

March 19, 2004

Honorable Robert B. Zoellick  
United States Trade Representative  
600 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20508

Honorable Ann M. Veneman  
Secretary of Agriculture  
1400 Independence Avenue, S.W.  
Washington, D.C. 20250

Dear Ambassador Zoellick and Secretary Veneman:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds on the Free Trade Agreement with the five countries of Central America, reflecting a consensus advisory opinion on the proposed Agreement.

Sincerely,

A handwritten signature in black ink that reads "Donald E. Latham". The signature is written in a cursive, flowing style.

Donald E. Latham  
Chair  
Grains, Feed, and Oilseeds ATAC

The U.S.-Central America Free Trade Agreement (FTA)

Report of the  
Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

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Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

**Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S. – Central America Free Trade Agreement**

**I. Purpose of the Committee Report**

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

Pursuant to these requirements, the Grains, Feed and Oilseeds ATAC hereby submits the following report.

**II. Executive Summary of Committee Report**

Overall, the CAFTA is of benefit to U.S. grain, feed and oilseed producers. The U.S. is the majority supplier of grains and oilseeds to Central America and consequently the eventual elimination of tariffs on grains (except some white corn) and oilseeds locks in U.S. access. The following are offered by the ATAC as strictly technical comments since the members fully recognize and appreciate the unique challenges faced by U.S. negotiators in dealing with five small, developing countries with a history of strong protections to their staple crops.

The Committee notes that it is a comprehensive agreement in keeping with U.S. negotiating objectives and provides several detailed comments related to the market access provisions of the CAFTA. The sum of which is that market opportunities for both the U.S. and the Central American countries are improved by this agreement, though there are certain concessions that will delay and potentially put at risk some of the benefits. These relate to delayed or back-loaded improvements in market access, restrictive marketing provisions and other efforts to protect producers from competition.

### **III. Brief Description of the Mandate of the Grains, Feed and Oilseeds ATAC**

The advisory committee is authorized by Sections 135(c)(1) and (2) of the Trade Act of 1974 (Pub. L. No. 93-618), as amended, and is intended to assure that representative elements of the private sector have an opportunity to make known their views to the U.S. Government on trade and trade policy matters. They provide a formal mechanism through which the U.S. Government may seek advice and information. The continuance of the committee is in the public interest in connection with the work of the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative. There are no other agencies or existing advisory committees that could supply this private sector input.

### **IV. Negotiating Objectives and Priorities of the Grains, Feed and Oilseeds ATAC**

The negotiating objective of the Grains, Feed and Oilseeds ATAC is to ensure the best possible marketing opportunities for U.S. agriculture.

### **V. Advisory Committee Opinion on Agreement**

It is the consensus opinion of the Grains, Feed and Oilseeds ATAC that the CAFTA provides a favorable outcome for the U.S. grains, feed and oilseeds sector, and it consequently meets the committee's general objectives. Following are detailed assessments of the market access provisions of the CAFTA:

The U.S. has enjoyed market access for its oilseeds and under the CAFTA the duties on wheat will be bound at zero, helping to secure the U.S. industry's dominance in these markets. However, feed grains are subject to protective duties and tariff rate quotas in four of the countries for several more years. The ATAC notes that Costa Rica is exemplary in that it conceded to immediately grant duty free access to various grains and grain products, and provide a 15-year phase-out of duties on more sensitive products like white corn and sorghum.

Since El Salvador, Honduras, Guatemala and Nicaragua have had more highly protected markets, the CAFTA offers the greatest opportunity for feed grain market expansion in these countries.

The CAFTA offers initial duty free access for nearly 1.1 million metric tons of U.S. yellow corn. The agreement provides for a TRQ growth factor of 5 percent per year for yellow corn, and tariffs to be eliminated over 15 years (Guatemala is the exception with 10-year duty phase out for yellow corn). Increasing TRQ volumes is important since it will allow the livestock and poultry sectors in the region to become more competitive. However, the ATAC warns that the relatively long tariff phase-out periods coupled with the backloading of cuts in the over-quota tariff rates could result in two adverse outcomes:

1. the improved competitiveness of livestock and poultry industries is delayed; and
2. the industry is lulled into passivity and fails to make timely adjustments ahead of tariff cuts and then makes a plea for still more time.

Other market access issues contained in the agreement that the ATAC wishes to make note of:

- Four of the countries were able to gain exemptions from complete tariff elimination for white corn as a result of the U.S. maintaining limited access to its sugar market. The U.S. feed grains industry suffers from special product exemptions such as the one contained in this trade agreement. This is in addition to a provision offering compensation to Central American sugar exporters if the U.S. is unable to honor its commitments.
- The CAFTA countries comprise one of the largest markets for U.S. rice and the agreement ensures that access will continue for both U.S. rough and milled rice. However, the 18-year phase-in for free trade in rice (20 years for Costa Rica) is excessive and sets a poor precedent for future free trade agreements. The ATAC would encourage the negotiation of timelier phase-in periods in future FTAs. Additionally, there is the potential that the safeguard mechanism could constrain trade in milled rice, though the ATAC recognizes that the safeguard may have been necessary in order to secure ultimate access for this product in Central America.
- The 15-year phase out of sorghum tariffs included in four of the countries schedule will not likely allow for any U.S. sorghum to trade into those countries until the zero duty corn TRQ's are filled. Although there was almost no history of sorghum trading into the CAFTA region, a nominal sorghum TRQ at zero duty in each of the countries would have allowed some amount of U.S. sorghum to compete on an equal basis to duty free U.S. corn.
- A modified absorption agreement provision was included in the agreement. Not until full implementation of the agreement are all absorption policies to be eliminated. Earlier elimination of those policies would have been preferable.
- The tariff structure should remove the uncertainty of arbitrary tariff increases by the CAFTA countries, as well as limit any use of variable levies or price band schemes.
- Binding oilseeds, barley, malt, wheat, corn gluten feed/meal, and distillers dried grains (DDGs) at zero across the board bodes well for developing markets for those commodities in the CAFTA countries.

- The agreement includes acceptance of various export control measures covering coffee, bananas, vegetable oil, corn and other commodities. Such export restrictions are market distorting, do not reflect good economic policy and are counter to the objectives of this ATAC.

**VI. Grains, Feed and Oilseed ATAC Membership**

<b>Name</b>	<b>Organization</b>	<b>City/State</b>
Mr. Donald Latham <b>(Chairman)</b>	Latham Seed Company	Alexander, IA
Mr. Mark Anderson	Anderson Hay and Grain Co., Inc.	Ellensburg, WA
Mr. Gary Blumenthal	World Perspectives, Inc.	Washington, D.C.
Mr. David A. Bossman	American Feed Industry Associates	Arlington, VA
Mr. Kyd Brenner	DTB Associates, LLP	Washington, D.C.
Mr. Tom Buis	National Farmers Union	Washington, D.C.
Mr. Robert E. Cummings, Jr.	USA Rice Federation	Arlington, VA
Mr. Steve Daugherty	Pioneer Hi-Bred International, Inc.	Des Moines, IA
Mr. Dennis R. DeLaughter	U.S. Rice Producers Association	Edna, TX
Mr. Neal Fisher	North Dakota Wheat Commission	Bismark, ND
Mr. Dwain Ford	American Soybean Association	Kinmundy, IL
Mr. John Gordley	Gordley Associates, Inc.	Washington, D.C.
Mr. Paul B. Green	North American Millers' Association	Washington, D.C.
Mr. John Hansen	Nebraska Farmers Union	Lincoln, NE
Mr. Kenneth Hobbie	U.S. Grains Council	Washington, D.C.
Mr. Mark Hodges	Oklahoma Wheat Commission	Oklahoma City, OK
Mr. Lurlin L. Hoelscher	Hoelscher Ag Dist., Inc Agri Ltd. By Hoelscher	Alden, IA
Mr. Herbert Karst	Montana Grain Growers Association	Sunburst, MT
Mr. Alan Kemper	Indiana Soybean Growers Association	Lafayette, IN
Mr. Larry Kleingartner	National Sunflower Association	Bismarck, ND
Mr. David Lyons	Louis Dreyfus Corporation	Washington, DC
Mr. Tim D. McGreevy	USA Dry Pea & Lentil Council	Moscow, ID
Dr. Owen J. Newlin	Agronomic Science Foundation	Des Moines, IA
Ms. Amy L. Philpott	A. Philpott Company	Washington, D.C.
Mr. John Reed, Jr.	Archer Daniels Midland Company	Washington, D.C.

Report on U.S. – CAFTA

Mr. Robert Reeves	Institute of Shortening and Edible Oils	Washington, D.C.
Mr. Mark Rokala	Cornerstone Government Affairs	Washington, D.C.
Ms. Candace A. Roper	CoBank	Englewood, CO
Dr. C. Parr Rosson III	Texas A&M University	College Station, TX
Mr. Michael Rue	Farming Enterprise	Marysville, CA
Mr. Robert Rynning	National Barley Growers Association	Kennedy, MN
Mr. Ladd Seaberg	MGP Ingredients, Inc.	Atchison, KS
Ms. Barbara R. Spangler	Wheat Export Trade Education Committee	Washington, D.C.
Mr. Stephen Tolman	National Corn Growers Association	Chesterfield, MO
Ms. Margaret Ann Tutwiler	Int'l Food & Agricultural Trade Policy Council	Washington, D.C.