United States Department of Agriculture
Foreign Agricultural Service

Linking U.S. Agriculture to the World

International Agricultural Trade Report

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CAFTA-DR Free Trade Agreement
Early Assessment of the Agreement

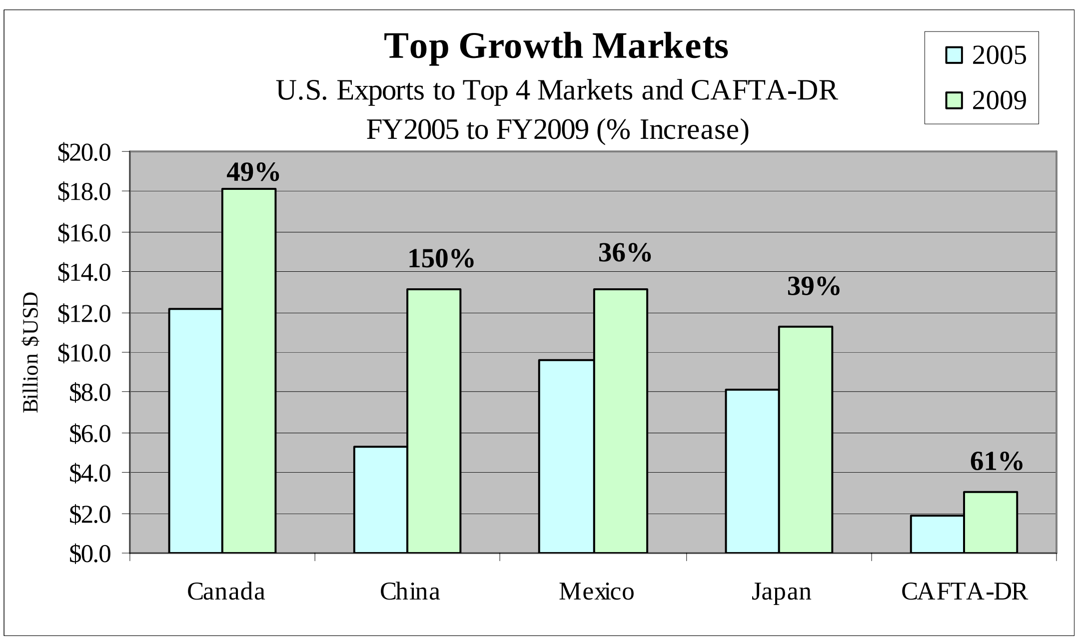
Summary

The U.S. - Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) has been a catalyst for growing exports for U.S. agriculture. When the five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic are taken as a single market, the CAFTA-DR region is a top 10 market for U.S. agricultural products. U.S. agricultural export growth to the CAFTA-DR region in the last five years exceeds the growth rate of top export markets such as Canada, Mexico, and China. Much of the increase in exports can be attributed to the implementation of the agreement. Reduced tariffs coupled with a growing middle class in the region that is propelling demand, the United States is well positioned to continue increasing agricultural exports to this region and growing market share.

CAFTA – Smaller Base, Stronger Growth

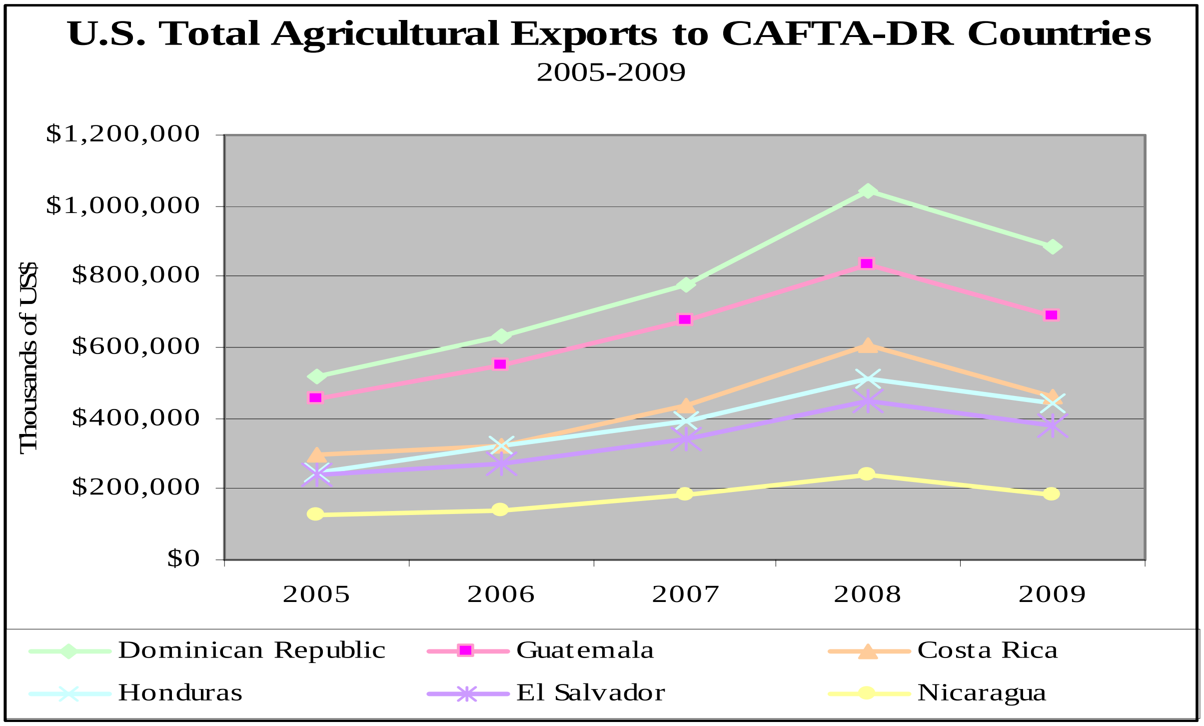
CAFTA-DR as a single market is the seventh largest export market for the United States, after Canada, Mexico, Japan, China, EU-27 and South Korea. In 2009, the United States exported $3.07 billion of agricultural products to the CAFTA-DR region, up from $1.91 billion in 2005, the year before the CAFTA-DR FTA began to take effect. This represents a 61-percent increase, which outpaced overall U.S. agricultural export growth of 55 percent over the same time period.

Figure 1



Growing Share, Growing Trade
Despite unprecedented declines in world trade in 2009, a combination of strong underlying demand growth and reduced tariffs allowed the United States to increase agricultural exports to the CAFTA-DR region and grow market share. Demand growth has been primarily driven by lack of sufficient production in the region, growing protein demand, a more conducive business environment led by U.S. trade capacity building efforts, and a growing middle class. According to Global Insight, the middle class population in the region grew 45 percent between 2005 and 2009.[1]

Figure 2



As the global economy continues to rebound, the CAFTA-DR FTA will provide U.S. agriculture an opportunity to take advantage of the growing middle-class population in the region. This year, exports to date are outpacing 2009 year-to-date exports. In the first six months of 2010, exports to the CAFTA-DR countries were $1.6 billion, up 8 percent from the same time period in 2009. While the full assessment of the 2010 export performance is still to come, historically U.S. agricultural exports to the region are strongest in the last three months of the calendar year.

Many U.S. agricultural products have found considerable success as the CAFTA-DR FTA has been implemented. The products featured in Table 1 are examples of increased trade facilitated by the lowering of CAFTA-DR country import barriers. Exports by volume and value of these products have been significant.

[1] The middle class in the CAFTA region (excluding the Dominican Republic) is defined as households with real PPP incomes greater than $20,000 a year,

Highlights

U.S. exports of red meats (fresh, chilled and frozen) to the CAFTA-DR region overall have increased 212 percent by value and 218 percent by volume since the agreement came into force. One catalyst for this growth has been the negotiated tariff rate quotas (TRQs). For example, imports of U.S. Red Meats (Fresh/Chilled/Frozen) by the Dominican Republic are expanding significantly above the TRQ levels. In 2009, these products soared pass the TRQ volume by 363 percent . According to FAS Santo Domingo, a primary reason for this success is that for the first time importers are discovering the quality of these products and the growing consumer demand for them.

Table 1

Product	Value					Volume		
	US Imports		US Market Share		US Trade Growth	US Imports		US Trade Growth
	2005	2009	2005	2009		2005	2009	
	Thousands USD$		*Percentage (%)*			*Thousands Quantity*		*Percent (%)*
Dominican Republic	553,192	917,058	58	57	66			
Red Meats, Fresh/Chilled/Frozen	6,338	41,286	96	95	559	2,854	11,946	319
Cheese	3,863	8,762	34	42	127	962	1,305	36
Fresh Fruit (Apples and grapes)	8,342	16,475	71	80	97	8,406	11,825	41
Guatemala	544,255	784,909	44	46	44			
Poultry Meat	22,263	37,863	51	85	70	32,162	57,311	78
Processed Fruit & Vegetables	12,699	29,681	31	46	134	9,802	22,373	128
Wheat	57,906	121,092	61	94	109	301,409	419,383	39
Cheese	1,451	6,831	9	30	371	425	2,246	428
Honduras	298,280	469,394	41	40	57			
Red Meats, Fresh/Chilled/Frozen	6,996	16,027	45	60	129	7,744	16,052	107
Poultry Meat	4,530	8,721	52	81	93	7,079	10,109	43
Processed Fruit & Vegetables	6,897	19,435	34	48	182	7,333	13,783	88
El Salvador	293,763	444,194	32	33	51			
Cotton	27,053	36,588	100	85	35	20,094	27,859	39
Planting Seeds	720	2,316	21	23	222	24	618	2,475
Fresh Fruit	8,990	14,872	20	27	65	9,322	11,916	28
Costa Rica	260,220	417,448	43	36	60			
Coarse Grains	48,442	129,200	99	99	167	48,442	130,584	170
Fresh Fruit (Grapes and Apples)	2,962	10,798	14	23	265	3,028	8,390	177
Fresh Vegetables (Fresh Potatoes)	110	930	4	12	745	218	1,602	635
Nicaragua	70,057	208,746	22	35	198			
Rice	1,093	50,791	40	95	4,547	2,348	113,084	4,716
Soybean Meal	487	22,300	47	99	4,479	2,146	52,680	2,355
Coarse Grains	1,612	23,779	96	93	1,375	9,270	100,884	988

Room for Improvement

While the CAFTA-DR FTA has yielded some market share gains, room for growth remains. The United States continues to work to improve the transparency and predictability of TRQ administration in the region. United States exporters should benefit from the continued focus of the Administration on monitoring and enforcement to ensure that trading partners abide fully with their commitments. The United States is also working diligently to expedite some CAFTA-DR governmental delays in approving some registrations and certificates.

Increased Competition

The United States now enjoys lower duties than many competitors as a result of CAFTA-DR. However, competition is increasing. The primary competition faced by the United States in the region is intra-regional trade. Internal CAFTA-DR trade accounted for 28 percent of imports in 2009. The largest single country competition comes from Mexico, which commanded a market share of 6 percent in 2009.

Like many countries worldwide, the members of CAFTA-DR have continued to increase the number of FTAs to which they are party. On May 19, 2010, five Central American governments, Panama and the European Union signed the Acuerdo de Asociación entre Centroamérica y la Unión Europea (AACUE). However, this agreement has not yet been ratified and will not come into force until the beginning of 2011. Once enacted, it will immediately eliminate import and export tariffs on many agricultural commodities. Signature countries agreed to the terms of the contract which will remove nearly all tariffs between Central America and the European Union over the course of 15 years.

According to recent reports submitted by FAS/San Jose, U.S. exporters are likely to experience increased competition in Costa Rica due to additional EU investments in Central America and comparative advantages in trade enjoyed by the EU in various sectors. In 2009 the EU captured a 5 percent market share, down slightly from 6 percent in 2005. The U.S. should maintain a strong foothold in bulk commodity exports as well as intermediate and forestry products. The consumer-oriented sector could be most affected by the new AACUE.

For more information contact OGA-TBAD | Veronica Nigh | veronica.nigh@fas.usda.gov 202-720-1335 , USDA-FAS, Office of Global Analysis