CAFTA Facts

Office of the United States Trade Representative www.ustr.gov
CAFTA Policy Brief – February 2005

CAFTA Levels the Playing Field

Opens Markets for U.S. Manufactured Goods, Farm Products, and Services

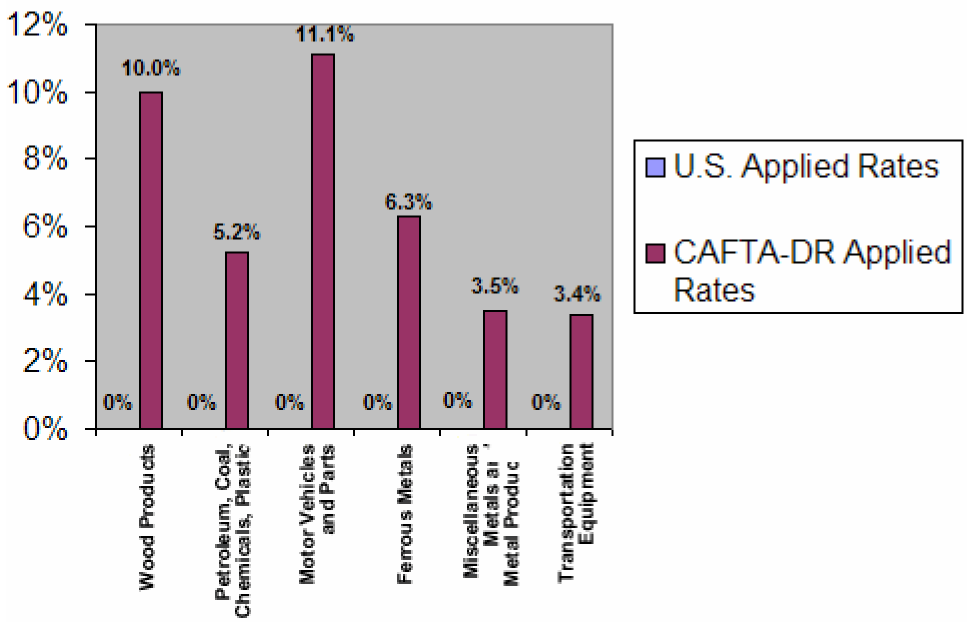
The United States has a very low average tariff (see chart below, for example) applied to imports from all countries with which we have normal trade relations. In addition, Central America and the Dominican Republic benefit from special duty preference programs such as the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI). Altogether, ***nearly 80 percent of imports from Central American and the Dominican Republic enter the United States duty-free today***. In addition, these countries enjoy the benefits of a very open U.S. services market.

CAFTA levels the playing field by eliminating tariffs on U.S. goods exports and providing comprehensive access to a wide range of services sectors.

Industrial Goods

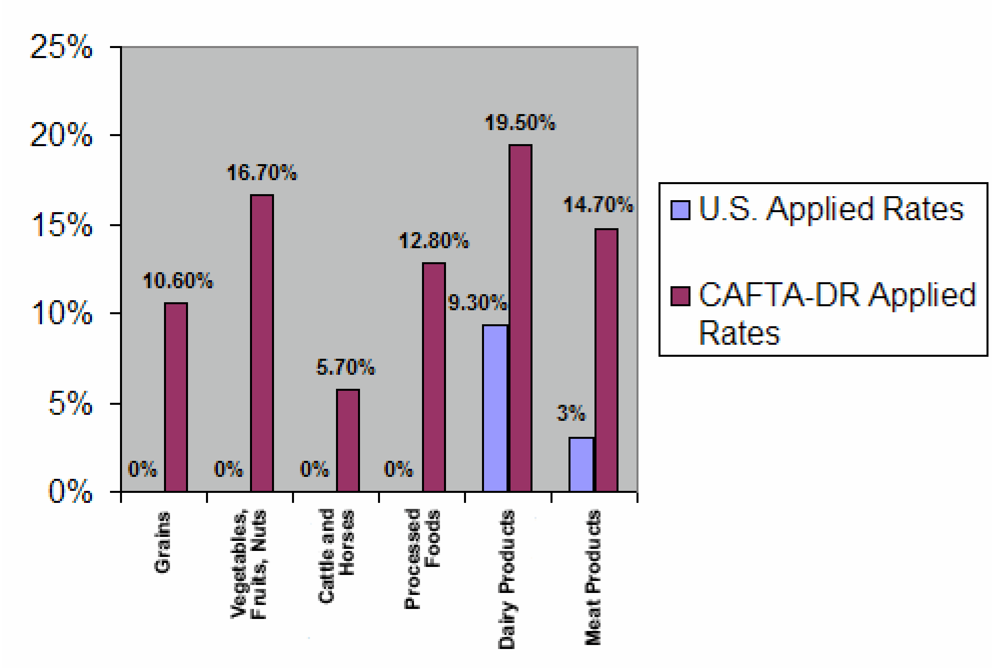
Average applied MFN tariffs on industrial goods are much lower for Central American and Dominican companies exporting to the United States than for U.S. companies exporting to the region. In addition, many imports from the region enjoy duty-free benefits under the GSP or CBI programs. CAFTA levels the playing field by opening the region's markets to U.S. exports. About 80 percent of U.S. exports to the region will be duty-free immediately upon implementation of CAFTA, with all tariffs on industrial goods phased out within 10 years.

The U.S. International Trade Commission (ITC) compared aggregate average tariff rates applied on imports of various industrial products in 2005 and found that CAFTA-DR countries enjoy nearly free entry to the U.S. in the status quo, while U.S. producers face hefty tariffs when exporting to the region:



Agricultural Goods

Average applied agricultural tariff rates are much lower for regional countries exporting to the U.S. market than for U.S. companies exporting to Central America and the Dominican Republic. The ITC found the following applied rate discrepancies for agricultural goods traded between the U.S. and CAFTA-DR countries:



Services

While the U.S. services market is largely open to imports from Central America and the Dominican Republic, the same cannot be said for current U.S. access to those markets. CAFTA:

- Provides more comprehensive liberalization than the current WTO services agreement and enhances regulatory transparency in the region.
- Removes restrictive dealer protection regimes which currently lock U.S. firms into exclusive or inefficient distributor arrangements.
- Recognizes express delivery services as a unique services sector.
- Guarantees market access and national treatment in the region for U.S.-based firms.
- Contains commitments to limit unfair regulation and taxation and to facilitate customs clearance, improve regulatory certainty and reduce cost for U.S.-based firms.

Financial Services

The U.S. financial services sector is already largely open. CAFTA levels the playing field by:

- Opening Costa Rica's insurance market for the first time.
- Allowing establishment of foreign insurance providers through branches or subsidiaries.
- Permitting cross-border provision of marine, aviation and transportation insurance.
- Providing market access for financial institutions without limits on the value of transactions, number of operations, or number of persons employed.
- Providing specific commitments affecting asset management services.

- Binding countries to allow other parties financial institutions to provide any new financial services that it would permit its own institutions to provide.
- Allowing branch banking in El Salvador, Guatemala, Honduras and Nicaragua.

Telecommunications

Barriers to the telecommunications services in the region are removed in the agreement, which:

- Grants non-discriminatory access to and use of public telecommunications networks and services.
- Ensures that each party's telecommunications regulatory body is separate from and not accountable to any public telecommunications service.
- Establishes a "negative list" approach which means that all new telecom services not initially exempted will be automatically liberalized.