our industry." The ITC report, according to the ASA, did not take into account the U.S. commitment under NAFTA to allow free access to sugar imports from Mexico starting in 2008 and potential obligations to open the U.S. sugar market to imports from other sugar-exporting countries with which the United States is negotiating free trade agreements. Sugar import obligations in addition to those in CAFTA, ASA

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[19] American Sugar Alliance, "U.S. Sugar Industry Rejects Proposed CAFTA; Favors WTO," December 17, 2003; "U.S. Sugar Industries Letter to President Bush Regarding Opposition to CAFTA," January 14, 2004, at [http://www.sugaralliance.org/desktopdefault.aspx?page_id=110].

[20] USTR, "Sugar: A Spoonful A Week," February 2005 (available at [http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file923_7210.pdf]).

[21] ITC, Hearing on the U.S. Free Trade Agreement with Central America and the Dominican Republic: Potential Economywide and Selected Sectoral Effects, April 27, 2004, "Statement of Thomas Earley for the Sweetener Users Association before the U.S. International Trade Commission," p. 4.

[22] Letter to Senator Grassley from Robert A. Peiser, President of Imperial Sugar, April 26, 2005, accessed at World Trade Online ([http://www.insidetrade.com/]).

argued, would cause lower prices, more bankruptcies, and lost jobs. The Sweetener Users Association responded that the ITC's projections "appear to be overstated" — by not considering the additional demand for sugar created by U.S. population growth over time and USDA's authority to limit the amount of domestic sugar that can be marketed to ensure that no change in domestic prices occurs.

Background on Sugar Deal. The prospect that there might not be enough votes to approve the Administration's draft bill to implement DR-CAFTA during its "mock markup" by the Senate Finance Committee on June 14, 2005, prompted a commitment by Secretary of Agriculture Johanns to sit down with Members to discuss their concerns about the agreement's sugar provisions. Members of Congress from districts and states where sugar crops are grown subsequently met with USDA and White House officials to discuss options. Proposals presented by some Members on behalf of the sugar producers and processors reportedly included (1) earmarking the additional sugar imported under DR-CAFTA and any future trade agreements for the production of ethanol by U.S. sugar processors, to be subsidized by the federal government, (2) an immediate resolution of the ongoing trade dispute about Mexican sugar access to the U.S. market, and (3) a commitment to continue the current features of the sugar program.[23]

On June 22, USDA Secretary Johanns responded with a proposal to Members that would have USDA administer the domestic sugar program through FY2008 (when current authority expires) so that total U.S. sugar imports would never exceed 1.532 million short tons. This is the statutory level that triggers the suspension of "marketing allotments" — a mechanism agreed to by sugar processors to limit sales of domestically-produced sugar to ensure that the total supply of sugar available to meet domestic demand does not result in market prices falling below effective support levels. Should allotments be triggered, the sugar industry has argued that the stocks of sugar they would be free to release into the market, when added to the additional imports, would depress prices low enough to result in USDA acquiring sugar as price support loans came due. This would result in program outlays and USDA not being able to meet the "no-cost" objective called for by the 2002 farm bill.[24]

To keep imports below the trigger level, USDA proposed to donate surplus commodities in its inventories or make cash payments to compensate sugar exporters in Central America or Mexico for sugar they would not ship to the U.S. market under DR-CAFTA's and NAFTA's terms. The commitment would reportedly extend only through the end of current sugar program authority (the 2007 crop, or FY2008).[25]

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[23] *The Times-Picayune*, "Sugar industry offers deal to end standoff over CAFTA," June 16, 2005; *PalmBeachPost.com*, "Ethanol subsidy can't woo sugar to accept CAFTA," June 17, 2005.

[24] For more information, see CRS Issue Brief IB95117, *Sugar Policy Issues*, by Remy Jurenas.

[25] *Inside US Trade*, "Administration isolates sugar industry on CAFTA, sets stage for vote," June 24, 2005, pp. 1, 18-19; *Washington Trade Daily*, "Bush submits CAFTA Final Bill," June 24, 2005.

Additional discussions continued, with sugar industry representatives participating in the last session held June 27. The Administration at that point shifted focus to address the concerns of a smaller group of Members, and in discussions with Senators Chambliss and Coleman, agreed to commit in writing those steps that USDA would take if imports under current trade agreements (including DR-CAFTA) exceeded the trigger level. Senate Finance Committee consideration of S. 1307 (the DR-CAFTA implementation bill) was delayed one day, until the letter was finalized and accepted by the two Senators as an adequate resolution to their concerns.

The Secretary's June 29th letter to the chairmen of the House and Senate Agriculture Committees pledged to "preclude" the entry of additional sugar imports if they will exceed the trigger, and place the sugar program at risk, by: (1) making payments using agricultural commodities to sugar exporters in other countries in return for their not shipping sugar to the U.S. market, and (2) purchasing or diverting excess imported sugar for restricted non-food use, such as ethanol. He also committed to completing a study to be submitted to Congress by July 1, 2006, on the feasibility of converting sugar into ethanol. The sugar industry early in the talks had proposed a sugar-for-ethanol program based upon the availability of a federal subsidy. Administration negotiators rejected that request, opting instead for to use surplus sugar imports for ethanol if needed, and to conduct a study.

Reactions by Members to the letter were mixed, with some skeptical about the assurance and others remaining opposed, in part because of the possible costs that USDA might incur in meeting its pledges. The U.S. sugar industry rejected the Administration's "repackaged, short-term offer," stating that it did not address their long term concerns about (1) sugar that could enter in future trade agreements, (2) its objectives for a resolution of the dispute on Mexico sugar access to the U.S. market, and (3) the continuation of the features of the current sugar program after FY2008. A spokesman for the American Sugar Alliance vowed to work to defeat DR-CAFTA.[26]

Congressional Budget Office Estimate. In its analysis of the DR-CAFTA implementation bill (H.R. 3045, S. 1307), CBO estimated that the domestic sugar program "will likely cost an additional $500 million over the 2006-2015 period" as a result of the agreement's guaranteed access for sugar from the six countries. CBO based its estimate on its March 2005 assumptions about sugar market conditions over this period, taking into account other trade agreement commitments (particularly those with Mexico under NAFTA's sugar provisions). However, the CBO analysis acknowledges that current sugar market conditions indicate costs "would likely be lower in 2006 and possibly lower in 2007, with no significant change in later years." A USDA official responded that this analysis was unrealistic, adding that there would be "virtually no cost" in 2006 and 2007 under the agreement's sugar provisions. A spokesman for the U.S. sugar industry stated that the CBO analysis "confirms CAFTA would make it impossible for the United States to maintain a sugar program that operates at no cost to federal taxpayers."[27]

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[26] *Congress DailyAM*, "Sugar-state lawmakers not so sweet on latest CAFTA offer," June 24, 2005; American Sugar Alliance, "Last-ditch efforts for sugar deal fail," June 29, 2005.

[27] Associated Press, "U.S. budget analysts raise new warning on Central American trade (continued...)

Cotton. The National Cotton Council of America (NCC) on May 10, 2005, announced it will now support DR-CAFTA. Because NCC's diverse membership includes cotton producers, ginners, cottonseed handlers, warehousers, merchants, cooperatives, and textile manufacturers, the organization's position reflected a shift from an earlier consensus reached among all of these interests expressing concern about this trade agreement. The resolution adopted states that the agreement "should provide the United States the best opportunity to supply apparel manufacturers and other end-use manufacturing industries in the western hemisphere" with U.S. cotton fiber and U.S. produced cotton textile products. The NCC also urged the Administration to address the U.S. cotton industry's trade priorities, seeking in particular action on increased textile competition (e.g., from China). The council initially opposed DR-CAFTA and had called upon Congress to defer considering the agreement until its textile provisions were "thoroughly reviewed and significantly improved." The NCC's reversal followed the decision of the National Council of Textile Organizations (NCTO) on May 5, 2005, to support DR-CAFTA.[28] Two other trade associations representing textile firms — the National Textile Association and the American Manufacturing Trade Action Coalition — opposed this trade agreement.

Though the NCC favors reciprocal liberalization in cotton fiber trade, it has pointed out that textile and apparel provisions in trade agreements can have "as much or more of an impact" on the domestic cotton sector than simply their agricultural provisions. In other FTA negotiations to date, the NCC has sought NAFTA-type rules-of-origin that directly benefit U.S. textile workers and firms as well as those in FTA partner countries, but not those in third countries. For the most part, NAFTA rules require that the cotton used in yarn (the fiber-forward rule) and the yarn used in cotton textiles (the yarn-forward rule) must originate in the United States or in the partner country for the product to qualify for preferential trade treatment. Any relaxation of such rules of origin, the NCC argues, opens the U.S. cotton and textile sectors "to unfair, unbridled competition" from third countries that transship textile goods through a FTA partner country to take advantage of its duty-free access to the U.S. market. Because of its less restrictive rules of origin, the NCC initially opposed the DR-CAFTA — referring to its tariff preference levels (TPLs) and "cumulation" provisions for NAFTA-origin textiles that would allow third-country textile products to qualify for preferential treatment.[29]

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[27] (...continued)
agreement," July 21, 2005; Reuters, "CAFTA to boost US sugar costs $500 million - CBO," July 20, 2005.

[28] The NCTO is a fairly new lobbying association, established in March 2004 to represent the fiber, fabric, supplier and yarn industries that comprise the textile sector.

[29] NCC, "Trade Policy Issues," presentation made at 2004 Mid-Year Board Meeting, August 26, 2004 (available at [http://www.cotton.org/news/meetings/2004midyear/trade.cfm]); Woody Anderson, NCC Chairman, testimony to House Committee on Agriculture, May 19, 2004, in *Agricultural Trade Negotiations* (Serial No. 108-29), pp. 160-161. TPLs grant tariff preferences to quantities of specified types of third-country ("non-originating") fabric used to produce finished textile products for export duty free to the United States. Cumulation allows certain apparel to contain woven fabrics from Canada and Mexico up to a specified cap and still qualify for duty-free access. For additional background, see CRS
(continued...)

Beef. Cattlemen were divided on DR-CAFTA. The Ranchers-Cattlemen Action Legal Fund (R-CALF) opposed DR-CAFTA, arguing the trade agreement "does not provide balanced rights for US cattle producers." The National Cattlemen's Beef Association (NCBA) supported the agreement.

Under DR-CAFTA, the five Central American countries will immediately eliminate their tariffs on imports of U.S. prime and choice cuts of beef, an objective sought by the U.S. beef industry. All countries will phase out tariffs on imports of all other beef products in 5, 10, or 15 years. Certain countries' tariff reduction schedules are backloaded for the more sensitive beef products, meaning most of the tariff reduction is delayed until the last few years of the transition period. The Dominican Republic, El Salvador, and Guatemala will create duty-free TRQs for other beef cuts totaling 2,265 MT in year 1, which will expand slowly to equal 4,110 MT in the year just before quotas are completely eliminated. In 2004, U.S. sales of beef to all six countries totaled 1,134 MT (valued at $4.2 million). USDA has noted that all six countries are working to recognize the U.S. meat inspection and certification systems so as to facilitate U.S. exports.

The United States will create separate duty-free TRQs for beef imported from all countries except Guatemala. Currently, the U.S. tariff on such imports is 26%. In year 1, the quotas would total almost 23,000 MT, rising slowly each year to 37,962 MT before eliminated in year 15. U.S. beef imports from Nicaragua (the leading supplier in the region), Costa Rica, and Honduras totaled 31,258 MT (almost $82 million) last year.

In elaborating on its position, R-CALF pointed out there are no safeguards for U.S. beef imported from the region, while two countries are allowed to impose special safeguards against U.S. beef exports. It is concerned also that the rule of origin for beef imports could allow cattle born and raised in Argentina and Brazil but slaughtered for meat in Central America to qualify for preferential tariff treatment when sold to the U.S. market. Though R-CALF acknowledged that the United States obtains immediate duty-free access for prime and choice beef cuts, its spokesman stated that demand in the six countries for these products is limited because the region is a small market and many consumers cannot afford such cuts.[30]

The NCBA argued that DR-CAFTA levels the playing field by eliminating the 15%-30% applied tariffs that U.S. beef exports now face in the region while providing for adequate protections. It pointed to the long transition periods,

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[29] (...continued)
Report RS22150, *DR-CAFTA, Textiles, and Apparel*, by Bernard A. Gelb.

[30] "R-CALF USA Joins National Grassroots Coalition Opposing CAFTA," January 27, 2005 (available at [http://www.r-calfusa.com/News%20Releases/012705-r-calf.htm]). R-CALF (with a claimed membership of over 12,000) represents cattle producers on domestic and international trade and marketing issues. R-CALF is a fairly new trade association (founded in 1998 to pursue three trade cases) but has taken a more skeptical approach to the Bush Administration's trade policies. It generally has offered "populist" policy views that tend to diverge from those advocated by the National Cattlemen's Beef Association (see footnote 27).

safeguards, and the stipulation that country-specific beef TRQs can be filled only after the U.S. beef TRQ under its WTO commitment is filled.[31]

General Farm Organizations

The American Farm Bureau Federation (AFBF) backed DR-CAFTA, stating that U.S. agriculture has much to gain. In an economic analysis of its agricultural provisions, the AFBF projects that the agreement will result in an estimated net gain of $1.44 billion for U.S. agricultural trade once fully implemented in 20 years. In 2024, it projects U.S. agricultural exports to the six countries will be $1.52 billion higher than under a continuation of current trade policy. Its analysis acknowledged the U.S. sugar industry will experience costs as a result of the increased access to the domestic sugar market granted to these countries — by $81 million in year 20.[32] Four state-level farm bureaus (Colorado, Louisiana, North Dakota, and Wyoming) opposed DR-CAFTA, largely because members in these sugar-producing states have strong concerns on the agreement's sugar provisions. The Minnesota affiliate took a neutral stance.

The National Farmers Union (NFU) opposed the agreement, stating that CAFTA "offers few benefits" to U.S. farmers and "will adversely impact domestic producers of sugar, fruit, vegetable, dairy and other commodities." The NFU claimed that CAFTA does not address exchange rate issues, and labor and environmental standards, and argued that the agreement's "proponents overestimate [its] potential benefits," ignoring the fact that the six countries "represent small populations with low purchasing power."[33]

Trade Advisory Committees

On March 22, 2004, USTR made public the reports of the trade advisory committees laying out their positions and views on CAFTA. Authorized by the

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[31] NCBA, "U.S.-Central America-Dominican Republic Free Trade Agreement Beef Backgrounder," January 25, 2005 (available at [http://hill.beef.org/pdfs/CAFTA-DRFact Sheet.pdf]). The NCBA with a claimed membership of 230,000 cattle producers, breeders, and feeders advocates policy positions and economic interests on behalf of farmers and ranchers and 40 national breed and industry organizations. NCBA has been the traditional "main line" trade association representing the interests of U.S. cattle producers for over 100 years, and historically has been supportive of efforts to expand two-way trade and "free trade" generally.

[32] AFBF, *Implications of a Central American Free Trade Agreement on U.S. Agriculture*, March 2004 (available at [http://www.fb.org/issues/cafta/DR-CAFTA-Report-Final.pdf]). The AFBF is a "main line" farm organization representing farmers and ranchers across the country with a claimed membership of five million (agricultural producers and also rural residents).

[33] "National Farmers Union Opposes CAFTA," December 19, 2003 (available at [http://www.nfu.org/newsroom_news_release.cfm?id=1143]); "CAFTA Will Hurt American Farmers and Ranchers," April 11, 2005 ([http://www.nfu.org/newsroom_news_release.cfm?id=1292]). The NFU is a "populist" farm organization with a claimed membership of nearly 250,000 farm and ranch families throughout the country. Its membership is concentrated in the upper Midwest.

Trade Act of 1974, these committees provide the views of the private sector to USTR on trade and trade policy matters, and serve as a formal mechanism through which the U.S. Government seeks advice during trade negotiations. The Agricultural Policy Advisory Committee's opinion was that CAFTA "will improve opportunities for U.S. agricultural exports" by providing for "eventual duty-free, quota-free access on essentially all products." Most of the commodity-oriented agricultural technical advisory committees (ATACs) for trade favored the agreement, pointing out the benefits associated with increased market access in the region.

The sweeteners ATAC reported mixed views. Sugar industry representatives expressing the majority opinion opposed the increased access to the U.S. market the five countries receive for their sugar, pointing out its effects on U.S. sugar producers and the threat posed to the domestic sugar program. The sugar users in the minority supported the agreement, acknowledging the "modest but meaningful improvement" in Central American sugar access. These committees issued separate reports on the agricultural provisions in the FTA with the Dominican Republic on April 23, 2004.[34]

Observations

Because full implementation of the DR-CAFTA will result in a reciprocal trading relationship, a large portion of the U.S. agricultural and food sectors will benefit slightly from expanding exports over time as the six countries eliminate their tariffs and quotas on practically all U.S. commodities and food products. The projected increase would represent a very small share (one-half of 1%, according to the ITC) of total U.S. agricultural exports to the world. This outcome largely reflects the small population of the six countries (a combined 44 million in 2003) and low per capita incomes when contrasted to the much larger markets in Asia where average incomes are higher and agricultural import demand is growing rapidly. At the same time, the market openings granted these countries could place additional pressure on the U.S. sugar and cotton/textile sectors. Fearing what increased competition from additional imports might mean for their business outlook, sugar and cotton/textile interests lobbied Congress to defeat or to modify this agreement.

Of more interest to the U.S. agribusiness sector likely will be the agreement's investment provisions — structured to give U.S. investors in the region a predictable legal framework and equal treatment with local investors, protections for all types of investment, and transparent procedures for handling disputes. Accordingly, some U.S. food manufacturers may take advantage of lower input and labor costs to establish food processing plants to supply the regional market as well as to export (e.g., Hispanic food products) to the U.S. market.

The six countries' agricultural sectors would, in the aggregate, gain little from this agreement, according to the ITC's analysis, since almost all exports to the U.S. market would continue to benefit from duty-free access that they already receive

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[34] The CAFTA-related reports can be viewed at [http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/ CAFTA_Reports/ Section_Index.html]. The DR FTA-related reports are available at [http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/DR_Reports/Section_Index.html].

under U.S. trade preference programs. What would change is that the agreement makes this duty-free access permanent and sets into motion a process that in 15-20 years gives these countries unrestricted access to the U.S. market for all sensitive commodities (except sugar) now subject to U.S. agricultural tariff-rate quotas. The expanding U.S. quotas reserved for these countries would benefit sugar processors in the region, and, to a lesser extent, exporters of beef and dairy products, that seek to sell to the U.S. market.

U.S. Debate

The congressional debate created divisions within the U.S. agricultural sector between commodity groups that expect to gain from DR-CAFTA and those which foresee losses. Whether this tension is short-lived or continues beyond the debate on this trade agreement will depend on whether the Bush Administration includes comparable openings affecting these same sensitive sectors in other FTAs (e.g., Andean, Panama, Southern African Customs Union, Thailand) currently being negotiated. Recognizing this, U.S. trade negotiators are likely to craft these other bilateral free trade agreements acknowledging the political realities involved in securing congressional approval. This means translating potential agricultural export gains in a trade agreement into a bloc of supportive congressional votes. It also suggests that USTR's negotiating strategy must incorporate limiting U.S. trade concessions on U.S. sensitive agricultural commodities in order to minimize the number of congressional "no" votes on a concluded free trade agreement.

Following Senate approval of DR-CAFTA, most observers acknowledged that securing a majority in the House for DR-CAFTA would be problematic, in large part due to opposition by the sugar sector and some segments of the textile sector. Consequently, Administration officials faced a dilemma. Should they press ahead, and work to cut deals to line up the necessary votes to make a majority? Or, should they consider making further changes to the sugar and textile provisions or related deals sufficient to yield enough "yes" votes to win approval? As precedent for the latter course of action, the Clinton Administration negotiated last-minute changes in November 1993 to NAFTA's sugar and orange juice provisions in order to secure enough votes for House passage. U.S. trade officialssignaled their reluctance to consider this option, for fear of unraveling the overall DR-CAFTA package and facing opposition from Central American negotiators to such a scenario. Though the Administration made commitments to some Members to address certain textile issues, the President decided to forward the final implementing bill to Congress without seeking any changes in the agreement itself. The DR-CAFTA implementing bill (H.R. 3045)did not contain any provisions, for example, detailing the sugar compensation provision or the textile commitments, though these issues remained under discussion between the Administration and some House Members until the very close House vote occurred.

Debate in Central America

A similar debate also occurredin each of the legislative chambers of five countries, as their commodity and related groups sought to influence whether DR-CAFTA is approved or not. To date, the legislatures of the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua have approved the trade agreement.

The debate in Guatemala was marked by street clashes, before and after the vote, in which small farmers with others joined in calls for a public referendum on the agreement. Because of the upcoming presidential election, the Costa Rican legislature may not debate DR-CAFTA until well into 2006.

Commercial farmers that produce — and agribusiness firms that process — sugar, beef, dairy products and non-traditional products with export potential (e.g., fruits and vegetables) generally supported DR-CAFTA. Subsistence farmers of staple crops and citizen groups concerned with the trade agreement's impact on rural, primarily agricultural, areas, though, feared that the gradual removal of quotas (even with the safeguard provisions available during the long transition to free trade) will not sufficiently protect their livelihood and result in families moving to urban areas in search of employment. Representatives reflecting the views of these constituents in their national legislatures worked to defeat the DR-CAFTA when it was submitted for consideration.[35]

Also not yet clear is the extent to which the governments of the six countries have, or might be willing to dedicate, financial and technical resources to assist subsistence and small farmers, and rural areas dependent on agriculture, adjust to possible adverse consequences of increased imports of staple commodities from the United States. The Bush Administration, though, has signaled that it will direct some resources from the U.S. foreign aid program in the region to help producers adversely affected by the agreement's agricultural provisions to adjust. In an effort to secure votes in the Senate Finance Committee for S. 1307, the Administration committed in a letter to Senator Bingaman to support additional spending of up to $150 million over five years for transitional rural assistance to assist farmers in Guatemala, El Salvador, and the Dominican Republic, beginning in FY2007. This commitment would be superseded by U.S. resources for rural development made available under a Millennium Challenge Corporation compact, if signed earlier by any of these countries with the United States.[36]

Another approach would be to expand upon government efforts (with support from the World Bank and the Inter-American Development Bank) to assist interested producers and entrepreneurs explore opportunities to increase food exports to

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[35] To illustrate, an initiative was launched in September 2004 by sugar cane producers and processors to protect the Dominican Republic's sugar sector. Their proposal called for the imposition of a 25% tax on soft drinks sweetened with imports of U.S. high-fructose corn syrup (HFCS). The President accepted this reluctantly in order to secure legislative passage of a fiscal package to address International Monetary Fund stipulations for the release of financial assistance (see CRS Report RS21718, *Dominican Republic: Political and Economic Conditions and Relations with the United States*, by Clare R. Ribando). In response, U.S. trade officials warned that if the Government did not eliminate this tax, the Dominican Republic portion of the free trade agreement would be dropped when submitted to Congress and began to take administrative steps in that direction. Some members of Congress, the American Farm Bureau Federation, corn producers, and HFCS manufacturers also signaled they would not support the country's inclusion in CAFTA unless this tax was removed. In a policy reversal, the Dominican Republic's lower chamber voted to repeal this tax on December 27, 2004, and the President signed this measure into law the next day.

[36] For more information, see CRS Report RL32427, *Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative*, by Larry Nowels.

neighboring country and U.S. markets. Also, some Central American leaders view the textile provisions of DR-CAFTA as necessary to keep their textile and apparel sectors viable against Chinese competition in the U.S. retail market and to absorb the movement of labor out of the agricultural sector.[37]

[37] CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, by K. Larry Storrs (coordinator), Clare Ribando, Lenore Sek, Mark P. Sullivan, Maureen Taft-Morales, and Connie Veillette; Washington Office on Latin America, *Fair Trade or Free Trade: Understanding CAFTA*, July 2004, pp. 1, 4-5 (available at [http://www.wola.org/economic/briefs_ complete_packet_july04.pdf]); HondurasThisWeek Online, "CAFTA: Free Trade or Trading Off," December 27, 2004 (available at [http://www.marrder.com/htw/2004dec/national.htm]).