FACT SHEET on
Dominican Republic-Central America-United States Free Trade Agreement

September 2009

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) was implemented on a rolling basis. El Salvador, Guatemala, Honduras, and Nicaragua entered into force in 2006 and the Dominican Republic in 2007. Costa Rica joined CAFTA-DR on January 1, 2009.

The agreement was designed to level the playing field between the United States and the six CAFTA-DR trade partners. As the agreement took effect with each country, more than half of U.S. farm exports gained immediate duty-free access, including high-quality cuts of beef, soybeans, cotton, wheat, many fruits and vegetables, and processed food products. <u>Tariffs on most other U.S. farm products will be phased out within 15 years. All tariffs will be eliminated in 20 years.</u>

CAFTA-DR provides U.S. farmers and ranchers access to more than the 47 million people estimated to be living in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua in July 2008. These consumers had an estimated per capita gross domestic product ranging from $2,600 to $10,300 in 2007. As these countries' populations grow and their economies expand, more and more people will enter the middle class, increasing food demand and creating trade and investment opportunities for the United States.

Benefits to U.S. and CAFTA-DR Agriculture Sectors

Central America and the Dominican Republic are already top markets for U.S. agricultural products. These markets have grown with this agreement. In the short time the agreement has been in force with the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua, two-way trade of agricultural products between the United States and those countries grew 19 percent from $4.6. billion in 2007 to $5.7 billion in 2008. In 2008, U.S. exports to those five countries were about $3.1 billion, with grains, oilseeds, horticultural products, and fresh, chilled or frozen red meat leading the way. U.S. imports from those countries in 2008 were about $2.6 billion with sugar, bananas, plantains, other fresh fruit, and tobacco products topping the list. Together, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua, were the seventh largest export market for U.S. food and agricultural products in 2007. The United States is the single largest importer of agricultural products from those five countries.

Trade with the Dominican Republic: Total two-way trade of agricultural products in 2008 was more than $1.3 billion. U.S. exports to the Dominican Republic were $1 billion, with record-breaking sales in fresh, chilled or frozen red meats, corn, fresh fruit, dairy, and tree nuts. U.S. imports from the Dominican Republic reached almost $302 million with horticultural and sugar products on top of the list.

Trade with El Salvador: Total two-way trade of agricultural products in 2008 was $688 million. U.S. exports to El Salvador reached more than $450 million, with high sales in tree nuts, corn, rice, snack foods, and feed and fodder. U.S. imports from El Salvador were more than $237 million, of which fresh vegetables, and sugars, sweeteners, and beverage bases hit some of their highest levels.

Trade with Guatemala: Total two-way trade of agricultural products in 2008 was $2.1 billion. U.S. exports to Guatemala were about $835 million, of which wheat, corn, rice, soybeans, feed and fodder, animal fats, fresh fruits, and poultry meat topped the list. U.S. imports from Guatemala were nearly $1.3 billion, with fresh vegetables, bananas, and fresh poultry meat as the main imports.

Trade with Honduras: Total two-way trade of agricultural products in 2008 was more than $923 million. U.S. exports to Honduras exceeded $507 million, with corn, soybean meal, fresh, chilled, or frozen red meat reaching, and non fat dry milk topping the list. U.S. imports from Honduras were more than $416 million, of which sugars, sweeteners, and fresh vegetables were among the main imports.

Trade with Nicaragua: Total two-way trade of agricultural products in 2008 was more than $572 million. U.S. exports to Nicaragua were more than $232 million, with rice, soybean oil, and vegetable products topping the list. U.S. imports from Nicaragua reached more than $340 million, of which coffee, fresh vegetables and fresh, chilled, or frozen red meat reaching were among the main imports.

Key Elements of the Agreement

Market Access. No products are excluded from the agreement. Liberalization will occur through tariff reductions, tariff-rate quota expansion, and a combination of approaches. Each Central American country and the Dominican Republic have a separate schedule of commitments providing access for U.S. products. The United States provides the same tariff treatment to each of the six countries, but has country-specific commitments on tariff-rate quotas. Tariffs will ultimately be eliminated for all products, except for sugar to the United States, fresh potatoes and fresh onions to Costa Rica, and white corn to the other Central American countries.

Tariff Elimination. Tariffs are being phased out according to specific schedules negotiated on a product and country-specific basis. As a general rule, tariff reductions are in equal annual installments over the phase-out period. For certain products, tariff reductions are back-loaded, with no cuts in the initial years of the phase-out period and larger cuts in the later years of the phase-out period.

Tariff-Rate Quotas (TRQs). For some products, immediate market access has been provided through the creation and expansion of TRQs (zero duty access for a specified quantity of imports). General principles—and in some cases, specific commitments—on TRQ administration were established to encourage full utilization of the TRQs.

Safeguards. Safeguard measures are available for some specified products, providing for tariff increases during a given year after import quantities in that year increase to specified levels. Specific triggers to activate the safeguards and duty increases are established in the agreement. The possibility of employing safeguards will expire when tariff protection has been phased-out. The United States may operate safeguards on out-of-quota imports of dairy, peanuts, and peanut butter. If all parties agree, safeguard coverage could be extended beyond the tariff phase-out period. Since the agreement came into force, no safeguards have yet been triggered.

Sanitary and Phytosanitary Measures. The parties affirm the intent to apply the science-based disciplines of the World Trade Organization Agreement on Sanitary and Phytosanitary (SPS) Measures. An SPS Committee (will be or has been) established to expedite resolution of technical issues.

Export Subsidies. The parties agree not to use export subsidies into another party's market except to compete with third-party export subsidies.

Other Key CAFTA-DR Provisions

CAFTA-DR is the first U.S. trade agreement that includes a trade capacity building component that commits the United States to providing the six countries with technical assistance and training. U.S. trade capacity building programs provide training to enhance two-way trade by improving customs procedures, protecting intellectual property rights, and standardizing sanitary and phytosanitary (SPS) requirements for animal and plant health and food safety systems.

This training will also help agricultural producers in the CAFTA-DR countries develop nontraditional exports to serve specialty markets in the United States and elsewhere, and improve their production facilities to meet U.S. standards. With built-in safeguards and tariffs remaining on some sensitive products, the agreement does not threaten U.S. domestic production or sales, but provides assurance to U.S. consumers that the CAFTA-DR agricultural products sold in U.S. specialty markets meet U.S. and international health and safety standards.

Examples of successful projects include:

- After receiving SPS regulatory system training in 2006, Nicaragua rewrote its poultry inspection laws and regulations to meet U.S. poultry import requirements.
- CAFTA-DR countries harmonized a portion of their emergency response systems for avian influenza (AI) after receiving avian pathology training in September 2006. During the training, CAFTA-DR scientists and researchers from the public sector agreed to when and how to react to a finding of AI, when to close borders, and which government agencies to involve.

- As a result of an April 2007 regional workshop on SPS laboratory management, El Salvador, Guatemala, and Honduras each purchased food safety laboratory equipment valued at more than $1 million to improve infrastructure as recommended in the workshop.
- In addition, the 2007 regional workshop on SPS laboratory management served as an impetus for public and private sector scientists at national laboratories in CAFTA-DR countries to form joint working groups to harmonize procedures and specialize in a particular testing method. The laboratories will use one another as reference laboratories to confirm positive disease or infection results. The training also resulted in more than 15 diagnostic protocols being harmonized with internationally accepted methods.
- After attending regional laboratory training for animal health and pesticides in March 2008, Honduran public and private sector laboratory technicians at the Animal Health Laboratory successfully diagnosed exotic Newcastle disease in swine. The laboratory is using the result as a reference for the entire region.
- As a result of USDA's Food Safety and Inspection Service meat inspection course in May 2007, El Salvador, Guatemala, Honduras, and Nicaragua passed laws that recognize the U.S. meat and poultry inspection system as equivalent. This was a pre-condition for CAFTA-DR implementation.

General information about FAS programs, resources, and services is available on the Internet at the FAS home page: http://www.fas.usda.gov