United States-Central America-Dominican Republic Free Trade Agreement

Commodity Fact Sheet

May 2005

What's at Stake for Cotton?

On August 5, 2004, the United States signed the United States-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) with Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. The agreement, which Congress must now approve and enact implementing legislation, will provide America's farmers, ranchers, food processors, and the businesses they support with improved, and in many cases, new access to this growing regional market of 44 million consumers. The CAFTA-DR calls for eventual duty-free, quota-free access on essentially all products, and addresses other trade measures among the parties as well. Under the existing terms of the Caribbean Basin Initiative, which the CAFTA-DR replaces, nearly all agricultural exports from the CAFTA-DR countries to the United States already receive duty free treatment. The CAFTA-DR levels the playing field, providing U.S. exporters market access that is better than, or at a minimum equal to, that given to other competitor countries.

U.S. Gains Improved Access to the Dominican and Central American Dynamic Economies

Before CAFTA-DR. . . U.S. cotton faced an applied import tariff of 1 percent on product shipped to Costa Rica, while product shipped to the other six countries enters duty-free. The WTO permits duties as high as 60 percent. Although all six countries import raw cotton from the United States, Guatemala and El Salvador are the largest importers. From 2002 through 2004, U.S. suppliers annually shipped on average 51,313 metric tons valued at $73.1 million to all six countries combined.

After CAFTA-DR. . . The CAFTA-DR will ensure continued access to Central American markets for U.S. cotton producers by immediately eliminating all bound import duties. Over the longer term the Agreement's rules of origin will continue to favor increased access to the U.S. market for Central American and Dominican apparel and textiles made from U.S. cotton. The agreement also includes an allowance for using NAFTA fabric for duty-free apparel, which also favors U.S. cotton content.

U.S. Consumers Benefit

Before CAFTA-DR. . . The CAFTA-DR countries produce a very small amount of cotton, most of which is for domestic use. Although CAFTA-DR countries do not export raw cotton to the United States, they are significant suppliers of apparel to the United States, particularly under the Caribbean Basin Initiative.

After CAFTA-DR. . . The U.S. import duty on raw cotton from all six countries is phased out over 15 years. More importantly, these countries will gain increased access to the U.S. market for textiles and apparel. There is also a special arrangement allowing limited amounts of apparel and textiles, which are in short supply in the U.S. market, to contain third-country fabrics, whether they are made from cotton, synthetic, or natural fibers. The degree to which this special arrangement is used for apparel made from synthetics will determine the impact on their demand for U.S. cotton.

Nicaragua
In addition, Nicaragua will have a Trade Preference Level of 100 million square meter equivalents. This means third-country yarn and fabrics can be used in Nicaragua for an equivalent amount of duty-free apparel exported to the United States.