United States-Central America-Dominican Republic Free Trade Agreement

Commodity Fact Sheet

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What's at Stake for Food Grains (Wheat and Rice)?

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. wheat faced import tariffs of 1 percent in Costa Rica, and zero tariffs in the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. Wheat flour tariffs in the six countries range from 6 to 14 percent. However, WTO rules permit tariffs as high as 106 percent on durum wheat, 112 percent on common wheat and 135 percent on wheat flour. U.S. rice faced applied import tariffs ranging from 15 to 60 percent, depending on the country, and the WTO permits tariffs as high as 90 percent. From 2002 through 2004, U.S. wheat suppliers annually shipped on average more than 1.2 million metric tons (mt) valued at $204 million to all six countries combined, and the U.S. share of the CAFTA-DR import market averaged over 85 percent. During the same period, U.S. rice suppliers shipped on average nearly 620,000 mt valued at $117 million to all six countries combined, and the U.S. share of their import market averaged 98 percent.

After CAFTA-DR. . . U.S. wheat gains preferential access to all six countries as tariffs are immediately locked in at zero. Wheat flour tariffs will be phased out over 12 years in the five Central American countries, and over 15 years in the Dominican Republic.

Each country will establish zero duty tariff-rate quotas (TRQs) for milled rice, and rough rice in all countries except the Dominican Republic (which will have a TRQ for brown rice). In the first year of implementation, the zero-duty TRQ access will total over 400,000 metric tons and will grow through the tariff phase-out period. Out-of-quota tariffs will be eliminated during an 18-year transition period for El Salvador, Guatemala, Honduras, and Nicaragua, while the Costa Rican and Dominican Republic out-of-quota tariffs are phased out over 20-years. Out-of-quota tariffs remain unchanged during the first 10 years of the agreement for the five Central American countries, then are subject to a one-third reduction over the next 4 years (5 years for Costa Rica), and are then eliminated over the last 4 years (5 years for Costa Rica). The out-of-quota tariff in the Dominican Republic remains unchanged during the first 10 years of the agreement, then is reduced by 40 percent over the next 5 years, and eliminated over the last 5 years. During this transition period, volume-based safeguards are available to the Central American countries when imports exceed 110 percent (130 percent for the Dominican Republic) of the quota. Quotas and their growth rates vary depending on the country and type of rice.

Costa Rica
A 51,000 mt duty-free quota is available for U.S. rough rice, growing at 2 percent annually. The quota for milled rice starts at 5,250 mt and grows 5 percent annually.

Dominican Republic
U.S. brown rice will receive a TRQ of 2,140 mt with 7 percent annual growth, while U.S. milled rice gains access to a TRQ of 8,560 mt growing at 7 percent annually.

El Salvador
U.S. rough rice exporters are provided with a 62,220 mt duty-free TRQ which expands 2 percent annually for 5 years. In year 6, the quota is increased by an additional 3,000 mt, and then continues expanding at 2 percent thereafter. Milled rice starts with a 5,625 mt duty-free TRQ, and grows 375 mt per year for the first 5 years, before increasing by 1,000 mt in the sixth year, and grows by 320 mt per year thereafter.

Guatemala
U.S. rough rice exporters are provided with a 54,600 mt duty-free TRQ which expands 5 percent annually, and a 10,500 mt duty-free TRQ for milled rice, growing 5 percent annually.

Honduras
U.S. rough rice is provided with a 91,800 mt duty-free TRQ which expands 2 percent annually, and U.S. milled rice is given an 8,925 mt duty-free TRQ with 5 percent annual growth.

Nicaragua
U.S. rough rice is provided with a 92,700 mt duty-free TRQ which expands 3 percent annually, and U.S. milled rice receives a 13,650 mt TRQ with 5 percent annual growth.

U.S. Consumers Benefit

Before CAFTA-DR. . . U.S. import tariffs on wheat and rice from the Dominican Republic and Central American countries are currently zero. These countries export virtually no wheat or rice.

After CAFTA-DR. . . Wheat and rice from all six countries gain preferential access as tariffs are immediately locked-in at zero.