United States-Central America-Dominican Republic Free Trade Agreement

Commodity Fact Sheet

May 2005

What's at Stake for Vegetables and Preparations?

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. vegetables faced average import tariffs of 15 percent, but in some cases as high as 47 percent, in the six countries. The WTO permits tariffs as high as 60 percent. Without preferential access, U.S. vegetables are at a disadvantage to products from Argentina, Chile, and Mexico. From 2002 through 2004, U.S. suppliers annually shipped on average 39,741 metric tons of vegetables valued at $40.9million to all 6 countries combined. Of this, fresh vegetables, excluding potatoes, accounted for 2,450 mt valued at over $1.02 million

In the case of frozen fries, U.S. exporters annually shipped on average $4.4 million worth of frozen fries to all 6 countries combined from 2002 through 2004, and the U.S. share of their import market was 31 percent. Not only do frozen fries face strong competition from Canada, they are also subject to import duties ranging from 15 to 41 percent.

In the case of fresh and canned tomatoes and tomato pastes, U.S. exporters annually supplied on average $2.5 million to all 6 countries combined from 2002 through 2004, with import tariffs reaching as high as 25 percent.

After CAFTA-DR. . . U.S. vegetables gain preferential access as all tariffs on vegetables either immediately eliminated or are scheduled for reduction and eventual elimination over different transition periods.

In the case of frozen fries, import tariffs are immediately eliminated in El Salvador, Guatemala, Honduras, and Nicaragua. In the Dominican Republic, the tariff will be reduced over 5 years. Costa Rica will remove the current disadvantage faced by U.S. exports due to the Costa Rica-Canada FTA. These tariff elimination schedules will allow U.S. exporters the opportunity to compete in these growing markets on equal terms with other suppliers of frozen fries.

U.S. suppliers of fresh and canned tomatoes, and tomato pastes benefit from the immediate elimination of tariffs by all Central American countries tomato paste which is the largest export to CAFTA-DR countries within this product grouping. All tariffs on these products will be eliminated within 15 years, and earlier in many cases.

U.S. Consumers Benefit

Before CAFTA-DR. . . Vegetable products and preparations from the 6 CAFTA-DR countries have, for the most part, entered the U.S. duty-free under the provisions of the Caribbean Basin Initiative (CBI). From 2002 through 2004, U.S. companies annually imported on average 296,400 metric tons of vegetables and vegetable preparations valued at $171million from the six countries combined, and their share of the U.S. import market was 4.9 percent. Fresh and frozen vegetables account for $134 million.

After CAFTA-DR. . . All 6 CAFTA-DR countries lock in duty-free access to the U.S. market as was previously granted under CBI.