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REVIEW THE DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE AGREEMENT: POTENTIAL IMPACTS ON THE AGRICULTURE AND FOOD SECTORS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

JUNE 7, 2005

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REVIEW THE DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE AGREEMENT: POTENTIAL IMPACTS ON THE AGRICULTURE AND FOOD SECTORS

TUESDAY, JUNE 7, 2005,

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:38 a.m., in room 106, Dirksen Senate Office Building, Hon. Saxby Chambliss, chairman of the committee, presiding.

Present or submitting a statement: Senators Chambliss, Roberts, Talent, Thomas, Coleman, Harkin, Conrad, Baucus, Stabenow, Nelson, Dayton, and Salazar.

STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. Good morning. I welcome you all here this morning to this hearing to review the Dominican Republic-Central America Free Trade Agreement, or DR-CAFTA. I appreciate our witnesses and members of the public being here as well as those who are listening through our website this morning.

On December 17, 2003, the United States concluded a Free Trade Agreement with Central American countries, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, and the Dominican Republic later joined in March 2004.

The DR-CAFTA follows agreements such as the Caribbean Basin Initiative and the North American Free Trade Agreement by lowering tariffs and reducing barriers to trade in the Western Hemisphere. Without a doubt, one of the more important and effective ways to create jobs in the United States is to increase our trading opportunities and open foreign markets. That way, we can sell more American products and increase our business opportunities overseas.

The tangible rewards of increased sales makes the importance of supporting more open trade clear and convincing, and I don't think there is any question but what the future of agriculture, which obviously we are concerned with today, depends on our ability to market what we know to be the finest quality of agricultural products grown by anybody in the world. So agreements like this certainly are critically important for the future of American agriculture.

This hearing seeks to assess the impact of the DR-CAFTA on the agriculture and food sectors, recognizing both the benefits and the costs. As chairman of the Senate Agriculture Committee, I have heard from many agriculture and food groups, and I acknowledge the benefits of this Free Trade Agreement. In fact, recently, a coalition of 78 agriculture and food groups sent a letter to the Senate supporting the DR-CAFTA. The list is impressive and covers all commodities and sectors of agriculture. Without objection, I will insert this letter into the record.

[The letter can be found in the Appendix on page 179.]

The CHAIRMAN. However, this Free Trade Agreement will be perhaps one of the most difficult votes in the 109th Congress, and as with all agreements, it will have repercussions that we cannot fully predict. As elected officials, we need to be mindful of how the policies and legislation we pass on a national level impact our constituents intimately. We are holding this hearing for that specific purpose.

We also need to better understand the impacts to domestic industries resulting from new competition and changes in law. One of my major concerns regarding the agreement rests on the fact that the agriculture provisions, specifically those concerning sugar in this instance, can and likely will seriously impair the operations of the sugar program as passed in the 2002 farm bill.

When Congress granted trade promotion authority to President Bush in 2001, we understood that each agreement would have to be judged on the merits and that some might not pass the Congress. Certainly, the effects of a bilateral or regional agreement cannot yield the benefits that a multilateral agreement, as in the World Trade Organization, can afford and, as such, must be judged accordingly.

The North American Free Trade Agreement illustrates that support for more open trade on a national level is extremely sensitive to the collection of individual experiences of workers in our community.

I look forward to the testimony of our witnesses today as we continue to address the concerns that many of us have relative to this trade agreement.

I am advised that my friend and colleague Senator Harkin will be here at approximately 10. If he wishes to make any opening comments, we will certainly afford him that opportunity at that time.

I would now turn to my other colleagues who are here and present for any comments they might wish to make as an opening statement. Senator Conrad?

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman, and thank you for holding this hearing. It is extremely timely to have this hearing given that the Finance Committee may have a markup as early as next week, so thank you very much for holding this hearing. I think it is very important.

Let me just go to a couple of charts. Let me first of all say I voted for a fair number of these trade agreements and I did so on the

best advice of so many that came before us and told us this was a winning strategy for the country. I voted for the WTO. I voted for the China agreement. I opposed NAFTA and the so-called Canadian Free Trade Agreement because I could see that they were going to do significant harm to my State, and indeed, they have.

Mr. President, as I look at the pattern here of our trade deficit, this is where we passed NAFTA. We were told that was going to improve things for us. But things got worse. We approved WTO here. We were told that was going to improve things, but things got much worse. We approved China here. We were told that was going to improve things, but they got steadily worse.

It strikes me that we have got to begin to ask the question, how many of these successes can we afford, because the trade deficit has reached over $600 billion a year. We are on track for a $700 billion deficit this year.

And then I turn to the agreement before us, and we were told repeatedly that 80 percent of the goods going into these countries that we currently import from Central America and the Dominican Republic already enter the U.S. tariff-free, so that this is an enormous opportunity for us. Eighty percent of their goods come into our country tariff-free. Our goods face high tariff barriers. And so there is a significant opportunity here.

One would think that would mean our trade deficit would be reduced as a result of this opportunity, but you know what? Our own International Trade Commission has reviewed this proposed treaty and they say it doesn't make things better, it makes things worse. Here we have what is supposed to be an enormous opportunity and our own International Trade Commission says it makes our trade deficit with the region worse by $100 million a year. It increases our trade deficit, not reduces it.

So I must say, Mr. Chairman and colleagues, I don't get it. How can this be classified as a success when it once again makes the trade deficit with the region worse?

And then we are told, well, this is going to help the economy substantially, and again, our own International Trade Commission, a nonpartisan government scorekeeper in trade agreements, has concluded that the impact on the U.S. Gross Domestic Product is too small to show up. On Table 4–3 from the International Trade Commission, here is what they say the effect is on the Gross Domestic Product of the United States. It is zero-point-zero-zero. That is zero.

You know, I really don't know what has happened to us here in terms of the use of language. But by any objective analysis, this doesn't do anything for the economy. It makes our trade deficit with the region worse. And it threatens a very important industry in this country. Fundamentally, it threatens the sugar industry in the United States, an industry that employs 146,000 Americans.

We have heard, well, it is just a teaspoon of additional sugar. No, it is not a teaspoon. This agreement permits 100,000 tons of additional sugar to come into this country. But that misses the larger part of the story, because if you apply the same precedent to the other agreements that are being negotiated, what you find out, if you apply this same standard to South Africa, to Thailand, and to

the Andean countries, it is not 100,000 tons of additional sugar, it is over 500,000 tons.

I held a hearing on this, Mr. Chairman, last year in North Dakota. We had economists of all stripes before us, from the State university, from the industry, objective sources. All of them said that level of additional imports would crush the price, would put the price below the redemption price and unwind the sugar program in this country, fundamentally threatening the sugar industry, which in my State is a $2 billion industry.

So, Mr. Chairman, as I look at this proposal before us, what I see is an agreement that provides virtually no benefit to the larger economy. Our own International Trade Commission says it adds zero percent to the Gross Domestic Product. It threatens a major industry in our country, the sugar industry. And, most remarkably, it makes the trade deficit with the CAFTA counties worse according to our own International Trade Commission when our trade deficit is already at record levels.

Again, I don't know if we can afford many more of these successes. I said in the Finance Committee hearing, it reminded me a little of the German general who said in World War II he knew they were in trouble when they kept reporting the victories closer to Berlin. This is another one of those victories that you really have to wonder, is this going to make things better or is it going to make things worse?

Mr. Chairman, I must say, I regrettably have concluded that this agreement, as negotiated, makes things worse, and I will be left with no option but to oppose it. I thank the chair.

The CHAIRMAN. Thank you. Senator Thomas?

STATEMENT OF HON. CRAIG THOMAS, A U.S. SENATOR FROM WYOMING

Senator THOMAS. Thank you, Mr. Chairman, and thank you for holding this hearing. I am interested in trade, of course, because I am chairman of the Subcommittee on Finance on Trade.

I think there are some things positive here. I think it does strengthen our position on WTO negotiations. It enhances U.S. and regional security, and those are things I have heard from a number of people. It strengthens democracies in some of the places and creates regional trading. There are benefits, of course, in most trade agreements. There are also problems in most trade agreements, and I think there are some problems here, as well. I guess that is not unusual.

Really, I guess I just need to say, and I will be very short, I am a little surprised at the broad support. I met with the six presidents from the countries there and they talked about security, they talked about their economy, they talked about strengthening their governments and all those things. I met with the President of the United States and heard the same thing again, and so on. So I am a little surprised that in the negotiations, if it is that important, if it is that broad, if it has that much impact, why we took a little relatively small thing like sugar that we have dealt with in the past and put it in there and let it become one of the problems in terms of passage of something that is quite broader.

So I met with our sugar folks. I met with them last week. A number of them are going to be here this week. Hopefully, we can find some ways, either in this agreement or in the future for the sugar industry, to do something. But at any rate, we need to see if we can't deal with the sugar problem as we go forward.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Do any of my other colleagues have an opening statement? Senator Baucus?

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you very much, Mr. Chairman. I will be brief here.

This proposed agreement, actual agreement signed, not yet ratified by the Congress, if it is ratified, gives me a lot of concern. I strongly believe that trade, fair trade, free trade, just more trade, that is fair to all countries concerned and peoples concerned makes a lot of good sense. It helps people around the world. There is no doubt about that. And I have generally supported all trade agreements that have come before this body. I pushed hard on China PNTR, for example, and also worked very hard to prevent unconditional, or conditional MFN extensions for China. I supported NAFTA. I supported the Canadian Free Trade Agreement.

I support trade agreements. I might say, at somewhat political expense. For example, I am the only person in the State of Montana, only public figure who has. Everybody else speaks loudly against them, saying this is bad for Montana, et cetera. But I support them, generally.

I have trouble with this one for several reasons. One, it does not help an industry that is important to my State, sugar. We all know the sugar problems. And in addition to the points that the Senator from North Dakota made, which are very real, that is this is essentially the first of many potential revisions on sugar, very detrimental to the American sugar industry, not just the increased quota from DR-CAFTA countries, but also it sets a precedent for Colombia, South Africa, Thailand, and so forth. You add that up and that tonnage is very significant.

Add to that Mexico. Under the NAFTA agreement, it is my understanding that Mexico will be entitled to export to the United States, if it is a net exporter of sugar, you know, 400,000 or 500,000 tons. Mexico is already a net exporter of sugar. That was not contemplated when NAFTA was written. Nobody thought that would happen, but it has happened.

So we add it all together and it is not a teaspoon, it is a flood, frankly. And I see no indications from the administration to address any of that. The sugar industry, my beet growers are just being stiff-armed. They won't pay attention to them. That is just the deal. The administration seems to want to just shove this agreement through Congress, maybe by a one or two-vote margin in the House, without addressing the real legitimate concerns of an industry that doesn't have much else, other places to go.

Our beet growers, for example, what else are they going to do? You know, these are Montanans. They grow sugar beets. They also

have an interest in the plant there. If the sugar industry goes downhill, there is nothing left for them. There is a lot of opportunities for a lot of other people, other businesses and so forth, but not for these folks, and I represent them. They are very concerned. So it is the cumulative effect which is not being addressed by the administration that is causing a lot of problems.

Add to that sort of the lingering concern. We talk about trade agreements and the general benefit it provides to people. There is a lot of lip service, but only lip service, to readjustment assistance to help when the people are displaced, not because of something they caused themselves, but because of an agreement or because of international trade dynamics.

There are just no—there is no beef. Where is the beef? There is no beef in the administration's efforts to do something to help those folks whose jobs are lost on account of trade. Let us take the sugar industry. There is nothing. We have heard nothing from the administration, no concern. It is like there is just a callous disregard, it seems.

I know within the administration there are some who say, well, the heck with that. I negotiated this and so this is what is going to be. Others in the administration said, no, no, let us do something about this. But so far, what we hear is, forget it. This is the deal. Let us jam it through, a one-vote margin. We will twist enough arms. The White House has enough power just to get it through.

I think that is a bad approach because it tends to cause people in the country to wonder what is in it for them. And I don't want to stretch this analogy too far, but look what has happened in Europe in the last couple of weeks. The people of France, the people of the Netherlands, the people in these countries have said, hey, our leadership is too elite. They are too patrician. They are not caring enough about us, the people.

And that is a little of what is happening in this country with trade agreements. People are wondering, what is in it for us as people? We are sure the companies get a good deal out of it. The management does. Stockholders might. But what is in it for us? It is beginning a significant resistance in this country to trade agreements because of the failure to just remedy adjustment problems and to show that the administration really cares.

I see my time is up, Mr. Chairman, but let me just say, I have real problems with this agreement. The ITC studies show that about 3,000 jobs are going to be lost just with this alone, and that is not peanuts, if you will forgive me, Mr. Chairman. That is more than a spoonful of sugar. It is just not enough addressed here.

You can go back and renegotiate. I hear all this, oh, we can't renegotiate agreements. Yes, you can. Oh, the parliaments there have already passed it. So what? This administration, if it wants to, can go back and renegotiate, privately give a heads-up to the countries down there and say, hey, we have got to rearrange things a little bit. They will deal. They will figure out a way to deal. There is a lot of creativity around here. But no, there is no indication to even begin to open that door. One administration official said, well, we asked them, could you do that, and they said no. Well, of course

they say no if you ask them. If you tell them, hey, we have to do this, they will find a way.

And so I have significant reservations about the way this is being done, Mr. Chairman. Thank you.

The CHAIRMAN. Senator Roberts?

STATEMENT OF HON. PAT ROBERTS, A U.S. SENATOR FROM KANSAS

Senator ROBERTS. Thank you, Mr. Chairman. I apologize for being late, and I will be brief. I know that comes as a shock to everybody here.

I am going to save my tirade or my ranting not for the Secretary but a question to the Secretary in regards to what happens if CAFTA fails and what that means down the road for us in other trade negotiations and also what it means in regards to stability in those countries we are talking about, more especially from the standpoint of national security with immigration and drugs and trade and energy and so on and so forth.

I think we are suffering, Mr. Chairman, from something called trade fatigue. I think many times we oversell trade agreements. I know we do that. I think many times we over-criticize them. I know we do that. And so now when people like myself or the Secretary or anybody here who is privileged to serve your farmers and ranchers go out and make a speech, it used to be the second thing they used to talk about was exports and trade. We don't do that anymore.

I don't know whether—I don't know what to call it. I don't think it is isolationism. I don't think it is protectionism. I think everybody is looking out for their own commodity interest, and I understand that, but there is a larger issue here in regards to not only national security and stability in that region. I don't want to go back to the Ortega days. And so I think we have to be very careful as we go forward, and I am worried about this. I think that there has been an attitude change in farm country, even in Montana.

I am worried about this idea that, stop the world and let me off. Let me grow what I can grow and we will sell that, except that in Kansas, we have to sell at least a third of our product somewhere. The same thing with Nebraska. So I am concerned about that.

So I am going to end with that and I am going to have a question for our distinguished Secretary, what he thinks is going to happen if CAFTA loses, so that is the softball coming at you when it comes to my turn.

The CHAIRMAN. Do any of my other colleagues wish to make any opening statement, and if you do, please make it brief.

STATEMENT OF HON. MARK DAYTON, A U.S. SENATOR FROM MINNESOTA

Senator DAYTON. I will, Mr. Chairman. I just want to thank you for this hearing. It is very timely. I also welcome the Secretary and his colleagues to our committee here. I will save my statement until my questions. Thank you.

The CHAIRMAN. Senator Nelson?

STATEMENT OF HON. BENJAMIN E. NELSON, A U.S. SENATOR FROM NEBRASKA

Senator NELSON. Thank you, Mr. Chairman. I, too, want to welcome the Secretary and his staff for being here. I am looking forward to this hearing. I obviously am concerned, as we all are, about how we handle the diplomacy in the world and how we interact with our friends to the South, but it also impinges on agriculture and what the future of our sugar industry is. I am very anxious to get responses to the questions that are up and coming.

And though I rarely align myself with the comments from my Senator from the South, Senator Roberts, this time, I am very happy to do so and I appreciate his concise statement.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Salazar?

STATEMENT OF HON. KEN SALAZAR, A U.S. SENATOR FROM COLORADO

Senator SALAZAR. Chairman Chambliss, first, thank you for holding this hearing. Second, I have not yet made up my decision with respect to DR-CAFTA. I will study it closely over the weeks and months ahead. I think it is important for us to put the finger on what it is that we are trying to accomplish with DR-CAFTA. Is it really an economic trade agreement or are there other issues related to national security and what is happening in Central America that are really the drivers to this agreement?

As we move forward, other concerns that have already been expressed by my colleagues relative to what happens to sugar and our agricultural economy is going to be real important to us, as well as the question that I think Senator Baucus raised, whether or not the specific question related to the sugar industry is something that could be brought back in the form of a renegotiated CAFTA, or is the agreement that we are dealing with the agreement that we are going to take to some kind of up or down decision within this Congress.

I very much look forward to learning a lot more about this, and Secretary Johanns and distinguished members of the panel, thank you for being here today.

[The prepared statement of Senator Salazar can be found in the Appendix on page 50]

The CHAIRMAN. Thank you.

Gentlemen, thank you for your patience out there. Our first panel today will be comprised of the Honorable Michael Johanns, the Secretary of the U.S. Department of Agriculture. He is accompanied by Dr. J.B. Penn, who is Under Secretary for Farm and Foreign Agricultural Services, a longtime friend of this committee, as well as the Honorable Allen Johnson, the Chief Agriculture Negotiator for the U.S. Trade Representative Office.

Secretary Johanns, I just want to tell you, you have been in your position now for almost 6 months and I want to compliment you for the job you are doing. You have been extremely accessible to not just the chairman of this committee, but I know to any number of other members of this committee as well as to other members of the Senate as a whole. You have been very responsive every single time we have called your office. So I want to commend you on the

job you are doing. You have some difficult issues that you are facing, not just here today but otherwise, and you have been very forthright in addressing those issues and we look forward to continuing to work with you in all of those respects.

I know today you are going to have to leave at 10:30. We understand that, and that Dr. Penn will respond to any questions that might be asked at that time, once you have to exit.

We have been joined by Senator Harkin. Senator Harkin, I was going to turn to the panel for any opening statements, but if you wish to make any opening statement, we would certainly be happy to hear from you.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. Mr. Chairman, thank you very much. I apologize for being a little late and I will just have my statement be made a part of the record. I would rather listen to the panel. Thank you, Mr. Chairman.

[The prepared statement of Senator Harkin can be found in the Appendix on page 52]

The CHAIRMAN. Secretary Johanns, we are pleased to have you here and look forward to your comments.

STATEMENT OF HON. MICHAEL JOHANNS, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC; ACCOMPANIED BY J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary JOHANNS. Thank you. Mr. Chairman, members of the committee, first and foremost, thank you for those kind words. It is my intent to do everything I can to be accessible to this committee and to the members of the Senate and the House. If you ever see any trail-off in that promise, let me know, because we definitely want to work with the committee, and it has been a pleasure working with you, Mr. Chairman.

I do appreciate the opportunity to offer a few words on the Central America-Dominican Republic Free Trade Agreement. I have submitted a full text of my comments, so I am going to move through these comments fairly quickly in the hopes that I can at least take a couple questions before I do have to leave.

To begin our discussion of CAFTA-DR and its importance, I hope I can take a moment here to provide some context relative to the farm economy, what we are seeing and the importance of trade to that economy.

The U.S. farm economy is strong. Our export sales contribute to that. Farm income was the highest ever in 2004, actually by several billion dollars. We forecast another record for 2005. Income continues to run well ahead of the national average and it covers many sectors of the agriculture economy—the livestock sector, dairy, the crop sector is faring well at the same time as livestock, which is unusual in agriculture, as you know. There are widespread positive aspects of the economy, and we also recognize that there is adversity in some areas and in some localized parts of our country.

Agriculture's balance sheet, I might also mention, is the strongest ever, supported by firm land prices. That dates back over an extended period of time, actually dating back to the late 1980's, and it doesn't show any sign of slowing.

I cannot emphasize enough that the future strength of agriculture does hinge on our success in the international marketplace. We set the standard for the world. We are the world's largest exporter when it comes to agricultural products. We already derive 27 percent of our gross receipts from our foreign customers. Every $1 billion of export sales creates $1.54 billion in supporting economic activity, and it supports nearly 16,000 jobs.

Now, in terms of the numbers on export sales, in 2004, they reached a record of $62.3 billion, despite, I might add, having some key markets unjustifiably closed to beef and to poultry products. This growth reflects both higher prices and expansion of high value added products.

Our latest forecast for 2005 could well reach the second-highest level on record, $60.5 billion, and I might add, that is still in an atmosphere where we are working to open up some key markets, especially in the beef industry.

There are a lot of discussions about various aspects of trade that always pop up when you have a trade agreement. Let me offer some thoughts relative to past trade agreements.

During this fiscal year, 2005, Mexico will overtake Japan and become our No. 2 export market. Canada remains our top export market. That means some 30 percent of our total exports will be from our partners in the North American Free Trade Agreement. In fact, trade with our NAFTA partners has doubled in 10 years, during the existence of that agreement. We do hear criticism, but quite honestly, when it comes to exports, we have really set a standard in terms of the amount we are exporting into these two partner countries.

I might also mention that we have our work cut out for us. Our ability to produce is growing faster than consumption here at home. We need more markets like our NAFTA partners. Remember the statistic, 95 percent of all consumers don't live here in the United States then live outside of our country. Those are our customers today and in the future.

We work on trade in a number of ways, multilaterally -that would be the WTO; regionally CAFTA-DR is an example; and bilaterally Australia, Chile, Singapore, those agreements would be examples.

We are engaged in an effort to liberalize trade in many areas so we don't put all of our eggs in one basket.

I do believe that we stand at a crucial crossroads. I think Chairman Roberts' comments are accurate. I am talking, of course, about the ratification of this agreement. The passage of CAFTA-DR is essential. The economic stakes are very high. This is a good agreement for U.S. agriculture. The facts support that.

The agreement gives us access to 44 million additional customers. I am pleased to report that we are seeing growing economies and stable governments; a vast change from what we have seen in the past. Without this agreement, our competitive position in the markets will diminish. We have already seen our share of

these countries' imports fall in recent years. In 1994, we had 52 percent share of their imports. Today, that has fallen to 42 percent. Make no mistake, our competitors are there. They are very, very competitive. Canada, Mexico, South America are all working to gain access. We can regain market share with CAFTA-DR, I am confident of that, and again, I think the reasons are obvious.

Look at the history of our relationship with this part of the world, and it extends over nearly two decades. Because of votes that were taken previously, and in some cases overwhelming majorities, bipartisan support for this approach, 99 percent of the goods from these countries from an agricultural standpoint enter our markets duty-free. It was our attempt to boost the economy of this part of the world, and incidentally, it worked. What you did, or your predecessors did, worked.

But now we need to work on what we can do to level the playing field, because our duties are very high when we go to sell into those markets.

Now, if I might just touch on the issue that has been mentioned a number of times and that always comes up, the impact on sugar. As you know, I come from a State where we had sugar beets. We had sugar processing in Scott's Bluff, Nebraska. Needless to say, it was something I was going to take a close look at and I did. I have repeatedly emphasized, after significant study of what we have here, that I do not see an impact from CAFTA-DR on the U.S. sugar industry. Quite honestly, it is just not enough sugar. It is just simply not enough sugar.

The agreement gives some added access to our market, but the additional sugar is little more than 1 day of U.S. production. The quantity involved is very small, very small. The over-quota duty wasn't changed. It remains prohibitive at well over 100 percent. It will not be reduced as a part of this agreement, just as the sugar industry requested.

The sugar program with its guaranteed benefits to American producers is really not changed in any way. The farm bill passed in 2002 remains the same. We will administer the program under that farm bill the same when CAFTA is passed. So the overall impact on the sugar industry, we really see as not impacting that farm bill.

I will just wrap up my comments by saying that it is not accidental that we have had such broad support from the agricultural industry. This is a good agreement for agriculture. At my confirmation hearing, I was asked by one of the members of this committee, Senator Nelson from my home State, where will you be on trade, and I said my goal is to put trade front and center.

Well, today I stand before you, or sit before you with the ability to tell you that the current situation is not balanced. Ninety-nine percent of the products do come here duty-free. We pay very high duties. With the passage of CAFTA, those duties come down, in many cases immediately, and in all cases over time. That is exactly what I believe the terminology "level the playing field" means.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Secretary Johanns can be found in the Appendix on page 56.]

The CHAIRMAN. Ambassador Johnson?

STATEMENT OF ALLEN F. JOHNSON, CHIEF AGRICULTURAL NEGOTIATOR, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. JOHNSON. Thank you, Mr. Chairman, Senator Harkin, members of the committee, for this opportunity to discuss the Central American and Dominican Republic Free Trade Agreement. You have seen my written testimony, which I understand will be entered into the record. You have heard Secretary Johanns. You will hear from the next panel. You have seen the letter from some 80 agricultural groups supporting this agreement, all of which points to, overwhelmingly, the agricultural benefits of this agreement justify its approval.

As I thought about my testimony today, I actually thought I would focus on something that I have already heard Senator Roberts raise, which is what is the role of this agreement in our broader agricultural trade agenda?

This weekend, I had the chance in a few moments to read a book called Decisive Moments in History. One of the stories in that book was about a guy by the name of Cyrus Field who took it upon himself to lay a cable between the United States and Europe, some 375,000 miles of single-strand wire that they wove into a cable, about the amount you would need to connect the earth to the moon.

They tried on several occasions. The first time, the cable broke at 350 miles. The second time, they were hit by a hurricane, so they had to return to port. The third time, after they basically lost half their investment, they went back yet again, risked everything, and actually succeeded in laying the cable. And as the American ship approached America, the English ship approached England, they radioed to each other through the cable that they could see both coasts and a celebration ensued and Mr. Field was named a national hero. The cable fell silent.

Then 5 years passed as the Civil War raged. The project was abandoned, and 6 years later, Mr. Field tried again. Again, the cable broke, and then finally, in 1866, they succeeded to forever connect instantaneously America, the old and the new world.

Now, what we do here is known within seconds around the world, and speculation, like seeds in a burst of wind, is known instantaneously and is beyond our control. In the next few weeks, you will be in the position here to decide what message you want to send through the cables of today. What message do you want to send to the capitals of San Salvador, Guatemala City, Tegucigalpa, Managua, San Jose, and Santo Domingo, where just a few years ago they traded blood and bullets across their borders instead of goods and services, where they are on the front lines of narco-terrorism, narco-trafficking, corruption, international organized crime, immigration, and economic and political freedom?

The pro-American political leaders who dared to listen to our encouragement to follow their American dream are going to be waiting anxiously to hear if they were wrong in opening their markets in agriculture and paying a huge political price for that in tying their futures to ours.

In addition, the capitals of Central America's neighbors to the South, Bogota, Quito, and Lima, who we are currently negotiating with and are fighting against standing armies of narco-terrorists as well as the anti-American sentiments being promulgated by Venezuela's president, they will be listening to hear if the message for these Central American countries who took some courageous political risks at home, that those decisions were well founded in putting their faith in the U.S. as partners.

In the capitals of Brasilia, Buenos Aires, and Montevideo, they will be listening to hear if the message is that we have learned the lessons of the past by passing and reaching out with this agreement and not turning our back on the hemisphere yet again.

And in the capitals of Havana and Caracas, they will be listening to see if they will have new material and a stronger voice to justify their anti-American sentiments around the hemisphere, or are we going to hush them by reaching out with our actions and passing this agreement.

Unfortunately, due to Mr. Field's cable and its technological descendants, the message isn't going to stop at the ocean's edge. It is going to go to Asia, Africa, the Middle East, where they will be listening to hear that while we are promoting democracies around the world, are we supporting them in our own neighborhood?

In Tokyo and Seoul, major agricultural markets of today with even greater potential for consuming our agricultural products in the future, where there is huge internal resistance to agricultural reform and opening the markets to us, and where we are currently condemning them because of their policies in our access to their beef markets, there is going to be protectionists there listening to hear if they get a sigh of relief with the news that the U.S. is backing down on trade, or are they going to hear the loud and clear message that our relentless march toward addressing unfair trade practices around the world is not going to cease.

And then in countries with the capitals of Moscow, Hanoi, and Kiev, where we are pushing them hard to liberalize agriculture in their WTO accession packages, they are going to be listening to see if we lead by example in passing this agreement.

And then in Delhi, where we are constantly lecturing them on protecting their billion people behind tariff walls of over 100 percent duties on agriculture, they will be watching to see if we turn down an agreement with great benefits to U.S. agriculture that leaves in place, as Secretary Johanns said, 100 percent tariffs on some products because even the quantities involved here, the small quantities involved, is too liberal to be approved.

And probably, if this agreement failed, the most astounded of all would be Beijing, who heard repeatedly that their textile exports are a threat to U.S. jobs and where they know that the U.S. textile industry is lobbying heavily for this agreement. Yet, if we turn this agreement down, the very agreement that is our best chance to compete against China in those same products.

In Brussels, they will be watching to see if our policy is really "do as I say, not as I do," because they are looking for reasons to justify, as you mentioned earlier, their policies of subsidization and protection.

And then in Geneva, where there are 148 members of the WTO looking to U.S. leadership anxiously -and make no mistake, the Doha Round will not move forward without agriculture and agriculture will not move forward without U.S. leadership—our credibility will be put at stake as to whether or not we are going to stand behind this agreement that we have signed and if it is going to fail because of some protectionist tendencies here.

So that dream in the WTO of addressing export subsidies, where the Europeans outspend us 100–to-one, or the unfair trade practices of trade distorting domestic support where the Europeans outspend us about three-to-five-to-one, or addressing the high tariff barriers around the world where the average tariff in the world is about five times ours, those who look forward to that are going to be disappointed because we will have missed the opportunity to address these unfair trade practices if this agreement fails and with it our leadership in the WTO.

Every one of the countries that I just mentioned is of interest to U.S. agriculture, and I know that because I have people coming through my door every day telling me what they want out of each one of these countries and in each one of these agreements. But the message that the administration and the Congress are divided on the goal of opening markets and addressing unfair trade practices will be welcomed by our foes and disappoint our friends and would impact every issue that we face in our agricultural trade agenda, both large and small, including putting at risk our ability to compete against our competitors for our customers in markets even close to home.

But if the Dominican Republic and Central American Free Trade Agreement passes, the exact opposite message will be sent. The unmistakable message will be that the U.S. is going to continue to lead the world not just in democracy, but also in trade and economic freedom and the importance to this committee that U.S. agriculture is going to continue to lead the U.S. trade agenda.

I like to think that when Mr. Field visualized his cable going across the Atlantic, that he envisioned an optimistic America, one engaged in the world, reaching out to friends, building partnerships, unafraid of competition. I believe that is the America that we need to be today. He probably envisioned the news going across his cables to be those of good news for our future and not retreat, one where we broke down walls, not built them higher.

I share in Mr. Field's optimism, and I know as leaders here you realize the American dream yourself and can understand why others around the world would be looking to us in trying to achieve that with our leadership. And because of that, I know that they are not going to be disappointed.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Johnson can be found in the Appendix on page 62.]

The CHAIRMAN. We are going to do something a little bit out of the ordinary because we are going to lose the Secretary here in a few minutes, and I am going to give everybody an opportunity, if you want, to direct a specific question to the Secretary. As long as we can keep him here, we will give you the opportunity to ask one.

Then we will come back after the Secretary leaves and go back to our normal questioning process.

Mr. Secretary, you are right. The most controversial provision in DR-CAFTA is that provision regarding sugar. The administration has minimized the impacts on the sugar industry and maintains that the compensation provision will help manage the U.S. sugar program. However, we have not seen any details on how this mechanism is going to work. Furthermore, many Senators believe that paying the Central American governments for surplus commodities or direct appropriations will be politically difficult to sustain or justify. While this is the first time that this provision has been included in the trade agreement, USDA has had over a year to detail the proposed mechanisms.

With a vote imminent in the Senate and the House, can you tell us how the compensation mechanism will operate? What do you estimate will be the impact on the U.S. sugar program if DR-CAFTA is approved by Congress and additional sugar is allowed in the United States? And do you think the American public will accept taxpayer dollars being given to Central American governments, as provided for in this trade agreement?

Secretary JOHANNS. Great questions. I would offer a couple of thoughts. I have read the discussion about the compensation agreement. It has come up, I think, in every hearing that has been held relative to CAFTA. The gentleman that actually negotiated that and put it in is one of the witnesses today, so the Ambassador may be able to offer some specific thoughts, but let me offer a thought from our standpoint in terms of management of this sugar program.

Like I said, I have read the discussion with interest, but again, as we look at how we discharge the duties you have given to us here on the Hill and the broad powers we have over sugar in the United States, it just simply doesn't appear that there is enough sugar involved here to impact how we manage the sugar program during the life of the farm bill.

And I see the discussion about sugar. I watch the charts. But the only way that that case can be made about sugar crashing this program is by making assumptions about future agreements and future agreements and future agreements and then getting to a point where you say, "See, I told you so."

Under what we see here, I have to tell you, I would be very, very surprised, and I would be sitting here eating crow someday if literally the compensation agreement ever came into effect, because we just don't see enough sugar involved that is going to impact how we manage this program.

The CHAIRMAN. Senator Harkin?

Senator HARKIN. Thank you, Mr. Chairman. First, just a short comment, and then I do have a question.

Mr. Secretary, it just seems to me that every time one of these trade things comes around, we talk about how U.S. agriculture hinges on getting more of our goods sold abroad. I always go and check the oil prices. I check how much my farmers are paying for diesel and gasoline and what they are paying for fertilizer right now and the high cost of natural gas for making that fertilizer. It just seems to me we are selling more and more of our products

overseas so we can get some money so we can turn around and buy more imported oil.

I am all for trade. I have supported about every trade agreement that has ever come up here. I don't know that it is getting us very far. It seems to me what the future of agriculture hinges on is recognizing that those fields out there and those farms out there can produce the energy that we need in this country.

Trade is fine, but I don't know that the future strength of American agriculture hinges—hinges—on our success in the international marketplace. I would say it hinges on whether or not we are actually going to start using the resources we have here to replace imported oil. That is everything from diesel, bio-diesel, ethanol, bio-based products, whether it is hydraulic fluids or all the different things that can be made that we can start replacing. All the plastic things that are made out of petroleum products can be made out of, as you know, because you have a plant north of Omaha there, that Dow-Cargill plant, you can make those things out of starch.

So it seems to me that is where we have got to be focusing our energies. Now, we are doing a little bit of it, but not nearly enough. We spend all of our time and efforts on things like CAFTA.

Now, Mr. Johnson, my good friend, says this is a great benefit. But as I understand it, the estimate that we have from the American Farm Bureau Federation is that agriculture exports will be $1.5 billion a year higher by the time the agreement is fully effective 15 to 18 years from now. Now, you point in your comments that it is a doubling. Well, sure. One to two is a doubling. It doesn't say much. That still is about 1.5 percent of our expected U.S. agriculture exports for 2005—1.5 percent.

Now, we talk about the benefits to these people in these other countries. I read how we are going to sell them prime cuts of beef and pork and all these wonderful things are going to go to these countries. But a third of the population lives on $2 a day or less in these countries. The average income in all the countries is about $2,200 a year. That is not even $200 a month. How are they going to buy that New York strip steak or an Iowa chop on that kind of income?

So again, my thing is I think we have got the wrong focus. I am not saying this is necessarily a bad deal, but I think it is the wrong focus to think that we have got to put so much effort into this. Where our efforts ought to go is the Doha Rounds. This is a $3.3 billion market. Doha Round, if it works, opens a $300 billion a year market for our agriculture producers in this country. That is where we ought to be focusing, and not on this thing.

By the way, I also add, I was visited, Mr. Chairman, by a Bishop Ramizini from Guatemala. I had never met him before. He is a Catholic bishop of Guatemala, came to see me specifically to talk about the dire impacts that CAFTA would have on his people, his poor farmers, his poor people in Guatemala. Now, I don't think he has any devious intentions, but he is saying that this could really drive his farmers off their land, drive them into cities and really hurt their rural population in those countries.

And so, last, it raises the issue about sugar, also. I am not so certain that what is going to happen with sugar on this is that big

of deal right now, but what it does do is it sets a precedent for opening up for other countries to come into which could devastate our sugar industry in this country. And when we are looking at the possibility of using sugar and sugar beets or cane, whatever it might be, as a source for energy down the road, I am not certain I want to see that go by the wayside.

So, Secretary, I just wanted to make those statements and ask for your rejoinder on that in terms of the impact on poor people in Guatemala. Why is Bishop Ramizini wrong in how he is looking at this in terms of the impact on his people? And second, how is this going to help us export our high-quality cuts of beef and pork and everything else when people are making $2 a day?

Secretary JOHANNS. I don't really have any idea other than what you have said about the Bishop's comments, but I would offer this thought. Back when NAFTA was being discussed, I was a mayor at the time, and I was asked to be part of a delegation that went to Mexico, and we actually met with the president, the then-president of Mexico, to talk about NAFTA. There were some of those same arguments made, that this massive agriculture industry in the United States would just dominate, and if not annihilate agriculture in Mexico.

I was just back in Mexico, as Secretary of Agriculture, where I met with my counterpart, Secretary Usabiagas, and we compared notes. In fairness to NAFTA, we have doubled our exports, but they have also doubled their exports. As I have said so many times, trade is not only a two-way street, it is a superhighway. If they are doubling their exports, then obviously they have benefited from that agreement, and this is in a very short period of time. We are talking just over 10 years.

I fully -#I21Senator Harkin. Excuse me. Are you talking about——

Secretary JOHANNS. I am talking about NAFTA.

Senator HARKIN. Are you talking only about agriculture exports from Mexico or all exports from Mexico?

Secretary JOHANNS. I am speaking of agricultural exports.

Senator HARKIN. Just agricultural exports?

Secretary JOHANNS. Just agriculture exports. It has been a rather remarkable success story, really on both sides, in agriculture.

Now, let us look at CAFTA and see if we can draw a comparison there. I do believe you can. It is a market that is close to us. They have had a wonderful preference for a lot of years—this dates back to 1983, as a matter of fact. On three successive occasions, Congress has had an opportunity to reaffirm its commitment to this part of the world and said, yes, let us leave this part of the world open. Let them export their products into the United States duty-free, and they have been doing that.

And what this really does at this point is it allows for a leveling of the playing field. But they have a market here. Interestingly enough, even with the high duties, we have a market there. We exported about $1.8 billion worth of agricultural products into these countries in the last year. It is that trade and that relationship.

Senator I will just offer one last comment. When the presidents were here, I had an opportunity to mostly sit and listen in a meeting where they were there to talk about the benefits that they saw

in this agreement for their country. I just walked out of that meeting very, very proud of my country and the commitment that we had made to these countries that quite honestly 20, 25 years ago, many would have written off. And now, we see presidents that are enthused about their economies, enthused about this agreement, excited about the opportunity of creating an even better relationship with the United States.

Like I said in my prepared testimony, I believe the right thing was done by this Congress over a long period of time, and I think it would be very, very unfortunate if, at this point, now some 20–plus years into this, if we walked away in the final stage. And I think if every president were here before you from the CAFTA countries, I feel strongly that they would affirm what I just said to you. They want this relationship. They want this future. These are countries that have blossoming democracies, but they are fragile and they need our help and support, and I believe this agreement gets them there and they feel strongly about it.

The CHAIRMAN. Mr. Secretary, I know time is short with you, but if you would answer one more question, maybe from Senator Thomas.

Senator ROBERTS. Would the Senator yield?

Senator THOMAS. Yes, absolutely.

Senator ROBERTS. I don't mean to perjure the intent or the concern of any member here or any commodity organization and their obligation to fight for their farmers and ranchers or particularly the sugar industry. My question to you, Mr. Secretary, is this. If we don't approve CAFTA, if CAFTA is not approved, what do you do, sir, personally in regards to your public statements and we do from a policy standpoint, hopefully with working with the Congress in reference to the Free Americas Trade Act, in reference to the WTO, in regards to the cotton case and your efforts to open up the beef markets with Japan and South Korea? What do you do with the farm bill if, in fact, that is the signal we are saying, we are going back to acreage controls and higher supports. What are we doing here? I think this has ramifications for all of that.

The distinguished Vice Chairman has indicated that we need to become more energy independent, and I am all for biomass. He has hit the nail on the head. I am not too sure we can do that fast enough in regards to fossil fuel energy vis-a-vis the trade act, but I have a glass of ethanol every morning with Senator Grassley. It will warm you right up, Mr. Secretary.

[Laughter.]

Senator ROBERTS. But I want to know what you are going to do if, in fact, we say, stop the world, let me off, because we have this perception of something unfair. What are you going to do with all of these things that are lined up next?

Secretary JOHANNS. You are a very astute observer of your constituency. You are absolutely right. When I ran for Governor in 1998, my predecessor, Senator Nelson, had initiated trade missions, and they were hugely well received in our State and I was repeatedly asked, are you going to continue that? Are you going to continue that? I had groups tell me, I don't think I could support you if you aren't pro-trade and out there in the world. And now it

just gets tougher and tougher. But the policies are still enormously important and they are the right policies.

I believe if this doesn't pass, we have some real challenges. I think we have stepped back, taken a huge step back. What do I mean by that?

Well, the first thing is in the region. We first created this partnership, at least in modern times, in 1983, with President Reagan's call. But the interesting thing about this is that we had bipartisan support for supporting these countries. President Clinton also asked for extension of the CBI, and those votes were overwhelming. One Senate vote passed 92–to-nothing. One passed, the House vote at that time passed 221–to–169. This has been a successive effort to try to stabilize these countries and give the opportunity for democracy and economies to grow.

And here we are in this really last important stage, and I think if we back away from it, we send such a terrible message to these countries and to other countries that are looking for us for leadership in the economic realm and in the realm of democracy.

Then you have got the bigger issue. How do you negotiate a WTO agreement when you can't get a trade agreement approved that is, quite honestly, so one-sided for agriculture? We are not giving up anything here. We are not. They already have access to our markets. Ninety-nine percent of their products are here duty-free. All we are doing is leveling the playing field, but it is the relationships we create, the work that we do together after this passes that I just think is hugely important and is good for agriculture in America.

So I just think all of a sudden, we are going to have a very, very tough time negotiating on a bilateral basis, a multilateral basis. We are in a critical stage with the WTO. A month ago, that could have easily fallen apart over very technical points. And you know the drill on the WTO, sir. You move that by consensus. And so, consequently, if you give anyone an excuse to back away from the table, you run the risk of jeopardizing that.

I just think it would be a terribly unfortunate signal to these countries. Like I said, I will just wrap up with the comment I made. I walked out of that meeting with those presidents enormously proud to be a member of the President's cabinet and proud to be an American, because you know what? Many countries would have written these folks off. They were in bad shape 20 years ago. We didn't. We stood up for them. And I think this is an opportunity for us to do that. After 25 years of work here, it would be unfortunate to have such a setback.

Senator ROBERTS. I appreciate your comments. Ambassador Johnson, I know that you have announced your plans to leave your post at USTR. Thank you for your leadership, and thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, thank you very much for being here. I will tell my colleagues, the Secretary informed us that he was going to have to leave at 10:30, so I apologize for everybody not being able to give a direct question to the Secretary. We will now go back to our——

Senator DAYTON. Mr. Chairman, I must strongly protest. I was unaware of that, and I think you have done your best, Mr. Chairman, to try to accommodate his schedule, but I believe there has

been one actual question directed in an hour to the Secretary about CAFTA from someone who has reservations or is opposed to that agreement. I think it is a disservice to this hearing. It is a disservice to those who I represent whose economic interests are at stake here when the one hearing this committee is having on this issue and the Secretary representing the administration is here and doesn't have to field any questions about it from anybody who has reservations or is opposed to it. I think that is seriously unfair to the debate we should have and to the consideration this committee should give to it and to those who have their economic livelihoods at stake. And I don't fault you, Mr. Chairman, because you have done your best, but a lot of time that was taken up, unfortunately, that did not give the Secretary a chance, as he should have been, to be subjected to questions from all of us.

The CHAIRMAN. And that comment will be duly noted in the record. We have Dr. Penn here, who as the Secretary told me, knows a lot more about this than he does, so Dr. Penn, the pressure is going to be on you.

We will go back to our regular rotation. Senator Salazar?

Senator SALAZAR. Let me just ask you the question. I think the most vociferous statements that I have heard about a vote against CAFTA come from my constituents in Eastern Colorado, where there is still a sugar industry where significant investments have been made. I heard Secretary Johanns make the comment that he thinks that there is a de minimis impact with respect to the sugar industry in this country. I heard my good friend from North Dakota talk about how if CAFTA moves forward, it creates this precedential effect that ultimately will mean that it is going to have a huge impact on our sugar industry here in the United States.

So if you were to be answering the concerns that I hear from my constituents in the Eastern plains of Colorado, how would you answer the concerns?

Mr. JOHNSON. I have recently had the opportunity, actually in Western Nebraska, in Scott's Bluff, in order to sit in a sugar beet plant to answer just exactly those kind of questions. And the way I answered it was very basic, which is we identified or listened very carefully to the sugar industry and the concerns that were raised while we were negotiating this agreement, many of which came from NAFTA, their concerns left over from the NAFTA agreement. And every single issue that we addressed, or that was raised about NAFTA, we addressed.

They wanted to make sure that the auto-quota duty doesn't go to zero, so the auto-quota duty doesn't go to zero. It stays at well over 100 percent.

They wanted to make sure that the quantities were manageable, and the quantities that we are talking about here is about 100,000 tons in a ten million-ton market, so it is about 1 percent of U.S. consumption.

They were concerned that there not be an opportunity for another country, let us say Brazil, to export product to one of these countries, thereby displacing their domestic production to be sent to us, so we put a substitution provision in that addressed that issue.

And then just as an insurance policy, and the chairman just mentioned it, we put in a compensation provision that allows us, if we are wrong and this sugar that is coming in, which is equal—the economic gain to these countries from this sugar is about $30 to $40 million—if that is a threat to the U.S. industry, then we can compensate them with something other than sugar. It could be money. It could be sugar stocks. It could be whatever. It doesn't have to be out of the Treasury. In fact, we have used a provision like this in the past in the United States in 2001.

We also have the farm bill itself, which the Secretary referred to several tools that they have, which maybe Secretary Penn would want to comment on, to address those concerns.

And then the basic question really comes down to on the issue that was raised about the amount of sugar with Mexico coming in. Mexico has not qualified over the last couple of years to send us any sugar other than their WTO minimum, which is about 10,000 tons. And it is not envisioned that they will be able to send us in the next few years any amount of sugar close to the amounts that are being cited here.

So we don't see that there is a disruption in the program. We didn't change a comma or a word in the farm program. And frankly, I think that the sugar industry—the basic challenge to the sugar industry, in my view, has always been how can we come up with agreements that allows the rest of agriculture, the rest of the economy, the rest of our national security interest to move forward while dealing with sugar industry sensitivity. And what we have tried to do over the last several years is come up with a set of tools in our tool box that allows us to do that, and I think we have achieved that in the CAFTA agreement.

Now, you just were commenting on Senator Conrad's charts. Let me just correct a couple of things. First of all, the ITC study shows that actually our trade deficit will go down by about $750 million as a result of this agreement because of the change in trading patterns that will occur.

And second, what he assumes is certain precedents, and just to give you a sense of what precedent might mean, we closed with the Central American, the four Central American countries in early December, as the chairman mentioned. Since that time, we closed an agreement with Australia that didn't include sugar at all. We closed an agreement with the Dominican Republic which has the substitution provision that some years, they won't be qualified to send us anything at all, and at the maximum, 10,000 tons. And we closed an agreement with Morocco that the rules of origin prevents them from sending us anything. So I don't know that there is a precedent. Each one of these agreements stands on their own merits.

In this agreement, we are 100 percent confident and the 80 groups of agriculture, agricultural groups that are supporting it, are confident that it is a good one for agriculture while dealing sensitively with sugar.

Senator SALAZAR. Let me ask you just a follow-up question, if I may, Mr. Ambassador. Looking at the Australian agreement that was negotiated, sugar was left outside of that agreement. Would it be possible for this agreement to be renegotiated to do the same

thing? What would it take to accomplish that and how long would it take to try to get that done?

Mr. JOHNSON. First of all, the issue related to Australia, Australia was a different type of agreement, and you can just look at what happened with agriculture in the Australia agreement to understand. In this case, they have had 99 percent of their agricultural products duty-free to us already. So we had a lot of offensive interests. That is why so many agricultural groups are supporting this agreement.

In order to get what we needed in agriculture, this eight-to-one ratio of increased exports over imports in agriculture, we needed to give them something, and what we gave them in this case was just a little bit of sugar.

Australia was different. Australia was—they were basically all offense and we were mostly defense. And so to some extent, they were trying to give us things so that we could open our markets to them in agriculture and even—and obviously the industrial side, the non-agricultural side, was very interested in this agreement.

In terms of CAFTA, the deal is what it is. We should expect that if this agreement went down, very simply, the anti-American as well as anti-trade forces in these countries, they are going to make headway, and they are running against CAFTA right now. I was down in Central America just a couple of months ago and on the TV, the anti-American folks are saying, aren't you going to be embarrassed when CAFTA gets turned down? They are running against this agreement.

So we should fully expect that, once having spent their political capital and taking these risks of giving us an eight-to-one ratio in agriculture, that these leaders, pro-American leaders, won't have the equity, if you want to call it, political equity to go back and submit yet another agreement to them.

Senator SALAZAR. Let me, if I may, just ask this question, and I know it is a hypothetical question because I know the administration is fully behind CAFTA and I have had conversations with Secretary Guitterez and a number of other people and I recognize the intense feelings that the administration has with respect to moving forward with DR-CAFTA in the way that it has been negotiated.

But hypothetically, if you were to be sent back to the negotiating table to look at provisions within DR-CAFTA, is it feasible that you might be able to come back within 3 months or 6 months with a newly renegotiated agreement, from your point of view, if that was the direction that the President were to give to you?

Mr. JOHNSON. My personal assessment is no. I think it would be a dead phone on the other end of the line. Remember what we are talking about here. Often, we are cited that sugar isn't included in a lot of agreements, but remember that those same agreements that sugar isn't included in, whether you are talking about the EU-South African agreement, also leaves out things such as beef and dairy and grains and corn, things that are—poultry, things that are important to us. The Japan-Mexico agreement leaves out rice, things like wheat and barley and other things that are important to us.

So I think, frankly, that not only would we have a dead phone on the other end of the line in terms of the Central Americans, I

think a lot of U.S. agriculture, we would have a dead phone on this end of the line because they wouldn't like the precedent that we would have to set for these other agreements that they are interested in, whether it is the Andean agreement, whether it is Thailand. There has been talk—some are interested in a deal with Korea, and the WTO. They wouldn't like the precedent that their commodity was left out in order to pay for what is really provisions that aren't a threat to the sugar industry because of the steps we went through.

Senator ROBERTS. Thank you.

The CHAIRMAN. Senator Thomas?

Senator THOMAS. Thank you, Mr. Chairman.

Mr. Ambassador, or either of you, I agree with many of the things you have said. On the other hand, the point that you continue to make is that this is such an insignificant amount, you know, one-and-a-half teaspoons a day of sugar for every person, and yet you talk about how important this is and the people there talk about how important it is. If it is that important, why in the world did you negotiate for this one-and-a-half teaspoons to screw up the whole thing? I don't understand that.

Mr. JOHNSON. Well, let me try. I know you and I have talked about this on a couple of occasions.

Senator THOMAS. Yes, we have.

Mr. JOHNSON. Let me try again. One of the things that you have to keep in mind, that when Central America came to the table on sugar, they didn't come with this deal. When they came to the table, they were looking for somewhere between 300,000 and 400,000 tons. They were looking for the auto-quota duty to go to zero. They didn't have any interest in a substitution provision. They had no interest in—they never even heard of a compensation provision. So from their point of view, they have moved huge steps in order to allow this deal to move. And this is one of the only issues that they had an offensive interest in for obvious reasons. Ninety-nine percent of what they send us today is already duty-free.

And so I think, again, it would be misleading if I were to say that having spent that political capital in order to bring back a deal that gives the U.S. agriculture an eight-to-one ratio of increased agricultural exports over imports, that these leaders, these presidents that were just here, would have the political capital in a more antagonistic environment toward America and toward trade to be able to go back and submit yet another deal that is actually worse for them than the one that they have already passed.

Senator THOMAS. The thing that makes it difficult is you guys go on and on, and I understand, about all the value of the agreement, and they do too. I met with their presidents. They talked for hours about all—they didn't mention sugar— the good stuff it is going to do for their countries and so on. It just seems to me like you had a negotiating position.

If you add CAFTA provisions to the already existing obligations, we exceed 1.5 million tons stipulated by Congress. What happens to that sugar now? There is going to be an excess—we already have sugar stored in Wyoming because it can't be sold.

Mr. JOHNSON. Well, a couple of things, and maybe J.B. should comment on this from a sugar programmatic point of view, because he is the one that manages the program.

Senator THOMAS. Sure.

Mr. JOHNSON. But we don't see us exceeding the 1.5 or 1.4, depending on whether you are talking metric or short tons, cap, and the reason is is because what is included in the number that folks assume when they assume that is that Mexico sends us the whole 250,000 tons that they could possibly send us. Well, Mexico hasn't sent us more than 10,000 tons in the last couple of years. They haven't qualified under——

Senator THOMAS. But we are not through resolving the letter. Even it is still out there.

Mr. JOHNSON. Oh, the side letter. We have stood by the side letter——

Senator THOMAS. The dispute is still going on, how many years? I am sorry. I am——

Mr. JOHNSON. No, I just want to be clear, because we have stood by the side letter, and that is one of the points of friction between us and Mexico is because we have stood by this side letter and they don't think we should. They don't think it is justified. In fact—well, I will stop at that. But we don't envision, and J.B. could talk about this probably better than I could in terms of envisioning these imports coming in from Mexico that would cause us to exceed that trigger.

Senator THOMAS. As you know, I would like to see this happen, but there are some obstacles in the way and that is what we need to do, I think, is to see if we can't do something to resolve those.

I think one of the concerns about many producers is they look forward, whether it is Brazil or these other countries that are huge producers. How are you going to deal with them if you can't deal with these people with this relatively small amount? I think they are concerned about the future as much as they are this particular one. Do they get any assurance from you that they won't continue to have this same kind of problem?

Mr. JOHNSON. Well, the thing that I would say is what we have done, which is we have created in this administration—remember, when we came in, there was no such thing as a substitution provision. In NAFTA, for example, there is no substitution provision. There is no such thing as—we kept the auto-quota duty at over 100 percent. That didn't exist in NAFTA. We put in place these quantities that were very manageable which don't exist in NAFTA. We created—whether you wanted to use it or not, it is purely at our option—this insurance policy, this compensation provision.

So we have this tool box of tools that I think if you look at past as prologue, the sugar industry should feel very comfortable that we have managed each one of these trade agreements and allowing the rest of agriculture and allowing the rest of the economy and the rest of our national security interest to move forward while dealing with them sensitively. So I feel very comfortable with that and we would work with them very well in the future.

Now, one thing to keep in mind is that the sugar industry with us has a goal of achieving trade liberalization in the WTO. That is also enhanced by this moving forward. I can tell you, and some

of you were in Cancun, when we walked out of Cancun, everyone was wringing their hands and gnashing their teeth. Well, the United States went to work and closed Free Trade Agreements with eight countries in 12 weeks. Within 7 months, all of a sudden, the rest of the WTO members were back at the table and we got a historic framework agreement last summer.

Senator THOMAS. Well, there is, as you know, some interest in seeking a WTO resolution so that you deal with the whole just of things at one time. Where you do it with bilaterals, which I happen to favor, well, you never know what is going to be next. Cancun was a failure.

So at any rate, thank you very much. I hope we can find a solution. I hope we can find a solution for the sugar people, even if you have to go outside of this agreement in some other kind of way. Thank you.

The CHAIRMAN. Ambassador Johnson, we have been trying to find a copy of that side letter that you and Senator Thomas were discussing. Do you all have a copy of that side letter?

Mr. JOHNSON. I don't have one with me. The short answer is that I am sure that there is one. I don't have one. But let me describe, first of all, what the side letter means, because I think a lot of people misunderstand what it is.

What the side letter is is only about the in-quota quantities between the time NAFTA started and 2008, when the tariff goes to zero. So to some extent, the implications of the side letter becomes less and less relevant every year because the auto-quota tariff is coming down. It is now, I think, about 4.5 cents, four cents. On January 1, 2006, it will be a little bit around three cents. So every year, the side letter's relative importance actually is diminished because, theoretically, Mexico could send over-quota sugar and the side letter doesn't apply to that.

The CHAIRMAN. That is one of the great mysteries of the U.S. Senate today, is this side letter, and we sure would like to have a copy of it. So when you get back, if you would send us one, we would appreciate it.

Senator Stabenow?

Senator STABENOW. Thank you, Mr. Chairman, and welcome to our guests. I appreciate the hard work that has gone into negotiating this agreement. I do, though, want to raise some—a number of concerns and then ask a different kind of question of Dr. Penn, if I might.

Just a general statement, first of all, that, Mr. Ambassador, I noticed some of the words that you are using in terms of objecting to CAFTA, having those with protectionist tendencies. I think it is important for those of us who have concerns, particularly about sugar but broader concerns, as well, to be able to state very clearly that I think it is a very old debate to talk about free trade versus protectionism. The Internet can jump any wall we put up. It is no longer that string or wire.

What we are really talking about now is how are we going to be smart in the United States so that we keep our food and fiber production in the United States, so that we keep our jobs here and strengthen American businesses here while taking advantage of business around the world. It is the question of being smart. And

these are old labels back and forth, this idea that if we object to how something is enforced or if we object to how something is written, that it is protectionism.

So I think it is important that we clear the way to say—I don't think there is anybody here that wouldn't say we want to increase our markets for agricultural products. The question is how are we going to be smart about it so we aren't losing production and aren't losing jobs.

I think we also all care about unfair trade practices, and one of my major concerns is that, in general, we are not doing enough to enforce trade agreements that you worked so hard to negotiate and others worked so hard to negotiate. I am hopeful that legislation that Senator Lindsey Graham and I have introduced, bipartisan bill to create a chief trade prosecutor within the office of where you work will be able to be passed and created so that we actually have folks separate from those negotiating to be able to place priority on enforcing those agreements, because I think we look rather foolish when we aren't tough in terms of enforcement after the good work has gone into creating these kinds of agreements.

So I have supported and voted for most of what you talked about in terms of Chile, Australia, the other kinds of agreements, but I am very, very concerned that we are not enforcing those agreements and it is resulting in job loss and trade deficits that are huge. Our trade deficit is much larger than our budget deficit, $666 billion this year. So when we talk about CAFTA somehow decreasing the trade deficit by $750 million, that is great, but we are talking about a $666 billion trade deficit right now.

I also, Mr. Chairman, wanted to just for the record indicate that while I know there have been positive things from NAFTA, coming from Michigan, which is a State that benefits in many ways positively and negatively I mean, we have lots of different pieces of our economy and certainly there are pieces of our economy that benefit by CAFTA as well as those who are devastated, I believe, by CAFTA. But NAFTA as an example, just overall, if we are looking at the last 11 years, U.S. workers have lost nearly a million jobs due to the growing trade deficits with our NAFTA partners and real wages not only have gone down in America, but in Mexico, as well. And so more and more people living in poverty.

And so when we look at overall, the effect since 1994 with Canada and Mexico, we are seeing our trade deficit balloon 12 times its pre-NAFTA size, reaching $111 billion. So we have got some work to do there. We have some work to do about how we are going to be smart and benefit from these markets, but be smart about how we do that, because lowering our standard of living down to theirs is not what I call being smart, and I am afraid, Mr. Chairman, certainly in my State, where manufacturing as well as many parts of agriculture have been seriously impacted by the fact that we don't have a level playing field, we are not being smart about what we are doing, we are not creating agreements that bring other countries up, we are having pressure to bring us down, and that is of great concern to me.

Let me just specifically -and I do have one question. I am concerned right now in this agreement. We are hearing from, I know the American Sugar Alliance is going to speak later, statistics that

job losses in the sugar sector will be 38 times greater than job loss in the textile sector as a result of this agreement. That is no small thing in my State, of great concern.

Dr. Penn, one quick question because I appreciate my time is coming to an end. On a totally different subject that relates to the Department of Agriculture within the context of this agreement and other agreements, as we increase trade, one of the things that we are finding across the country, certainly in Michigan, is that we increase our risk of invasive species and disease, opening the borders. We certainly have found that with China, the emerald ash borer in Michigan, which has devastated literally millions of trees. We are losing our ash trees as a result of that. We see that in so many areas where we are opening trade. Different kinds of species come in, have impact that we certainly would not want to have.

I am wondering what the USDA is planning, as well as APHIS, as we look at, in working with Homeland Security, as we are looking at preparing for new risks, whether it be CAFTA, whether it be other areas. What are we doing in terms of the budgets within those areas to make sure that you have what you need? What kinds of things are you looking toward?

I know I have been working with the Secretary and had numerous conversations with him about the fact that we are not providing the funding in Michigan alone, let alone the other surrounding States, related to emerald ash borer and what is happening. Those beetles are killing our trees and we are not moving fast enough on emergency funds or other funds in order to be able to address this.

I am deeply concerned about what happens as we open up other markets and our inability to be prepared to deal with unforseen circumstances as it relates to disease and as it relates to pests, and I am wondering if you have looked at that in the context of what risks may be opened—we may be opening ourselves to as it relates to CAFTA or more broadly with other countries.

Mr. PENN. Thank you for the question, and I certainly agree that you have identified a very key area that is, in my view, going to loom large in agricultural trade in the future. As we have had some success in reducing the traditional trade barriers, the economic trade barriers, quotas and tariffs, then other factors become the new trade barriers or the new trade problems of the future, and we are seeing that sanitary and phytosanitary issues are becoming more and more important. We are seeing that with avian influenza and BSE and other plant and animal diseases.

With respect to looking forward, the Secretary has asked each of the mission areas in the Department to look at what they want to accomplish in the next 4 years. When we walk out the door in 4 years' time, what will we have accomplished? One of those big issue areas is exactly the one that you raised. It is how will we deal with sanitary and phytosanitary regulations in the international trade context.

So one of our big initiatives is involving the marketing and regulatory programs mission area of the Department, the food safety mission area, and mine, the farm and foreign agricultural services mission area, and we are going to try to look at how sanitary and phytosanitary regulations, including the increased threat of

invasive species, play a role, what kind of budget resources we are going to need, what kind of organizational, structural changes we are going to need to try to deal with those.

With respect to the emerald ash borer, that falls in Under Secretary Hawk's area, as you know, but I do know that APHIS is looking at this. There have been discussions about the adequacy of the funding, how soon additional funding could be obtained. Even the Canadians have broached us about doing some joint activity, because I understand there is a threat on their side of the border, as well. So it is something that is getting attention and you have identified a very important area.

Senator STABENOW. Thank you, Dr. Penn, and I would just indicate that in the case of emerald ash borer, and I am sure this is an example of what is coming in other ways, we have to move very quickly. Otherwise, the spread becomes extremely difficult for us to be able to address. And once we are—and Canadians as well as those in Michigan are deeply concerned about what is happening. It has gone from Southeastern Michigan now up to across the bridge in the UP and Wisconsin, the Midwest. I mean, this moves very quickly and I hope that you will move as quickly as possible to make sure that we are prepared for those things.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Coleman?

Senator COLEMAN. Thank you, Mr. Chairman.

Gentlemen, this is an agreement that I would like to be able to support. I come from a State that one out of every three rows of corn is grown for export. I understand that we are now opening up markets for our folks in comparison to folks who had had access to our markets. I am chairman of the Western Hemisphere Subcommittee on Foreign Relations. I have met with all the presidents of these countries.

To my colleagues who are concerned about the impact on the poor, I can tell you that the firm belief of these leaders is that this trade agreement offers the best opportunity for the poor in those countries to finally have something to reach for, to be lifted up. So I understand that and appreciate it.

I also appreciate the fact that there are some things in this, particularly in regard to sugar, that were successful. Second-tier terrorists, it kept them in place. The quantities are not overwhelming, but still a concern.

But when I listen to—and I will just put in a personal note. The Secretary and I go back to days we have both been mayors. I know him, and I know how important this is and he believes in this and I trust him.

But the problem I have is when he talks about the impact upon these small communities and the people in the villages and towns in Central America, I think of places like Echo, Minnesota, near Renville, or Felton, near Moorhead, or Fertile, near Crookston. I have got small towns and I have got a sugar industry that is important to the State. I must say, I get somewhat offended when I hear this phrase, protectionist, as somehow we are looking to close our eyes and ears to the concerns of people protecting, quote, an industry, and I am concerned about people.

Ambassador Johnson, we have had the conversation, and you will say, well, 8,000 sugar growers, and I will tell you I have got 40,000 people in my State alone, I believe, whose livelihoods, whose lifeblood, whose ability to take care of their families is tied to a sugar industry and is impacted by a sugar program. It is processors and it is truck drivers and it is folks that make equipment and sell product to an industry that is the bulwark of Northwest Minnesota.

So to me, it is not about, quote, protectionist. Yes, I am protectionist of the families, of the economic livelihood of the underpinning of an industry that is critically important to my State, and I can tell you, as you well know, obviously, hearing again and again, we are troubled that the assurances that are laid out are not providing the level of comfort that is needed. As a result, I can't raise my hand and say yes now.

It would seem to me after all the discussion we have had that there are things that one can do if there was really a willingness to make this work. And if it is so insignificant, then figure a way to deal with the level of anxiety. There are a few things that I have kind of laid on the table, and I will just kind of lay them out, not for comment now because I don't want you to say no and box yourself in. What I would like you to do is listen and see if we can come to a level of understanding that would provide a greater sense of comfort to folks not just in Minnesota, but in Wyoming and throughout this country.

One, an agreement that might ensure that U.S. sugar policy would operate as it is intended to be operated by Congress and no net cost to taxpayers. Without getting into the details of that, Dr. Penn, you understand all that, overall allotment quantities. But that can be done, no net cost, which is what our growers want, which can be done.

We can provide that any additional CAFTA-DR access to the U.S. sugar market will be introduced on a needs-only basis, dedicating any excess supply to other uses so you are not impacting the program. The concern that we have, and it has been mentioned by a few, if you put NAFTA sweetener dispute, resolve that, you have got CAFTA-DR, all of a sudden you have got imports over 1.532 metric tons. You have got a problem and you have got anxiety. Again, this may be a little thing to some folks, but it is not a little thing to the people whose livelihood depends on this. They are looking at their economic future.

Sugar—we have talked about this many times—negotiate sugar in Doha Round and in future multilateral agreements just as supports for other crops in negotiations, but not in future bilateral regional agreements. Tell folks that we understand the concern about the slippery slope here and that we are going to look at sugar being involved in the Doha Round and that is what we will do. And you can give people a tremendous level of confidence by making that statement, making that commitment. And it doesn't hurt anybody to do that.

And then, four, the industry needs some certainty regarding the NAFTA sweetener dispute. There is uncertainty.

So what you have is, in effect, gentlemen, you are saying, I am from the government. Trust me that a compensation agreement is not going to come into effect and we are not going to do things that

impact overall allotment quantities that is going to destabilize the program. And I am telling you that I have got folks who their economic future is as tied to this, they believe, as any of the poor folks living in Central America and they don't want to slip back into poverty. They have got a good life here. But they have a sense of uncertainty.

And so my plea to you is we are getting to the 11th hour on this. We have had discussions in Cartagena, Colombia, over dinner talking about this. We have had discussions everywhere, and in many places, but we still don't have the measure of comfort that is needed, and there are few things, I believe, that can provide that. And it is not about protectionist in a sense of, well, we are just kind of covering this big sugar. It is protecting the little guy, protecting folks whose livelihood depends on an industry.

And if you firmly believe that, in fact, the amounts are minimal and that the impact is minimal, help us, and that is my plea. Just help us and figure out a way that we can get some of these things. You don't have to renegotiate an agreement to do that. I understand the impact of having to go back to legislative bodies in these countries and I am sensitive to that. But we can do some things here that doesn't impact many others but provide a level of comfort that then sugar could join with the rest of the agricultural community and say, hey, we understand there is great benefit to many.

When you talk about leveling the playing field, sometimes when you level something, you bulldoze something under, and we certainly don't want to see the sugar program bulldozed under and the people whose livelihood depend on it find themselves in big trouble.

The CHAIRMAN. Thank you very much. Very good comments, Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Dr. Penn, many times, farmers and ranchers will cite chronic disruptions to trade when criticizing existing agreements, and NAFTA is a good example of that. Most of the commodities represented or listening to this hearing can point to market access or sanitary and phytosanitary problems with at least one of our two largest trading partners. How do we maintain confidence and ensure existing agreements are implemented while we are negotiating additional Free Trade Agreements with other countries, and do you have the resources to do both? If not, do we need to start making difficult choices regarding relative priorities?

Dr. PENN. Well, that is a very good question, Senator, and I appreciate it because it is something that we grapple with just about every day. We are in sort of a new world. These trade agreements are relatively new. People forget, but we got the first of the multilateral agreements in the Uruguay Round Act. That came into force in the mid–1990's. We got the NAFTA agreement at about the same time, the mid–1990's. So we have had about 10 years' experience in implementing those agreements and in negotiating the additional few Free Trade Agreements that we have.

Now, as I said earlier, as we have had some success in removing the economic barriers to trade, other barriers to trade have suddenly emerged, and sanitary and phytosanitary barriers are one of the main ones that we now confront.

Also, as we enter into more and more trade agreements and as our trade expands over time, we have more opportunities for problems. There is just no doubt about it. In 1991, when China joined the WTO, we sold about $1.8 billion worth of agricultural products to China. This past year, we sold $6 billion worth. So in just three short years, we greatly expanded our trade, and we now see that China has become the No. 1 market for cotton, soybeans, and hides and skins, and the No. 5 market for wheat. It is our No. 5 market overall. And we have a lot more trade problems with China. We hear a lot more discussion about difficulties with China. Part of that is to be expected. As trade expands, we are going to have more and more of these disruptions.

But what we have to try to do is to minimize the disruptions; because they are costly, they greatly affect our industries. We have seen that again with BSE and avian influenza. So now we are paying a lot of attention to sanitary and phytosanitary regulations. We are trying to make sure that our regulations are all science-based, as we believe they are. We are trying to make them as transparent as we possibly can. And we are encouraging other countries to use science as the basis for their sanitary and phytosanitary regulations.

So if we can achieve that and then get some degree of harmonization among countries with respect to their regulations, then we should be able to reduce these barriers. But we are just in the beginning of that. We are on the forefront of that, because we are dealing with a lot of countries that don't understand the science or they don't have the capacity to yet implement the kinds of regulations that are needed, or in some cases they are—I hate to use that word here—being protectionist. They are just being flat protectionist.

So as we at USDA are working with USTR to try to get new trade agreements, negotiate new trade agreements, we are spending resources on that. We are also spending resources on looking at sanitary and phytosanitary regulations and trying to work on getting a science basis there.

And then our other big activity, what we call market maintenance, is trying to make sure that we keep open the markets that we have already got open. It takes a lot of resources to make sure that people live up to the agreements that they have already entered into, and we feel very strongly about that. Thus far, we have been able to realign resources to be able to shift people around to do things as the priorities have changed that have suddenly become more important, and we will see how things go.

At the moment, I think we have adequate resources to do that. But if we keep opening new markets, and we keep having expanded trade and we keep seeing trade difficulties, then we will have to have some additional resources at some point.

The CHAIRMAN. Thank you.

Ambassador Johnson, you and other administration officials have stated that DR-CAFTA will have minimal impact on the U.S. sugar industry. My main concern through this whole process is that we have seen the jurisdiction of Congress usurped by a trade agreement. When you look at the numbers, when you look at the farm bill, if imports exceed 1.532 million short tons, then USDA would

lose its authority to administer the marketing allotments. Accounting for the current WTO commitment of 1.256 million short tons and the NAFTA and DR-CAFTA commitments, imports would exceed the statutory cap by approximately 81,000 short tons.

Now, that is my problem, and that is why I agree with Senator Thomas's question earlier about why should we do that? Why would we negotiate something that we know flies in the face of the farm bill?

You made assumptions that Mexico is not going to ever achieve their quota of 250,000 tons that they have been allotted, and that may be true, but that is an assumption that you have to make. Frankly, if we resolved our high fructose corn syrup issue with Mexico, I don't know where they would be. They would have excess sugar that they are using now that maybe they would decide to export to the United States. I don't know.

But it looks like what you have done is that you have taken the difference between Mexico's allotted amount that they can export to the United States and the actual amount that they have been exporting under the history of NAFTA and you are reallocating the Mexican sugar that is not coming into the United States now.

Does this mean that sugar is going to be a part of every future bilateral, and if so, are we going to continue to reallocate the unused portion of Mexico's allowed amount?

Mr. JOHNSON. Well, first of all, because you and I also had this conversation, just to reaffirm that we did not change anything in the farm bill. We haven't changed a word. We haven't changed a comma.

I know the numbers that you cite make certain assumptions, also. They make assumptions that Mexico would fill that whole 250,000 tons, and you identify the situation, well, what if the soft drink tax issue was resolved and then we were sending HFCS to Mexico and they were sending sugar here.

The real question then becomes, first of all, when we look at this, and we worked closely with USDA on this, we didn't see a scenario where we are going to be exceeding that amount of sugar coming in that would cause the trigger to be triggered. So we are very confident about that.

Now, the scenario that you described, if we started sending HFCS to Mexico and then they started sending sugar here, that is really not even an issue about the 250,000 tons, because as we were just talking about earlier, the out-of-quota tariff on sugar with Mexico goes down year after year. It ends up at zero at 2008. That is not an issue that is relevant to the 250,000 tons. That is just zero. And CAFTA doesn't change that one way or the other. It just doesn't have any impact on that. That agreement states that as of today, Mexico can send us over-quota sugar by paying a four-cent duty by January 1, 2006, a three-cent duty, and then it goes down to zero in 2008.

So the 250,000 tons that you are citing is really sort of a number, but it is not a number that under any analysis we think is going to be triggered. And if what you are worried about is the displacement of Mexican sugar coming here because of the soft drink tax issue going away and the zero occurring in the over-quota tax, that

is not a 250,000–ton issue, either. That is the fact that NAFTA goes to zero in 2008.

So I don't see that as being something that you should look at as a violation of the farm bill, because we clearly were not and we have left in place all the tools that the farm bill had and we have added a few tools in our trade policy that allows us to manage this situation should it become a problem.

And again, it allows us to manage the situation with CAFTA, with Central America and the Dominican Republic, either through the substitution provision, which would have stopped sometimes the Dominican Republic from sending us sugar, or through the compensation provision, which I know Ambassador Portman told me as recently as this morning that he is looking forward to continuing, not just on this issue, but all issues engaging with this committee as we move forward with our trade agenda.

So the NAFTA issue is almost a totally separate issue that I know Senator Coleman just mentioned. That is an agreement that has nothing to do with CAFTA.

The CHAIRMAN. Well, I guess we can agree to disagree over whether or not nothing in the farm bill was changed, because if you just look at the numbers and you look at what is provided for in NAFTA and what is provided for in DR-CAFTA, and if everybody exercises their rights under those two agreements, then the trigger in the farm bill is going to be pulled. When that trigger is pulled, that is the point in time where the sugar industry, in this case, is going to be harmed.

You know, I don't have a dog in this fight relative to this product from a parochial standpoint. My sugar folks, in fact, are on the other side of this issue. But as chairman of this committee, I think I have an obligation to ensure that the 2002 farm bill is implemented per the exact language in the farm bill. I really do think that you made a mistake in trying to legislate a change. Again, you have got to make all the right assumptions. Everything has to fall in place maybe for the trigger to be pulled, but that is why you have legislation. With the possibility of that being in play out there, we are obviously having problems in trying to get a consensus and a majority of folks in the Senate to support this bill.

It may be corn next time. It may be peanuts next time. It just happens to be sugar this time. But if we continue to legislate as we did on the Singapore and the Chile agreement relative to the H–1B visas, we are going to continue to have problems with these trade agreements.

Now, you and I have talked about that. Ambassador Portman and I have talked about that. I know that he is committed to making sure that we have an open dialog between Congress and USTR, which I think has been a little bit lacking here to fore. This problem could have been totally avoided if there had been that open dialog and if we had been made aware from a legislative standpoint exactly what was going on relative to this issue.

But be that as it may, I think we have still got some further discussion that we are going to have to have relative to this issue. I am very appreciative of the comments that Senator Coleman made because it is, in your words, it is a very small issue, and it is an issue that somehow we ought to be able to resolve. I don't think

you have to rewrite the farm bill to accommodate the sugar industry or the sugar provision in the farm bill. By the same token, I don't think you have to make any changes in this agreement to be able to come to some satisfactory conclusion to this issue along the lines of what Senator Coleman just said.

So we need to continue to work at this and see if we can't find some way that we can resolve what you say is a very small issue. Let me tell you, it is not a small issue to these folks who have been sitting around here today who have to go back home and face their constituents who are going to lose their jobs if all of the assumptions that they are making are carried out, irrespective of the assumptions that you are making.

So with that, does anyone else have any further comment for these gentlemen?

[No response.]

The CHAIRMAN. Dr. Penn, thanks. You did a good job of pinch hitting for the Secretary. You handled yourself well there.

Mr. PENN. Thank you, Mr. Chairman. Thank you.

The CHAIRMAN. And Ambassador Johnson, I know this may be one of the last times we get to put you under oath and cross-examine you up here. We understand that you may be leaving USTR sometime in the near term and we want to tell you how much we appreciate your service to our country and we appreciate your leadership.

Thanks to both of you for being here today.

Our next panel, if you will come forward, Mr. Bob Stallman, President of the American Farm Bureau Federation, a longtime good friend; Mr. Bob McLendon from the National Cotton Council, who happens to be from a place called Leary, Georgia, a longtime dear friend of mine; and the Honorable Cal Dooley, President and Chief Executive Officer of the Food Products Association, another longtime good friend of mine who I had the privilege of serving with in the House and working on a number of not just agriculture issues with, but other issues with.

Gentlemen, we are very pleased to have each of you here, and Bob, we are going to start with you and go to Bob McLendon and then to you, Cal, for any opening comments that you would like to make. Welcome, and thanks for being here.

STATEMENT OF ROBERT STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Mr. STALLMAN. Thank you, Mr. Chairman, members of the committee. We certainly appreciate the opportunity to present testimony on CAFTA before the Senate Agriculture Committee. I am Bob Stallman, President of the American Farm Bureau Federation, and a rice and cattle producer from Columbus, Texas.

As a general farm organization, American Farm Bureau Federation has studied the impact of the Central American-Dominican Republic Free Trade Agreement on all sectors of U.S. agriculture and we strongly support passage of the CAFTA-DR. We have provided as an attachment to this statement a copy of our full economic analysis that describes how the agreement will impact the livestock, crop, and specialty crop sectors, as well as its effects on the

sugar industry. On balance, we believe that CAFTA-DR will overwhelmingly be a positive opportunity for U.S. agriculture.

U.S. agriculture currently faces a $700 million trade deficit with this region of the world. While the market holds potential for U.S. agriculture exports, our products currently face high tariffs. At the same time, agricultural products from the five Central American nations and the Dominican Republic receive mostly duty-free access to the United States. Trade preferences provided under the Caribbean Basin Initiative allow 99 percent of agricultural products from these countries and the Dominican Republic to enter the United States duty-free.

Unless CAFTA-DR is passed, U.S. agriculture will continue to face applied tariffs of between 15 and 43 percent. These tariffs put U.S. producers at a disadvantage in a competitive market. CAFTA-DR, if enacted, will eliminate these barriers.

This agreement provides balance by allowing U.S. agriculture the same duty-free access that CAFTA-DR nations already have to our markets. In fact, many of our competitors in the region, such as Chile, already receive preferential access because of their own trade agreements with the Central American countries. When enacted, this agreement would give U.S. producers access equal to or greater than that of our competitors.

The American Farm Bureau Federation analysis shows that U.S. agriculture would see increased agricultural exports in the amount of $1.5 billion by the end of full implementation.

Looking at some of the major commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on, first, Central American growth in imports of grains and oil seed products, which relates to both growing food demand for wheat, rice, and vegetable oils, and to growing livestock demand for feed grains and protein meals. With no wheat and limited rice and oil seed production capacity, the region's dependence upon imports is likely to grow steadily. The Free Trade Agreement puts the United States in a strong preferred supplier position to maintain and expand its high market share for items such as rice and soybean meal and to build on its lower market share for items such as wheat.

Second, we would capitalize on the expanding regional import demand for livestock products related to growth in population and per capita incomes combined with their limited domestic production potential. Rapid growth in tourism should also help to stimulate demand for meats in the hotel and restaurant trade, which could be significant on its own. Growth in domestic demand for livestock products is likely to outpace production despite significantly larger imports of feed grains and protein meals. CAFTA-DR would allow the United States to use its cost advantages and its wide variety of beef, pork, and poultry products to fill a growing share of these markets.

Third, the United States exports a diverse basket of other farm products to the six Central American countries. Commodities or commodity groupings of importance include fruits, vegetables, tallow, sugar, tropical products, and other processed products.

Assuming that the same pattern of growth is likely as for grains, fiber, oil seeds, and livestock products, CAFTA-DR would allow the

United States to capture a larger share of these expanding markets, as well. The added exports in these categories resulting from the agreement would likely exceed another $845 million by 2024.

While there are numerous overall benefits for U.S. agriculture in the agreement, the U.S. sugar sector may see a less-than-positive impact. As a part of the agreement, the United States will allow CAFTA-DR countries to import an additional 164,000 short tons of sugar above their current sugar quota. This is related to a total production of about 9.5 million short tons. This additional sugar will have a minimal impact on the industry, as demonstrated in our economic analysis. We expect the U.S. sugar industry to experience about an $80.5 million negative impact for an approximately $2.1 billion domestic industry. This additional sugar translates into about 1.5 percent of domestic sugar production.

In light of the possible, yet minimal, negative effects on the sugar industry, our trade negotiators negotiated certain protections for the U.S. sugar industry. First, the tariff on sugar is never decreased or eliminated. And second, we have the compensation provision this committee has already heard about and the net surplus exporting provisions.

It is important to note that if sugar had been excluded from the agreement, it could have led to other U.S. commodities facing the same type of exclusions by CAFTA-DR country negotiators. In fact, these countries had a list of roughly a dozen commodities they wished to exclude from the agreement. These products included U.S. beef, pork, poultry, and rice. And, in fact, we paid a price for the protection provisions that are already in there for the sugar industry in the potatoes, onions, and white corn. Our products going into those countries faced similar treatment as were provided in the sugar area. Overall, we believe that these provisions make the agreement a fair one for sugar.

U.S. agriculture will benefit a great deal from this agreement. The gains to U.S. agriculture certainly outweigh the losses. If this agreement fails, it will be to the disadvantage of America's farmers and ranchers. Without CAFTA-DR, these six countries retain existing duty-free access to the United States while U.S. agriculture will continue to face the same high tariffs currently applied.

In looking at the variety of U.S. commodities that would benefit because of increased trade due to a Central American-Dominican Republic Free Trade Agreement, one can only conclude that a "yes" vote on CAFTA-DR is a vote for agriculture and agricultural exports.

Thank you, and I look forward to questions.

[The prepared statement of Mr. Stallman can be found in tge Appendix on page 71.]

The CHAIRMAN. Mr. McLendon?

STATEMENT OF ROBERT E. McLENDON, NATIONAL COTTON COUNCIL OF AMERICA, LEARY, GEORGIA

Mr. MCLENDON. Mr. Chairman, members of the committee, my name is Bob McLendon and I own and operate a diversified farming operation in Leary, Georgia. I have served as President of the National Cotton Council and Southern Cotton Growers. Thank you

for the opportunity to present the views of the National Cotton Council today.

Mr. Chairman, you know the cotton industry very well, so you understand how difficult it is for our organization to reach consensus on trade policy. We have growers, merchants, and cooperatives who rely on domestic and international markets. We have manufacturers who have made investments necessary to remain competitive but who are losing markets to low-cost imports from China.

Our decision to support CAFTA was not made lightly or in haste. The Council has made every effort to work with the textile industry and the U.S. negotiators throughout the CAFTA negotiation. Our message was simple. We need an agreement that benefits U.S. farmers, manufacturers, and the region, not third parties. If we provide preferential access to a product, then the components should be sourced in the United States in CAFTA.

The CAFTA we are supporting is not perfect in that respect, but we believe many of the imperfections will be corrected during the implementation. These would be important improvements to an agreement that already includes a special textile safeguard mechanism, enhanced customs enforcement, and elimination of duties as high as 18 percent.

We currently export over 200,000 bales of cotton annually to the region. That is about 90 percent of their consumption, so it is good business for us. None of the CAFTA countries impose import duties on U.S. cotton, but they could, so the elimination of duties is important.

But CAFTA is really about the preservation of our manufacturing base. We believe it will provide an opportunity for the establishment of a sustainable Western Hemisphere platform for the conversion of U.S. cotton into yarn, fabric, and apparel that could compete with China.

In the year 2004, U.S. manufacturers exported yarn and fabric that contained 2.4 million bales of U.S. cotton to the CAFTA countries. This is up 50 percent from the year 2001. Those value-added exports are expected to grow more rapidly if CAFTA is approved than would occur if we simply continued to rely on the Caribbean Basin Initiative legislation.

We are pleased that the administration recently took action to utilize the special safeguard authorization in China's WTO accession agreement to slow the extraordinary growth of Chinese textile exports to the United States. Safeguards are important short-term measures. Properly applied, they can provide time for the U.S. industry to adjust and for CAFTA to work, but this is only short-term.

CAFTA can be an important component of a trade policy to preserve the $4 billion a year in textile exports and thousands of jobs that depend on these exports.

Mr. Chairman, international trade in textiles and apparel is competitive and complicated. Effective rules of origin are one of those complicating factors. But those rules make it possible for U.S. manufacturers to partner with firms in the CAFTA region in order to strengthen their competitive positions relative to China and other low-cost suppliers.

The Council is joined in its support for CAFTA by the National Council of Textile Organizations, the Carpet and Rug Institute, the Non-Woven Industry Association, the American Fiber Manufacturers, and the American Textile Manufacturers Association. The support for CAFTA is not unanimous in the textile industry by the membership of the organizations I have just mentioned, but they produce a very significant portion of the United States production capacity. Their combined sales exceed over $100 billion a year in U.S., and 13 percent of the U.S. cotton production is currently exported to the region in raw cotton and value-added exports.

As I have said, this agreement is not perfect, but it can be a foundation on which to build. With the leadership of the U.S. Trade Representative and the Secretary of Commerce, combined with the oversight by Congress, we believe it will serve our needs. Therefore, I respectfully request that you and your colleagues support it when it is presented to Congress for approval.

Mr. Chairman, as a Georgian involved in agriculture, I want to close by thanking you for your leadership and your continued commitment to support U.S. agriculture. Farm and trade policy are tough issues, but I am confident you will continue to lead us to the balanced and effective solution. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. McLendon can be found in the Appendix on page 122.]

The CHAIRMAN. Mr. Dooley?

STATEMENT OF CAL DOOLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FOOD PRODUCTS ASSOCIATION, WASHINGTON, DC

Mr. DOOLEY. Thank you.

The CHAIRMAN. We are glad to have you here, Cal.

Mr. DOOLEY. Well, thank you, Mr. Chairman. I am glad to be here, and Mr. Thomas, thank you for allowing me to testify. I am here as the President and CEO of the Food Products Association, which is one of the largest food and beverage associations in the United States and certainly the world.

The Food Products Association, along with the vast majority of agriculture producers and other processors, strongly support the passage of CAFTA, and the reasons for that are obvious. It is clear that this agreement will provide new market opportunities for U.S. agriculture products, including processed foods and beverages.

You have heard the statements before that the CAFTA countries together represent our 12th largest trading partner, and more than 80 percent of the food and agriculture products imported into the United States from CAFTA currently enter duty-free. By contrast, U.S. exporters to Central America face duties of 11 percent, on average, and some of our food processing products such as cheese and yogurt face prohibitive tariffs in excess of 60 percent in a number of CAFTA-DR countries.

Under this agreement, tariffs on most food products will be phased out within 15 years and many food products, like pet foods, cereals, soups, and cookies, will become duty-free immediately. Others, such as certain canned and frozen fruits and vegetables, have immediate or a 5–year phase-out.

Our colleagues, FPA's colleagues at the Grocery Manufacturers Association of America, recently commissioned a study to quantify CAFTA-related benefits for processing food and beverage products. The study found that the potential savings from tariff reductions and quota expansions alone will be nearly $8.8 million annually. When the agreement is fully ratified or in place, it would amount to $28 million annually for food processed products and beverages.

The study also measures the potential aggregate increase in exports to these five Central American countries and the Dominican Republic, and the trade flow analysis suggests that upon elimination of tariffs, exports could increase from $359 million to $662 million, an 84 percent increase over current exports to the region.

Listening to the earlier comments, I think sometimes we are losing sight of one of the traditional economic concepts of relative advantage. It is clear why CAFTA countries had these tariffs in place that were harming and impeding the ability of U.S. value-added processed food products to enter their market, because they did not have a relative advantage there. They clearly understood that they would have difficulty competing with U.S. producers and processors. This agreement levels the playing field, allows us to have access to those markets without the burden of these tariffs.

We need to show some level of intellectual consistency as how we approach some commodities which the CAFTA countries perhaps have a relative advantage, and that is why the Food Products Association, with the vast majority of agricultural producers, support the approach that the administration has taken as it pertains to sugar, because we cannot allow one commodity to impede the ability for those commodities and those sectors of our economy that have an interest in competing internationally to be impeded from the access to those marketplaces.

Just in closing, I just had the opportunity to visit El Salvador just last year, my last year in Congress, with a few of my colleagues. One of the most, I think, telling opportunities was the chance that we had to go visit a textile company called Charles Products. We went down on the floor of this textile manufacturer and there was this basically sea of sewing machines, a thousand sewing machines, and what was remarkable about it was there was not one person that was sitting behind those sewing machines. And the reason for that was because the company, without the certainty that the tariffs were going to be maintained, made the decision to move their investment out of El Salvador and into Asia. This 1,000 sewing machines that were vacant meant 1,500 jobs for people in El Salvador, primarily supporting their families.

The failure to ratify CAFTA is only going to see a further exodus of these type of jobs, and as Mr. McLendon said, that is not in the interest of U.S. cotton producers. It is not in the interest of the United States in terms of maintaining an economic partnership with Central America that can facilitate their growth.

I would be the first to admit that this is not a perfect agreement, but you, I think, all know as members of the Senate, and from my past experience as a Member of Congress, when you do have a policy that comes before you that has the endorsement of the Wall Street Journal as well as the Washington Post, there must be something in it that has some merit. I would hope that we would

be able to see the ability to put together the bipartisan support that would result in the enactment of this agreement, that would provide the economic benefits to many of my members in the food processing sector, and would certainly provide that helping hand of partnership to our friends in Central America.

The CHAIRMAN. Thank you very much, gentlemen.

[The prepared statement of Mr. Dooley can be found in the Appendix on page 129.]

The CHAIRMAN. Mr. Stallman, if this agreement should fail to win approval, do you think that U.S. agriculture would be put at a disadvantage in any way?

Mr. STALLMAN. Well, Mr. Chairman, I do, and I will give you a direct example of that. I was in Geneva for a week, the last week in April, and obviously talking about the process of the WTO negotiations and mind-numbing topics like ad valorem equivalents. But the single most consistent question I got from the trade negotiators from other countries was what is the U.S. Congress going to do with CAFTA? Is the Congress going to pass it or not? And there is a high level of interest in, in essence, trying to see what our commitment to trade agreements is, particularly in the case of agriculture, one that is so positive for U.S. agriculture.

And I do believe, based on that experience and other conversations I have had over the past period since this agreement has been out there and waiting for a vote and approval, what we do on this agreement is going to send a really strong message on what we do in other negotiations or what other countries will do in other negotiations and primarily in the WTO. So it does concern me about the prospect of this one not moving forward.

The CHAIRMAN. Your policy is to provide for comprehensive trade negotiation. Do you have any feelings about whether or not the U.S. ought to exclude any commodities from being placed on the table relative to future trade agreements?

Mr. STALLMAN. Mr. Chairman, our policy addresses that directly. It is a long-held position that we believe that everything should be on the table. All commodities should be on the table. We have an additional policy that, in essence, says import-sensitive products should be considered in negotiations and provisions should be put in place to minimize negative effects, and that is where we think the CAFTA agreement really meets those policy provisions with respect to sugar, given the provisions that are incorporated in that agreement to protect the sugar industry.

So we understand that any time in negotiations that you take a commodity off the table, other countries want to take their commodities of interest off the table, which may be our export interest and thus harm the pocketbooks of other U.S. producers.

The CHAIRMAN. In this CAFTA agreement, you have heard us discuss the possibility of compensation being given to the countries that are a part of this agreement from Central America in the event that the trigger is pulled and that more sugar is indeed purported to be imported into the United States from these countries, and in lieu of that, we have the right to pay compensation to those countries. What would people in your part of Texas think about the Federal Government writing checks to Central American countries

in lieu of allowing those countries to import sugar into the United States?

Mr. STALLMAN. Well, I am not sure what they would think. We support that compensation provision as one of the tools to minimize the negative effects on the sugar industry if it is needed. But Secretary Johanns, I think, clearly laid it out in the first panel. Given the structure of the domestic sugar program, given the control that USDA has on how that program is managed and run, I think it is highly unlikely we would get to that point. Given the fact that beef, and we will use Texas as an example, beef would certainly benefit, as would rice, which are both, coincidentally, commodities I raise, I think if that became necessary that the benefits still extended to these other commodities for the opening of those export markets, they would understand and be supportive. But that is speculative.

The CHAIRMAN. And I will have to tell you, we don't grow any rice in Georgia, but if rice had been singled out in a negative way in this trade agreement, I would be in the same position of trying to make sure that the farm bill were carried out and that rice receive the protections that it was entitled to under the farm bill, and that is where I am struggling, Bob, relative to the responses that I have gotten today regarding not just the compensation provision, but all of the assumptions that have been made.

Mr. McLendon, are you fully satisfied that the FTA will ensure, as you state, a sustainable, effective Western Hemisphere platform for the U.S. cotton and textile industry?

Mr. MCLENDON. We certainly hope so. I don't think any commodity will benefit by this CAFTA more than the cotton industry will. And you realize that we have lost domestic consumption in the domestic industry. We have gone from 11.5 million bales down to about 6.5 million bales in 7 years and we have lost that market to production in Asia.

We feel like that CAFTA will give us the opportunity to ship raw cotton and also fabric and value-added products to Central America so that those products can be brought back into the United States and compete with China. If we don't do something like that, we are going to fully lose the textile industry in this country, and I don't think any commodities will benefit as much as cotton will from this CAFTA agreement.

We don't have consensus. We do in the Cotton Council, but we don't have consensus in the cotton industry, particularly from manufacturing.

We would hope that this agreement would turn around the loss of the market that we have had in this country. We are consuming about 32 million bales of cotton in textile and apparel products at retail, but a great deal of this is now is coming from China and from Asia. It is cheap sources of production that have taken our market. If we don't do something, we are going to completely lose the textile industry in this country except for niche products.

The CHAIRMAN. You and I know what has happened to the textile industry in Georgia over the last ten to 15 years and those thousand cut-and-sew jobs that Mr. Dooley referred to as moving from Central America to Asia may have moved from Georgia to Central America at some point in time. I am just sitting here thinking about what drives the purchase of cotton, particularly U.S. cotton.

Obviously, we know there is no finer quality of cotton produced by anybody in the world. What about shipping costs, going to Central America versus going to, say, China?

Mr. MCLENDON. That is one of the biggest advantages we have. You can go back to the 17th century. The textile industry moved from England to the Northeastern United States because there was labor there that was available to produce textile products. People needed jobs. It moved to the South because of the same reason, and it has moved to Central America, and to Asia.

What we have is a transportation advantage to this CAFTA area that will enable us to better compete with Asia for these textile products to come back in our country. China is our No. 1 customer for raw cotton now. It is not a very dependable market. I can't depend on that as being somebody that is going to consistently buy my cotton. But we have an advantage and we can sell the cotton to Central America, the CAFTA countries, because they have an advantage buying our raw cotton and using our fabric, whereas the transportation cost from Asia is much more expensive.

So that gives us a competitive advantage and we think that by utilizing the labor force that is in Central America, we will be able to compete with the Chinese textile products being brought into this country.

The CHAIRMAN. Mr. Dooley, I notice that the processed food exports to the DR-CAFTA countries already account for about 25 percent of the total food imports and are increasing faster than any other agricultural export. What is driving the increased demand and who are your main competitors in that market?

Mr. DOOLEY. I think that the increased demand is oftentimes directly correlated to improvements in per capita GDP, is that what we see in the example I used with Charles Products is that when you see an employment opportunity that provides greater discretionary and disposable income by a family is that they oftentimes spend a significant portion of that, certainly in the developing world, on food and, to some extent, fiber products. Their expenditures oftentimes go to products or food products that have an additional processing that is included into that, which is what the U.S. and U.S. food processors excel in and where we have that competitive advantage.

In terms of where we could see competition, you know, when you asked an earlier question in terms of what would be the impact if we didn't pass CAFTA to the agriculture sector, it brought to mind what we saw happen when Canada entered into a bilateral agreement with Chile that preceded the U.S.-Canadian bilateral agreement significantly. Canada then became the preferred supplier of wheat, became the preferred supplier of certainly Caterpillar tractors for their mining industry. In some instances, Canada has a very well developed processed food industry which they could become the preferred supplier to Chile.

If the United States doesn't ratify CAFTA, we are going to create a vacuum, to some extent, that isn't just going to remain. Somebody is going to fill it, whether it is going to be Chile, whether it is going to be Brazil, whether it is even going to be the EU that has been looking to structure additional bilateral and regional agreements. And that is where I think many of us are concerned,

is that if we do not, the United States does not maintain the leadership in pursuing even these bilateral agreements, is that we are not going to be advancing the interest of U.S. companies and also work to the benefit of the people they employ.

The CHAIRMAN. Gentlemen, thank you very much for your testimony, for your insight in this very complicated issue, and we appreciate very much you being here. Thank you.

Our last panel of the day will consist of Mr. Tom Buis, National Farmers Union; Mr. Jack Roney, Director of Economics and Policy Analysis from the American Sugar Alliance; and Mr. Augustine Tantillo, Executive Director, American Manufacturing Trade Action Coalition.

Gentlemen, we welcome each one of you here today and we look forward to your testimony. Mr. Buis, we will start with you and go to you, Mr. Roney, and then to you, Mr. Tantillo.

STATEMENT OF TOM BUIS, VICE PRESIDENT, GOVERNMENT RELATIONS, NATIONAL FARMERS UNION, WASHINGTON, DC

Mr. BUIS. Thank you, Mr. Chairman. It is a pleasure to be here and we want to start by commending you for holding this hearing. I think there is a lot of interest in trade around the country.

I noted Senator Roberts and Senator Baucus earlier talking about if you go out into the agriculture community and you mention trade as the solution to your problems, you are probably going to get a lot of resistance and a lot of criticism. I think farmers are skeptical, increasingly cynical about trade because they have often been oversold, basically with promises that have never been kept.

We are always led to believe that we are just one trade agreement away from prosperity and we never seem to reach that goal. Both NAFTA and the Uruguay Round, China, Australia, if you go back and look at the statements advancing those trade agreements, the rhetoric is just almost identical, a win-win, a win-win-win for agriculture, rosy, optimistic scenarios that sound great, but in reality fall short.

The proponents of these agreements also suggest without these agreements, no U.S. agriculture products would move in world commerce. However, if you look at the period from 1990 to 1994, before NAFTA and before the WTO, our agriculture exports resulted in an average trade surplus of $23 billion per year. Compare that to what is happening after NAFTA and WTO. Look at last year. While exports were at a record level, primarily because of a falling dollar, a weak dollar against other currencies, it just barely exceeded imports. And this year, for the first time in a half-century, the United States is likely to import more agriculture products than we export.

It clearly demonstrates what is happening to American agriculture as a result of these agreements. We are losing. We are losing because our trade negotiators do a great job at getting agreements, but an incomplete job of protecting our agriculture interests. They are negotiating agreements that open our borders to competitive imports without expanding our export opportunities. We don't believe this one-way trade can be sustained.

The problem is not that we are negotiating trade. Trade is important. The problem is we are only negotiating part of those factors.

Major trade factors, such as currency manipulation, labor, health, and environmental standards are not on the table. To U.S. farmers, currency, labor, and environment ultimately determine our competitiveness in international markets.

Currency obviously determines the price our products will sell in the international market.

Labor costs, especially in the high-value and value-added industry, are often the single biggest input cost for producers. Look at the textile industry and what has happened with it. It is following cheap labor, not just in the United States, but around the world.

And environmental and health standards are significant input cost factors, and a lot of people are surprised to hear that coming from a farm organization. But if you stop and figure out all the money spent by farmers and ranchers to comply with environmental regulations that this country has deemed important and all the health and safety factors that are deemed important, and the list keeps growing. Right now, we are facing animal identification regulations, regulations on the handling of farm fuel, even in the back of their pick-ups, the regulation of nitrogen fertilizers so terrorists don't use it to build a bomb, and a host of other factors. In fact, last week in South Dakota, I had a rancher come up to me and he estimated that that is about a third of his cost of raising cattle, is complying with environmental health safety standards. Yet we don't require other countries to do the same.

The advocates also say that trade agreements are not the place to negotiate labor and environmental standards. We disagree. If trade agreements can dictate how we farm and what our U.S. farm policy should be, then I think the trade agreements can dictate how countries treat their workers and protect their environment.

Specifically regarding CAFTA, the Farmers Union is opposed, we are unanimously opposed. A resolution was adopted at our convention. We hope Congress rejects it. We hope they go back to the drawing board and include these factors. We think it is a continuation of the failed trade policy that is clearly not working for us. It is based on overly optimistic assumptions that have not materialized in the past and they are unlikely to do so in the future. It is an incremental approach to trade at a time—a heavy emphasis on bilateral and regional trade agreements when we should be negotiating on the worldwide level. And it sets a precedent that could have devastating impacts, especially on the sugar industry.

The argument made by the CAFTA supporters begs the question. Which is better, a bird in the hand or two in the bush? They are advocating trading our bird in the hand, a $10 billion U.S. sugar industry, for two birds in the bush that we may never catch in the future and way out in the future when fully implemented and the optimistic assumptions are minimal.

In summary, we are opposed and we think this agreement will increase, not decrease, the outsourcing of our nation's food and fiber production and continue to race to the bottom of commodity prices. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Buis can be found in the Appendix on page 132.]

The CHAIRMAN. Mr. Roney?

STATEMENT OF JACK RONEY, DIRECTOR OF ECONOMICS AND POLICY ANALYSIS, AMERICAN SUGAR ALLIANCE, ARLINGTON, VIRGINIA

Mr. RONEY. Thank you, Mr. Chairman. I am Jack Roney, Director of Economics and Policy Analysis for the American Sugar Alliance. I have the privilege of speaking today on behalf of 146,000 American farmers, workers, and their families who grow, process, and refine sugar beets and sugar cane in 19 States.

The proposed CAFTA threatens American sugar jobs in all 19 of these States. By the government's own estimates, sugar job losses from the CAFTA will be far greater than any other sectors, 38 times greater than the next biggest job loser, textiles. The same International Trade Commission study also questions the overall value of the CAFTA to our economy. The ITC concluded that the CAFTA will increase the trade deficit with that region, not reduce it.

The lack of evidence of any economic benefit for the U.S., or for that matter for the Central American countries, has led to widespread opposition to the CAFTA. Sugar is by no means the sole opponent. National polls show the majority of Americans oppose the CAFTA. Key farm groups oppose, including the National Farmers Union, RCAF, the national association of independent ranchers, the National Association of State Departments of Agriculture, grower organizations for commodities that would have to absorb the 2.5 million acres of displaced beet and cane, and that includes a number of State wheat and corn associations, and several State Farm Bureau Federations. Large numbers of labor, environmental, human rights, Hispanic, and religious groups in the United States and in the CAFTA countries oppose the CAFTA.

Our sugar growers and processors are among the most efficient in the world. Like other American farmers, we can compete against foreign farmers, but we cannot compete against foreign government subsidies. The world sugar market is the world's most distorted commodity market. A vast global array of subsidies encourages overproduction and dumping. We support correcting this distorted dump market through genuine global trade liberalization.

There is a right way and a wrong way to attack global sugar subsidies. The right way: the WTO, all countries at the table, all subsidies on the table. The wrong way: bilateral and regional FTAs, where markets are wrenched open without addressing any foreign subsidies. Virtually every FTA ever completed around the world excludes import access mandates for sugar. Only the U.S. has ever guaranteed access to its sugar market in an FTA, in the NAFTA and in the CAFTA, and these agreements are mired in controversy. Sugar must be reserved for the WTO, where genuine trade liberalization can occur.

American sugar farmers know their industry and their policy well. We have examined the CAFTA provisions soberly and carefully. We regard the CAFTA as a life or death issue. American farmers and workers who will lose their jobs are insulted by CAFTA proponents who trivialize the potential harm from this agreement with cutsey, misleading depictions of additional access and teaspoons or packets per consumer per day.

We are already one of the world's most open sugar markets. Past trade agreement concessions force us to import upwards of 1.5 million tons of sugar per year from 41 countries duty-free. This makes us the world's fourth largest net sugar importer. The CAFTA countries and the DR are already our biggest duty-free supplier, accounting for a fourth of our imports.

Unfortunately, our market is already oversupplied. U.S. sugar producers are currently holding a half-million tons of sugar off the market and storing it at their own expense. Every additional ton of sugar we are forced to import from foreign countries is one ton less that struggling American sugar farmers will be able to sell in their own market. Import more foreign sugar, export more American jobs.

The CAFTA poses both short-term and long-term dangers to American sugar farmers and workers. In the short term, CAFTA sugar market access concessions on top of import commitments the U.S. has already made in the WTO and the NAFTA will prevent the USTA from administering a no-cost sugar policy as Congress directed it to in the 2002 farm bill. The additional concessions will trigger off the marketing allotment program that permits USDA to restrict domestic sugar sales and balance the market. Absent marketing allotments, surplus sugar would cascade onto the U.S. market and destroy the price.

In the long term, the CAFTA is the tip of the FTA iceberg. Behind the CAFTA countries, 21 other sugar-exporting countries are lined up like planes on the tarmac, waiting to do their deal with the U.S. No doubt, they expect no less than the concessions already granted to the CAFTA countries. Combined, these 21 countries export over 25 million tons of sugar per year, nearly triple U.S. sugar consumption. Obviously, the precedent the CAFTA concessions set will make it impossible for the U.S. sugar industry to survive future agreements.

In conclusion, Mr. Chairman, the CAFTA will cost thousands of American sugar farmers and workers their jobs. The certain dangers of the CAFTA to the U.S. economy far outweigh the marginal possible benefits. We respectfully urge that this committee reject the CAFTA and focus U.S. trade liberalization efforts instead on the WTO, where there is genuine potential for progress. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Roney can be found in the Appendix on page 135.]

The CHAIRMAN. Mr. Tantillo?

STATEMENT OF AUGUSTINE TANTILLO, EXECUTIVE DIRECTOR, AMERICAN MANUFACTURING TRADE ACTION COALITION, WASHINGTON, DC

Mr. TANTILLO. Thank you, Mr. Chairman. I greatly appreciate this opportunity to appear before your committee. My name is Auggie Tantillo. I am the Executive Director of the American Manufacturing Trade Action Coalition. AMTAC is a consortium of U.S. manufacturers that come from all points on the industrial spectrum, manufacturers of chemicals, tools, plastics, paper products,

packaging products, and, of course, textiles and apparel. In fact, textiles and apparel make up for well over half of our membership.

AMTAC strongly opposes CAFTA because we believe it is a flawed component of an overall flawed trade policy, a policy that insists on marrying the U.S. market to low-wage, low cost of production trading partners, such as those in Central America, Free Trade Agreements that pit U.S. workers who are making $12 to $15 an hour traditionally in the textile and apparel sector, who are being paid health care, who receive pension benefits, against workers who are making less than $1 per hour, who receive no health care, no pension benefits, who work under conditions that have long since been outlawed in the United States, who work for manufacturers who oftentimes have no regard for the environment, and therefore are able to vastly underprice exports or products in our own market.

It is no surprise that because of our current trade policy, which insists on Free Trade Agreements with low-cost, low wage-producing nations, that we now have a $617 billion trade deficit and that millions of manufacturing jobs have been exported over the past 10 years, factories closed and companies bankrupted.

As I mentioned, Mr. Chairman, a significant portion of our membership is textile and apparel related. Our membership strongly disagrees with the view that CAFTA is going to be a benefit. In fact, we view it as a major detriment that is going to cost at least $1 billion in current exports to that region. I make that statement because under the current law, which is the Caribbean Basin Trade Partnership Act, imports of apparel made in Central America—Honduras, Guatemala, Nicaragua, El Salvador—come into the United States today duty-free if they use U.S. fabric made from U.S. yarn. Under the CAFTA arrangement, the requirement to strictly use U.S. components, such as fabric and yarn, is removed. In addition to using U.S. fabric and yarn, they can use their own yarn and fabric produced in that region.

As if that were not enough to entice the Central Americans to sign this agreement, the U.S. negotiating team felt compelled to go a major step further and to say that for a billion square meters of fabric, those components can come from China, India, Pakistan, in some cases Mexico and Canada. And as a result, we are going to displace existing exports to this very important region due to these provisions that we call loopholes or exceptions to the rule of origin.

These provisions include ideas such as cumulation, which means that Mexico can send their fabric to Honduras. That fabric can be cut and sewn, sent to the United States duty-free in the form of a garment. A tariff preference level with Nicaragua, which means that for 100 million square meters of cotton trousers, for example, Nicaragua can purchase the yarn and fabric from China. Certain products, such as brassieres, pajamas, and boxer shorts are exempted from the rule of origin altogether. They can get those components from any country in the world. There are other items in a garment that the U.S. Trade Representative deemed as non-essential—pocketing fabric, lining fabric, which can come from any supplier in the world and be assembled in Central America and then sent to the United States in the form of a garment, again, duty-free.

It is for that reason, Mr. Chairman, that the two largest textile companies in Georgia, Avondale Mills and Miliken and Company, strongly oppose CAFTA. We believe it is going to displace existing sales to that region and we don't understand why the U.S. Government had to conclude an agreement that had so many loopholes in it for third-party countries, countries that are not part of the region, countries that were not at the negotiating table.

I heard earlier today that the USTR testified that this is a bulwark against China. It is an effort to stem the flood of textile and apparel imports from China. Well, we have two major concerns with that argument. The first is that we don't need any more excuses not to deal directly with the China problem. It is time for the U.S. Trade Representative to develop a rational policy with the Chinese that deals with their currency manipulation, their export rebates, their state-sponsored subsidies, their nonperforming loans, which are literally destroying the U.S. manufacturing base.

Second, it is illogical to argue that we are going to give the Chinese a back-door entry into our market by shipping component yarns and fabrics to Central America to be assembled and then sent to the United States duty-free. It is illogical to argue that that is going to address the China textile trade problem. In essence, it is going to give them another half-a-billion dollars in access, this time under a tariff-free arrangement.

So we ask that this agreement be defeated and that the U.S. negotiating team go back to the table and produce an agreement that excludes loopholes that allow for third-party countries to benefit and ensures that, at the very least, the existing exports that go from U.S. textile manufacturers to that region are preserved.

Mr. Chairman, we appreciate the fact that you are digging so deeply into this issue and looking for the proper posture in regards to this. We ask that the Senate take a strong look not only at what the agriculture components are, but what the upstream or downstream circumstances are. As you know, the U.S. textile industry is a major consumer of U.S. cotton, and we consume over six million bales a year. Anything that impacts us as seriously as we believe CAFTA will impact us is definitely going to have an impact on the U.S. cotton industry.

Thank you very much.

The CHAIRMAN. Gentlemen, thank you.

[The prepared statement of Mr. Tantillo can be found in the Appendix on page 153.]

The CHAIRMAN. The lack of Senators being here is no reflection on their interest in your positions. It has a lot more to do with a vote on which the time has now expired that I must run to.

Thank you very much for your testimony. We appreciate your being here and we will leave the record open for 5 days for any additional items that anyone would like to include in the record. Gentlemen, thank you.

The hearing is adjourned.

[Whereupon, at 12:20 p.m., the committee was adjourned.]

APPENDIX

JUNE 7, 2005

Senator Ken Salazar
Regarding the Potential Impacts on Agriculture in the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA)
June 7, 2005

Chairman Chambliss and Ranking Member Harkin, I want to thank you for holding this very important hearing. I also want to thank the distinguished panel of witnesses that have testified here today. You all represent important sectors of the agricultural industry and I thank you for your hard work to promote rural communities and industries across this country. I am continuing to look at the details of this Agreement and have not yet decided which way to vote.

There are many differing views present here today in regards to DR-CAFTA. I know that many of you believe this agreement is an important step in our overall trade strategy to open markets for U.S. industries, while many of you are concerned the Agreement will have some serious consequences for U.S. industries – such as sugar – and the potential for moving manufacturing jobs overseas for cheap labor.

In my state of Colorado, in 2004, we exported almost $7 billion worth of goods around the world, and over $843 million of those goods were agricultural exports – making Colorado 22nd in agricultural exports.

In 2004, Colorado exports to DR-CAFTA countries equaled about $8 million – a relatively small percentage. The International Trade Commission has concluded that the Agreement, when fully implemented, will provide the U.S. economy $166 million more each year – less than 0.01% of the Gross Domestic Product.

While $166 million is a step in the right direction, it certainly is not a sum that will provide substantial changes in regards to our enormous trade deficit. That leads me to conclude that tremendous economic gain is not the driving force behind this agreement.

If major economic growth in Colorado or the U.S. economy is not the driving force behind this agreement, I believe it is vitally important to fully understand the consequences DR-CAFTA would have if it is passed *and* if it is not passed. We need to fully understand the impacts of what would happen at the World Trade Organization's Doha Round if this agreement is not passed. We must understand what this agreement will do for the agricultural and business economies of Colorado and the other 49 states in this country. And we must understand how – or even whether – this agreement fits into a larger strategy to breathe life back into rural America.

I believe that we need to keep U.S. farmers and ranchers by opening new markets and promoting opportunities for agricultural products in Colorado and across the country.

As I travel across Colorado, I repeatedly hear from farmers and ranchers about the need to increase export opportunities for their products. Whether it be reopening the Japanese beef market or selling products to China, producers are well aware of sophisticated and

growing markets across the world and are extremely interested in promoting these exports opportunities. In fact, this week I am meeting with the Chinese Ambassador and will invite him to Colorado to discuss potential trade opportunities with his country.

I recognize the serious challenges that occur when negotiating a trade agreement of this magnitude, and there are complicated questions that surround this Free Trade Agreement. I thank you all for being here so that we may discuss these issues in a public setting.

STATEMENT OF SENATOR TOM HARKIN, RANKING DEMOCRATIC MEMBER

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

HEARING ON CENTRAL AMERICAN FREE TRADE AGREEMENT

June 7, 2005

I commend you, Mr. Chairman, for holding today's hearing on the very important topic of the Central American Free Trade Agreement and U.S. agriculture. Today's witnesses will offer diverse views on CAFTA, which is quite appropriate since assessments and opinions regarding this agreement are sharply divided. CAFTA is so controversial that we have just passed the first anniversary of its signing, yet it still has not been submitted to Congress for action.

I have voted in support of most of the major trade agreements during my 30 years in Congress. However, I firmly believe we must be careful not to load all of our hopes in agriculture on the slender back of trade. Experience shows that, in general, neither the most optimistic promises of expected benefits, nor the most dire predictions of disaster, from trade agreements materialize. Trade is very important to U.S. agriculture, but it is no panacea, despite what we are often told.

On paper, CAFTA appears to offer opportunities for some U.S. farmers and negatives for others. The magnitude of these pluses and minuses is, of course, a big part of the debate. Overall, in theory at least, U.S. agriculture should benefit, but the projected net benefits would be modest. Analysis by American Farm Bureau Federation economists estimates that U.S. agricultural exports will be $1.5 billion a year higher by the time the agreement is fully effective – some 15-18 years from now. If we put that $1.5 billion dollars increase by 2024 into today's dollars, it is actually equal to only about $930 million assuming an average 2.3 percent annual inflation rate in those years. That level of increase would be only about 1.5 percent of our expected U.S. agricultural exports for 2005.

Whether these modest theoretical benefits would actually materialize is a matter of dispute. Skeptics doubt those customers are capable of becoming good customers anytime soon, since average per capita income in CAFTA-DR countries is only about $2,200 a year. About a third of the population lives on $2 a day or less. The potential for big gains is also limited because the United States already dominates agricultural trade to the CAFTA-DR countries – accounting for about 46 percent of all agricultural exports to the region. To be sure, U.S. exporters would pay lower tariffs, but the prospects for significantly expanding the volume of exports beyond current levels are speculative to many.

We must consider very carefully whether CAFTA helps U.S. businesses and workers – including in agriculture – better compete in the global economy or in fact worsens their competitive disadvantages. This agreement has virtually nothing in it to address the cost advantages that companies will enjoy from less effective labor and environmental standards if they produce in CAFTA countries versus the United States. Regarding child labor, CAFTA actually gives up the mechanism we have had since 2000 to enforce international standards against abusive child labor through our Generalized System of Preferences program. If one of the big reasons for CAFTA is to help boost economic and social progress in those countries, it is a glaring omission for this administration to take this clear step backwards on our ability to press our trading partners to more effectively combat abusive child labor practices.

U.S. sugar producers oppose CAFTA-DR because this agreement permits increased sugar imports of up to 153,000 tons a year from these six countries and because it establishes a precedent for allowing more sugar imports in future free trade agreements that are being negotiated. They prefer to address sugar trade reforms in the multilateral process of the WTO, where all sugar producing countries' policies would be on the table, rather than in piecemeal bilateral or regional agreements.

Realistically, for U.S. agriculture, the modest opportunities we are promised under CAFTA pale in comparison to the benefits of a successful outcome in the current WTO negotiations. In the WTO, we have the potential to gain better access to a global market worth some $329 billion, while the CAFTA sub-regional market is valued at about $3.3 billion. Fighting for a good WTO agreement is where we really should be investing our energy and political capital.

Statement of Mike Johanns
Secretary of Agriculture
Before the Senate Committee on Agriculture, Nutrition, and Forestry
Washington, D.C.
June 7, 2005

Mr. Chairman, members of the Committee, thank you for the opportunity to appear here today to discuss the United States-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) and its importance to U.S. agriculture. I am pleased to be joined by Ambassador Allen Johnson.

Congress' debate about this agreement will play an important role in helping to determine future farm policy. It will determine whether we follow a market-oriented path that focuses on new opportunities for our farmers and ranchers to gain access to customers who live outside our borders or become inward looking and increasingly dependent upon our relatively slow-growing domestic market.

To set the stage for that debate, today I will update you on the economic health of the farm economy – and trade's contribution to that – and review with you why we think this proposed agreement is a good deal for our farmers and food industry.

Farm Economy Strong

The U.S. farm economy currently is strong, and our export sales are a significant contributing component of that strength. Farm income was the highest ever in 2004 – by several billion dollars -- with another record forecast for 2005. Income continues to run well above the decade average. We are seeing large crops with still relatively strong prices. We have balance across sectors. The livestock sector, including dairy, is faring well at the same time as the crops sector. There is widespread prosperity, despite adversity in some localized areas and some trade interruptions.

Agriculture's balance sheet is the strongest ever, supported by firm land prices that continue to rise in every part of the country. This upward trend has been uninterrupted since the late 1980s, and shows no signs of slowing.

I cannot emphasize enough that the future strength of American agriculture hinges on our success in the international marketplace. We are the world's largest agricultural exporter. We already derive 27 percent of our gross receipts from foreign customers. Every billion dollars of export sales creates $1.54 billion in supporting economic activity and supports 15,800 jobs.

Export sales reached a record $62.3 billion in fiscal year 2004, despite having some key markets unjustifiably closed to our beef and poultry products. This growth reflected both higher prices and an expansion of high-value and value-added product sales. Our latest forecast for fiscal year 2005 would result in the second highest level on record -- $60.5 billion – and some key markets still are unjustifiably closed.

While there is a lot of discussion these days about various aspects of trade, it is interesting to note what is happening in key markets. During fiscal year 2005, Mexico is forecast to overtake Japan and become our number two export market. Canada remains our top export destination. That means some 30 percent of our total exports will be to our partners in the North American Free Trade Agreement (NAFTA). In fact, trade with our NAFTA partners has doubled in the 10 years that NAFTA has been in force. Clearly, NAFTA has been a success for American agriculture.

And, because our ability to produce grows faster than consumption here at home, we are going to need more markets like our NAFTA partners. We produce far more now than we can consume here at home, and the imbalance is only going to become larger over time.

This is not a static situation. We invest in research, our farmers invest in new technology

and machinery, and our processing becomes more efficient. All this adds to our increased capacity to produce. The 50-year trend for U.S. agriculture is 2 percent productivity growth per year. But, food needs in the United States grow only 0.9 percent per year – just about equal to the population growth. So, we must gain greater access to more consumers to avoid even greater surplus capacity, stagnant incomes and declining asset values. Remember, 95 percent of all consumers live outside the United States. If we don't gain greater access, the prosperity for U.S. agriculture may come to an end.

Pressing for Open Markets

Trade is the centerpiece of the President's international economic agenda. We are pressing for more access to more markets – to provide more opportunities for our farmers and ranchers. We are doing this on three fronts:

- Multilaterally, through the World Trade Organization's (WTO) Doha Development Agenda;
- Regionally, through free trade agreements such as the CAFTA-DR; and
- Bilaterally, through already-implemented free trade agreements with Australia, Chile, and Singapore, with more to come.

We are engaged liberalizing trade on multiple fronts – all of which hold the potential for export gains for U.S. agriculture. You simply can't put all your eggs in one basket. If we get stalled on one front, we can shift our efforts to another. We can't afford to stall across the board.

We stand at a crucial crossroads. The direction we pursue will have an enormous impact on U.S. agricultural trade. I am talking, of course, about the debate over the ratification of the CAFTA-DR. The passage of CAFTA-DR is essential – the economic stakes are enormously high. This is a good agreement for U.S. agriculture.

Let's look at the facts. This agreement will give us greater access to 44 million consumers with rising incomes. Their growing economies will only strengthen with this agreement. And, with these markets' close proximity, we have a transportation advantage over several of our competitors – a fact we must use to our advantage.

Without this agreement, we will see our competitive position in these markets worsen compared to other countries that have negotiated free trade agreements. We have already seen our share of these countries' imports fall in recent years. In 1994, the United States supplied 52 percent of these countries' agricultural imports. In 2003, that had fallen to 42 percent. Make no mistake: our competitors are there, concluding trade agreements and gaining preferential access for their producers while ours get left out. Canada, Mexico, South American countries, and others are gaining access while we fall behind.

However, we can regain market share with this agreement. This agreement eliminates tariffs facing U.S. farmers and ranchers, making our products much more competitive. Our access will be as good as or better than that of our Canadian and Mexican competitors.

This agreement levels the playing field. Today, 99 percent of the goods from Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua enter the U.S. market duty-free. Clearly, we need to correct the imbalance – and this Agreement will do that. This agreement makes trade truly a two-way street by improving the conditions under which U.S. goods are exported to these countries.

Current WTO tariff levels on food and agricultural products in the six CAFTA nations range on average from 35 percent to 60 percent. With the agreement, more than half of our current farm exports would become duty-free immediately, including high-quality cuts of beef, soybeans, cotton, wheat, many fruits and vegetables, and processed food products. Tariffs on

most products will be phased out within 15 years, and completely eliminated in 20 years. These may seem like long transition periods, but look at how sales to our NAFTA partners grew during that transition period. U.S. agricultural sales to the CAFTA-DR countries were $1.8 billion in 2004 and could double with full implementation of the agreement.

A few commodity examples tell an impressive story of the benefits for agriculture. Duties on prime and choice cuts of beef will be eliminated immediately in five of the countries, and a healthy tariff-rate quota will be established in the sixth. For cotton, tariffs will drop to zero immediately for markets that are worth more than $73 million to U.S. exporters. Costa Rica and the Dominican Republic will eliminate duties on yellow corn immediately. For poultry, there will be immediate duty-free access for chicken leg quarters under new tariff-rate quotas that expand annually as over-quota duties are eliminated. Duties for wheat, barley, soybeans, and some processed grain products will go to zero immediately. Most countries will eliminate duties on soybean meal, flour, and crude soybean oil immediately, and duties on refined soybean oil will be phased out over 12 to 15 years. Costa Rica, the Dominican Republic, El Salvador, and Honduras will eliminate duties immediately on peanut butter, and Nicaragua and Guatemala will do so over 10 years. Pet food will get preferential access immediately in El Salvador, and Guatemala, with other countries phasing out their duties. A wide range of horticultural items will benefit from either immediate or gradual duty-free access in all countries.

Now, let me turn to the only point of contention concerning agriculture in this agreement. That is the impact on sugar. I have repeatedly emphasized that CAFTA-DR will not hurt the U.S. sugar industry. The agreement establishes a tariff-rate quota for each country and the added access is little more than one day's U.S. sugar production. The quantity involved was kept very small. The over-quota duty is prohibitive at well over 100 percent. It will not be reduced as

part of this agreement. The sugar program, with its guaranteed benefits to American producers, is not changed in any way. Moreover, the agreement has a fail-safe mechanism, if imports ever threaten the program. Basically, the impact on the U.S. sugar industry will be minimal, but the small amount of additional access is important to the CAFTA-DR countries and equally important to the U.S. position of practicing what we preach.

Conclusion

The case for CAFTA is a case for growth, opportunity, and democracy in our own front yard. These six small countries are big markets for agriculture. They make up our second-largest export market in Latin America. Since our market is already open, the agreement will level the playing field for U.S. farmers and workers. But it is not just about trade. Strengthening these democracies will help protect our national security interests. Not passing this agreement could well create instability in a region, which only now — after decades of violence, is becoming stable and starting to grow. This agreement will reinforce political stability and growth, which is vital to our entire hemisphere.

I want to assure the Committee that this is a good deal for U.S. agriculture. Not only does it establish fair two-way trade, but it facilitates greater cooperation on plant and animal health safety measures. It addresses the interests of sensitive commodities, such as sugar. That is why virtually all of U.S. agriculture — nearly 80 organizations — support CAFTA-DR. That support is broad, because nearly every agricultural sector benefits. The winners in this deal are America's farmers and ranchers.

Mr. Chairman, that concludes my statement. I will be happy to answer any questions.

U.S. - Central America - Dominican Republic FREE TRADE AGREEMENT

Statement of
Ambassador Allen F. Johnson
Chief Agricultural Negotiator
Office of the United States Trade Representative
before the
Committee on Agriculture
United States Senate
Washington, D.C.
June 7, 2005

INTRODUCTION

Chairman Chambliss, Senator Harkin, and Members of the Committee, I am pleased to have the opportunity to testify before you today on the free trade agreement with Central America and the Dominican Republic. As I have stated on several occasions personally and in public, the Office of the U.S. Trade Representative greatly appreciates the hard work of this Committee, and I commend in particular Chairman Chambliss and a number of members of the Committee, for their leadership on trade matters.

I would like to begin today with a bit of historical context. Twenty years ago, Congress held several hearings on the topic of Central America. But the Administration witnesses were not from USTR, and the topics had little to do with economics. In February 1985, the House Foreign Affairs Committee held a hearing about developments in Guatemala, where an undemocratic military government ruled and civil war raged. The following month, the House heard testimony from Pentagon and State Department officials about U.S. military assistance to El Salvador, which was then fighting an armed Communist insurgency. In 1985, to the extent that Congress or the American people paid attention to Central America, it was largely because of violence, dictatorships, and civil war.

It is an extraordinary sign of the progress made in Central America that we meet here today – twenty years later – to discuss a free trade agreement- an economic partnership with these countries. Today, the Dominican Republic and the nations of Central America are all democracies. Elected leaders are embracing freedom and economic reform, fighting corruption, strengthening the rule of law and battling crime, and supporting America in the war on terrorism. And they want to help cement their courageous moves toward democracy and free markets by signing a free trade agreement with their neighbor to the North, the United States.

This agreement marks the successful culmination of a decades-long American policy of promoting economic reform and democracy in Central America. President Bush strongly believes that America should stand with those in our Hemisphere – and the world – who stand for economic freedom. The Central America-Dominican Republic FTA offers us the best

opportunity to strengthen the economic ties we already have with these nations, and to reinforce their progress toward economic, political and social reform.

But this agreement is not an act of unilateral altruism on the part of the United States. We have much to gain from this trade agreement: access to a large and growing market of 45 million consumers close to our border, an opportunity to level the playing field for American workers and farmers who today must cope with one-way free trade from Central America and the Dominican Republic without a reciprocal chance to compete. This is particularly true for agriculture, where our exports face WTO-allowed tariffs in the region that average around 50% while our market is effectively open -- nearly all products we import from the region enter duty-free under our preference programs, the most important of which was made permanent by Congress. As I will detail, the agreement turns this situation around for our farmers, ranchers and food processors and provides new opportunities for practically all of our productive sectors. The wide-spread support this agreement has achieved from agriculture groups is reflected by two letters signed by producer groups representing sectors that account for about 90% of the cash receipts in U.S. agriculture. I request that those letters be included in the record.

The agreement that we are here to consider today is the result of over three years of hard work and close cooperation between the Administration and the Congress, which began when President Bush announced his intent to negotiate a free trade agreement with Central America in January 2002. Using guidance from Trade Promotion Authority, USTR formally consulted closely with committees of jurisdiction before and after every round of negotiations, shared proposed text of the agreement with staff and Members prior to presenting texts in the negotiations. Former USTR Robert Zoellick, and our chief negotiators consulted with the Congressional Oversight Group and with Members on an individual basis. We took all views into consideration during each step of the negotiations, and greatly value the input provided by the Congress for this agreement. Our dialog with the Congress continues today, and I welcome this opportunity to talk with all Members about the Central America-Dominican Republic FTA.

In concluding this FTA, our objective, which we feel confident that we have met, was to follow the negotiating objectives laid out by Congress in the bipartisan Trade Act of 2002 to strike a comprehensive and commercially meaningful agreement that will benefit U.S. workers, businesses, farmers, investors and consumers. At the same time, these complex negotiations took careful consideration of import sensitivities of the United States, many of which were communicated to us by Members of Congress. We worked hard to take into account all concerns raised with us by Members of Congress, and believe that we struck careful balances to reflect these interests.

So today I would like to discuss the reasons why we believe this agreement is strongly in the national interest of the United States, and why we want to work with Congress to pass this trade agreement into law.

Small Countries, Big Markets

Central America and the Dominican Republic are very large export markets for the United States. Collectively, these countries make up the second largest U.S. export market in Latin

America, with more than $15.7 billion in U.S. exports in 2004. U.S. agriculture exports to this region were $1.8 billion in 2004, despite the substantial tariff barriers and the administrative burdens we currently face and which will be eliminated when the agreement is implemented. For some key states, for example Florida and North Carolina, the region is a top-three export destination for Made-in-USA products. Central America and the Dominican Republic form a larger export market than Brazil, a larger export market than Australia, and a larger export market than Russia, India and Indonesia combined.

While the Central American countries and the Dominican Republic are physically small, they are clearly large markets for U.S. products and services. The American Farm Bureau Federation is supporting this agreement because they have estimated the Central America-Dominican Republic FTA could expand U.S. farm exports by $1.5 billion a year, which would represent nearly a doubling of our current agricultural exports to the region. Manufacturers would also benefit, especially in sectors such as information technology products, agricultural and construction equipment, paper products, pharmaceuticals, and medical and scientific equipment. The U.S. Chamber of Commerce has done a number of studies of the potential economic impact of this FTA in just eight key U.S. states, and estimates that U.S. sales to the region would expand by more than $3 billion in the first year. From soft drinks to software, from pork to paper products, the region is a voracious consumer of U.S. products and services. In some areas, textile yarn and fabric for example, the region is second only to Mexico as a worldwide consumer of U.S. exports.

Leveling the Playing Field: New Opportunities for U.S. Farmers and Workers

But while these Central American countries and the Dominican Republic buy many goods and services from the United States, we currently face an unlevel playing field. Most Americans probably do not realize that we already have free trade with Central America and the Dominican Republic, but it is one-way free trade. Under unilateral preference programs begun by President Reagan and expanded under President Clinton with broad bipartisan support, nearly 80 percent of imports from Central America and the Dominican Republic *already* enter the United States duty-free. In agriculture, that percentage is even higher: we estimate that over 99% of Central America's and the Dominican Republic's farm exports to the United States are duty-free. For the countries of the region, this agreement will lock in those benefits and expand on them, helping to promote U.S. investment in the region.

The chief effect of the Central America-Dominican Republic FTA is not to further open our market, but rather to tear down barriers to our products and services in Central America and the Dominican Republic. This agreement will create new opportunities for U.S. workers and manufacturers. More than 80 percent of U.S. exports of consumer and industrial goods will become duty-free immediately, with remaining tariffs phased out over 10 years. In the important area of services, the Dominican Republic and the Central American countries will accord substantial market access across their entire services regime. This is also a trade agreement for the digital age, providing state-of-the-art protections and non-discriminatory treatment for digital products such as U.S. software, music, text, and videos. The agreement breaks new ground, providing strong anti-corruption measures in government contracting and other matters affecting international trade or investment. The agreement's dispute settlement mechanisms call for open

public hearings, public access to documents, and the opportunity for third parties to submit views, with limited exceptions to protect confidential information. Transparency in customs operations will aid express delivery shipments and will require more open and public processes for customs rulings and administration.

Important for this Committee, however, the agreement will also expand markets for U.S. farmers and ranchers. The Central America-Dominican Republic FTA will level the playing field for American farmers and workers. It will further open regional markets to *our* products and services, which currently face very high average tariffs or non-tariff barriers. For example, in agriculture: Central American and Dominican tariffs on U.S. fresh and processed vegetables range from 15 % to 47%; ours are zero. U.S. fruits and nuts face a tariff as high as 25% while products in this same sector enter our market duty free. U.S. pork is charged a tariff of 15-47% and U.S. poultry faces a tariff as high as 164%, while the U.S. tariff for both of these commodities is zero.

More than half of current U.S. farm exports to Central America will become duty-free immediately; including high quality cuts of beef, cotton, wheat, soybeans, key fruits and vegetables, and processed food products among others. Tariffs on most remaining U.S. farm products will be phased out within 15 years. U.S. farm products that will benefit from improved market access include pork, dry beans, vegetable oil, poultry, rice, corn, and dairy products. It is significant that every major U.S. farm commodity group but one has stated its strong support for this FTA.

Agriculture: A big win for U.S. producers and processors

Perhaps no sector has such clear cut gains from the agreement as agriculture.

We currently have a trade deficit with the region in agriculture because we have unilaterally decided to open our market to their products. This has had many positive benefits for the United States, as American consumers have benefited from exotic fruits and vegetables, coffee, and other products not grown here, enjoyed year-round provision of fresh fruits and vegetables and have had our cuisine enriched by regional specialties that were originally imported to service recent immigrants but are now enjoyed by broader segments of our society. By providing opportunities and jobs for millions of people in the region through a market-based mechanism, this policy helped stabilize the region politically and economically, which has incalculable benefits for our national security.

In turn, we face many barriers when trying to export into the region. All the Central American countries and Dominican Republic are currently obligated to do for us is keep their tariffs below limits set in the WTO. The average allowed tariff in Costa Rica is 41%, Dominican Republic, 49%; El Salvador ,40%; Honduras,60%; Guatemala ,35%; and Nicaragua 60%. Individual tariffs can exceed 100% on some of our priority exports. The Central America-Dominican Republic FTA changes all of that: all tariffs will be eliminated (except for white corn in El Salvador, Honduras, Guatemala, and Nicaragua and fresh onions and potatoes in Costa Rica) and immediate tariff reductions will be afforded to all our priority products, with many receiving immediate tariff elimination or zero-duty tariff-rate quotas that grow over time.

Not only will the agreement get rid of trade barriers to our exports, but it will help turn the 45 million customers in the region, who already buy over $1 billion a year of our agricultural products, into better customers: more wealthy, more closely linked to U.S. market trends and marketing channels, and more likely to choose American products because of tariff preferences we enjoy under the agreement. Just as Mexico has grown into our second largest agricultural export market, these nearby neighbors can become much better customers.

Let me provide you some examples of how this agreement will work for our producers.

Beef: U.S. exports face duties ranging from 15 to 30% with WTO tariff bindings ranging from 35 to 79%. Imports from the region are allowed in duty-free under our WTO TRQ that has not been filled since it was established in 1995 as part of the Uruguay Round. The agreement immediately eliminates tariffs on our top export priority - prime and choice quality beef - in the Central American countries and establishes a zero-duty tariff-rate quota in the Dominican Republic. Other exports of U.S. beef will face declining tariffs, which are eliminated in at most 15 years. The National Cattlemen's Beef Association's economic analysis of the agreement suggests that U.S. beef and beef variety meat exports to these nations could triple. The United States will also phase-out our out-of-quota duty on beef over 15 years, and in the interim provide marginal increased access under our TRQ to some of the countries, but only if the WTO TRQ fills first. That is why the National Cattlemen's Beef Association and American Meat Institute support this agreement. Related industries such as the National Renderers Association and the US Hide, Skin and Leather Association also support this agreement.

Pork: U.S. exports face duties ranging from 15 to 47%, and the WTO permits tariffs as high as 60%. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement immediately eliminates tariffs on some pork products, such as bacon and offal, and phases out all tariffs in at most 15 years. In addition, each of the countries will open duty-free tariff-rate quotas for U.S. exports for pork cuts in year one, which will expand by 5 to 15 percent annually until duties are eliminated. A recent economic analysis conducted by Iowa State University economist Dermot Hayes shows that, as a direct result of this FTA, U.S. pork exports to the region will grow by 20,000 tons on an annual basis and average profits to U.S. pork producers will increase by 4.5% once the agreement is fully phased-in. That is why the National Pork Producers Council and U.S. Meat Export Federation support this agreement.

Poultry: U.S. exports face duties as high as 164% on both fresh and frozen product, and the WTO permits duties as high as 250 percent. Imports into the United States from the region are already allowed in duty-free into the United States. For chicken leg quarters, each of the countries will open duty-free tariff-rate quotas for U.S. product in year one of the agreement, which will grow over time until the tariff is eliminated in 17 to 20 years. Duty elimination on other poultry products, such as turkeys, other chicken parts, and mechanically deboned poultry meat will occur more quickly, with many items duty free within ten years. That is why the National Chicken Council, USA Poultry and Egg Export Council, Georgia Poultry Federation, National Turkey Federation and United Egg Producers support this agreement.

Dairy: U.S. exports face duties ranging from as high as 66 % and the WTO permits duties as high as 100 %. Imports into the United States from the region face no duties, except for access allowed under our tariff-rate quota system. The agreement entails reciprocal access commitments: tariffs in all countries will be phased-out over 20 years and equivalent zero-duty tariff-rate quotas will be established in all countries - ton-for-ton, country-for-country. For some dairy products, tariffs on U.S. exports will be eliminated more rapidly. A National Milk study estimates this agreement will result in an additional $100 million for US dairy producers in the first few years. That is why The U.S. Dairy Export Council, International Dairy Foods Association and the National Milk Producers Federation support this agreement.

Fruits and Vegetables: U.S. exports face duties as high as 47% and the WTO permits duties as high as 60 percent. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement immediately eliminates tariffs on a number of our export priorities such as french fries, apples, cherries, grapes, raisins, pears, peaches, blueberries, canned peaches, canned sweet corn, almonds, walnuts, pistachios and frozen concentrated grapefruit juice to all countries, and tomato paste and frozen concentrated orange juice by all Central American countries. All tariffs on fruits and vegetables will be eliminated in at most 15 years (except for fresh onions and fresh potatoes in Costa Rica, which will have expanded tariff-rate quota access). That is why the Western Growers Association, California Table Grape Commission, California Can Peach Commission, California Fig Advisory Board, Valley Fig Growers, California Strawberry Commission, California Walnut Commission, U.S. Dry Bean Council, Sunkist Growers, Produce Marketing Association, Sunmaid Growers of California, Sunsweet Growers, Northwest Horticulture Council, Washington State Potato Commission, National Potato Council, American Potato Trade Alliance, U.S. Apple Association, Florida Citrus Mutual and Blue Diamond Growers support this agreement.

Wheat and Barley: U.S. grain suppliers will benefit from zero duties immediately on wheat and barley, as well as on some processed grain products. The WTO generally permits duties up to 60 % for these products, but allows duties as high as 112% on common wheat. Imports into the United States from the region are already allowed in duty-free into the United States. That is why the National Association of Wheat Growers, Wheat Export Trade Education Committee, U.S. Wheat Associates, Wheat Export Trade Education Committee, North American Millers Association and the National Barley Growers Association support this agreement.

Corn: U.S. exports face duties as high as 45%, and the WTO permits tariffs as high as 75%. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement immediately eliminates tariffs in Costa Rica and the Dominican Republic, and phases out all tariffs in at most 15 years, including for corn products such as high fructose corn syrup. In addition, the other four countries will open duty-free tariff-rate quotas for U.S. exports in year one, which will grow over time. That is why the Corn Refiners Association, the National Corn Growers Association, National Grain Trade Council, North American Export Grain Association, U.S. Grains Council and National Grain and Feed Association support this agreement.

Rice: U.S. exports face duties ranging from 15 to 60%, and the WTO permits tariffs as high as 90%. Imports into the United States from the region are already allowed in duty-free into the

United States. The agreement phases out all tariffs in 18 - 20 years. In addition, each of the countries will open duty-free tariff-rate quotas for U.S. exports in year one of over 400,000 metric tons, which will grow over time, including with special allocations to milled rice, ensuring market access for this product for the first time. That is why the USA Rice Federation and U.S. Rice Producers Association support this agreement.

Soybeans and soybean meal: U.S. exports face duties ranging from zero to 20%, and the WTO permits duties as high as 90%. The agreement will provide immediate duty-free access for soybeans. Duties on soybean meal and flour will be eliminated immediately in most of the FTA countries. Additionally most countries will immediately eliminate duties on crude soybean oil, and the current duties on refined soybean oil phased out over 12 to 15 years. That is why the American Soybean Association, Institute of Shortening and Edible Oils and the National Oilseed Processors Association support this agreement.

Cotton: U.S. exports face duties ranging from zero to 1%, and the WTO permits duties of up to 60%. Imports into the United States from the region are already allowed in duty-free into the United States under our tariff-rate quota system. The agreement immediately eliminates tariffs on U.S. cotton exports to the region. U.S. out-of-quota duties will be phased out over 15 years. That is why the cotton industry supports this agreement including the National Cotton Council. It is also worth noting that the National Council of Textile Organizations, American Fiber Manufacturers Association, American Textile Machinery Association, Carpet and Rug Institute, and Association of the Nonwoven Fabrics Industry also support this agreement.

Peanuts: U.S. peanuts and peanut butter face duties up to 20% and the WTO permits tariffs as high as 60%. The agreement provides U.S. peanuts and peanut butter with preferential access as tariffs are immediately eliminated in some countries, while tariffs are reduced and eliminated over 5 to 15 years for others. That is why the American Peanut Product Manufacturers support this agreement.

Processed Products: U.S. exports of bakery products, soups, wine, pet food and similar products face duties as high as 40%. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement phases out all tariffs in at most 15 years, with tariffs on U.S. export priorities eliminated immediately or in short periods of time in many countries, including bottled wine, pet food, soups, breakfast cereals, cookies, and whisky. That is why the Grocery Manufactures of America, Wine Institute, Distilled Spirits Council of the United States, Food Marketing Institute, Food Products Association, Petfood Institute and American Frozen Food Institute support this agreement.

It is important to note that the agreement contains no new disciplines on domestic support, despite strong efforts by the Central American and Dominican Republic countries to do so. The United States continues to reserve commitments on domestic support to the WTO negotiations, where the other major subsidizers, in particular the EU and Japan, are at the negotiating table.

Sugar: Handled with Care

We are aware that some members of Congress have expressed concerns with U.S. sectors that are sensitive to import competition, such as sugar. If I had to describe in a phrase how we handled those issues in the agreement, it would be, "handled with care."

On sugar, it is important to remember that there will be *no change* in the above-quota U.S. duty on sugar. This was an important accomplishment that recognizes the sensitivity of this important sector of the U.S. farm economy. The Central America-Dominican Republic FTA will *not* have a destabilizing effect on the U.S. sugar program, because even with a modest increase under this agreement, U.S. imports will still fall comfortably below levels set for sugar imports in the current law affecting the domestic sugar program.

In other agreements, we have also been sensitive to this issue. In our FTA with Australia, sugar was excluded entirely. In our agreements with Chile and Morocco, we have provisions that effectively will result in no change in the levels of sugar imports from those nations.

For Central America and the Dominican Republic we agreed to a very small and very limited expansion of the quota for sugar imports from these countries.

The total increased quota amount is equivalent to only about one day's worth of U.S. sugar production. The increased amounts under this agreement are only a little over 100,000 metric tons. Even after 15 years, increased sugar imports from Central America and the Dominican Republic will amount to a little over 1% of U.S. consumption.

In addition, the Agreement includes a mechanism that allows the United States, at our option, to provide alternative compensation to exporters in place of imports of sugar.

To put sugar imports under the Central America-Dominican Republic FTA into perspective, the increased imports in the first year under this agreement amount to about *a teaspoon and half per week* per American. That compares with average consumption of 70-140 teaspoons of added sugar per week for most Americans. The amount of additional sugar allowed into the United States under this FTA is minuscule. Claims that the Central America-Dominican Republic FTA will harm the U.S. sugar industry are simply wrong.

A Unique Chance to Strengthen Democracy

Mr. Chairman, the last twenty years has been a sometimes difficult road to democracy in El Salvador, Guatemala, Nicaragua, and other countries in the region. But today we have neighbors in Central America and the Dominican Republic who want to trade goods, not guns, across their borders. They want to replace chaos with commerce, and to use this agreement as an important tool of reform that will help deepen and strengthen democracy.

Working closely with the Congress, we have negotiated a landmark free trade agreement that will open these large and growing markets to our goods and services. The Central America-Dominican Republic FTA will level the playing field, helping our farmers and workers sell to countries that already enjoy virtually unlimited access to the U.S. market and it handles sensitive commodities with great care.

We believe this agreement meets the objectives set by Congress in the Trade Act. It is strongly in the economic and national interests of the United States. We hope the Congress will agree that America should not turn its back on struggling democracies that want a closer economic relationship that will benefit workers in all our countries. The Central America-Dominican Republic FTA makes eminent sense for America, and for Central America and the Dominican Republic.

Thank you.

Statement of the American Farm Bureau Federation

TO THE
SENATE AGRICULTURE COMMITTEE
REGARDING
U.S.-DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE

Presented by:
Bob Stallman
President
American Farm Bureau Federation

June 6, 2005

As the national voice of agriculture, AFBF's mission is to work cooperatively with the member state Farm Bureaus to promote the image, political influence, quality of life and profitability of the nation's farm and ranch families.

FARM BUREAU represents more than 5,600,000 member families in 50 states and Puerto Rico with organizations in approximately 2,800 counties.

FARM BUREAU is an independent, non-governmental, voluntary organization of families united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity and social advancement and, thereby, to promote the national well-being.

FARM BUREAU is local, county, state, national and international in its scope and influence and works with both major political parties to achieve the policy objectives outlined by its members.

FARM BUREAU is people in action. Its activities are based on policies decided by voting delegates at the county, state and national levels. The American Farm Bureau Federation policies are decided each year by voting delegates at an annual meeting in January.

STATEMENT OF THE
AMERICAN FARM BUREAU FEDERATION
TO THE
SENATE AGRICULTURE COMMITTEE
REGARDING
U.S.-DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE

Presented by:
Bob Stallman
President
American Farm Bureau Federation

June 6, 2005

Good morning, I am Bob Stallman, President of the American Farm Bureau Federation and a rice farmer from Columbus, Texas.

As a general agriculture organization, American Farm Bureau Federation has studied the impact of this Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) on all sectors of U.S. agriculture, and we strongly support passage of the CAFTA-DR. We have provided as an attachment to this statement a copy of our full economic analysis that describes how the agreement will impact the livestock, crop and specialty crop sectors as well as its effects on the sugar industry. On balance, we believe that CAFTA-DR will overwhelmingly be an opportunity for U.S. agriculture.

U.S. agriculture currently faces a $700 million trade deficit with this region of the world. While the market holds potential for U.S. agricultural exports, our products currently face high tariffs. At the same time, agricultural products from the five Central American nations and the Dominican Republic receive duty-free access to the United States. Trade preferences provided under the Caribbean Basin Initiative (CBI) allow 99 percent of agricultural products from the Central American countries and the Dominican Republic to enter the United States duty free.

Unless this agreement is passed, U.S. agriculture will continue to face applied tariffs of between 15 and 43 percent. These tariffs put U.S. producers at a disadvantage in a competitive market. The CAFTA-DR, if enacted, will eliminate these barriers. This agreement provides balance by allowing U.S. agriculture the same duty-free access that CAFTA-DR nations already have to our markets. In fact, many of our competitors in the region, such as Chile, already receive preferential access because of their own trade agreements with the Central American countries. When enacted, this agreement would give U.S. producers access equal to or greater than that of our competitors. The American Farm Bureau Federation analysis shows that U.S. agriculture would see increased agricultural exports in the amount of $1.5 billion by the end of full implementation.

Table 2
Impact of CAFTA-DR on Member Countries' Imports of U.S. Agricultural Products
In $1,000

Selected Commodity	1999-2001 Imports from United States	2024 Imports from US **Without** CAFTA-DR	2024 Imports from US **With** CAFTA-DR	CAFTA-DR Difference
Beef	10,050.4	27,258.2	74,332.7	47,074.5
Butter	709.6	1,793.7	3,091.5	1,297.8
Cheese	5,514.1	8,024.4	25,022.7	16,998.4
Corn	230,721.4	447,558.4	505,932.5	58,374.1
Cotton	50,558.4	87,729.8	115,331.9	27,602.1
Pork	11,008.1	95,438.1	203,388.9	107,950.8
Poultry	17,634.5	114,743.9	292,786.7	178,042.9
Rice	96,999.0	220,910.4	312,421.1	91,510.7
Soybean Meal	140,421.3	292,351.5	348,923.6	56,572.0
Soybean Oil	28,895.3	59,132.4	87,521.9	28,389.6
Wheat	121,821.0	218,977.3	281,164.2	62,186.9
Subtotal	714,333.2	1,573,918.0	2,249,917.8	675,999.8
Other Selected Commodities				
Fruit	88,768.7	196,738.8	278,281.1	81,542.3
Sugar & Tropical Product	111,754.7	247,682.9	350,340.0	102,657.1
Tallow	62,489.3	138,495.7	195,898.0	57,402.3
Vegetables	69,560.7	154,168.0	218,065.9	63,898.0
All Other Commodities	587,601.5	1,302,306.9	1,842,073.7	539,766.8
Total	1,634,508.1	3,613,310.3	5,134,576.5	1,521,266.2

Note: Assumes constant 1999-2001 prices; hence, value estimates reflect changes in quantities only.

Looking at major commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on:

- Central American growth in imports of **grains and oilseed products**, which relates to both growing food demand for wheat, rice and vegetable oils and to growing livestock demand for feed grains and protein meals. With no wheat and limited rice and oilseed production capacity, the region's dependence on imports is likely to grow steadily. The free trade agreement puts the United States in a strong "preferred supplier" position to maintain/expand its high market share for items such as rice and soybean meal and to build on its lower market share for items such as wheat;

- Expanding regional import demand for **livestock products** related to growth in population and per capita incomes, combined with limited domestic production potential. Rapid growth in tourism should also help to stimulate demand for meats in the hotel and restaurant trade, which could be significant on its own. Growth in domestic demand for livestock products is likely to outpace production despite significantly larger imports of feed grains and protein meals. The CAFTA-DR would allow the United States to use its

cost advantages and its wide variety of beef, pork and poultry products to fill a growing share of these markets;

- Gains in **cotton** import demand related to both increased domestic demand for textiles and apparel and import demand for textiles from the United States. The six countries' textile and apparel exports to the United States are duty-free and quota-free as of the start of 2004, so long as the products meet CAFTA-DR rules of origin. Under the agreement, these six countries will be required to make significant investments in manufacturing capacity over the first several years of the agreement to take full advantage of this demand, which may support the domestic cotton milling industry until such investments could be made. Should this added capacity come into being, and with domestic cotton production at virtually zero, all growth in the countries' demand for cotton would have to be met through imports. The CAFTA-DR would put the United States in a position to under-price competitors and boost market share; and

- The United States exports a diverse basket of **other farm products** to the six Central American countries. The commodities noted above in the table account for approximately half of the United States' total exports. Other commodities or commodity groupings of importance include fruits, vegetables, tallow, sugar, tropical products and other processed products. Data on production and trade in these products for the six countries is generally too limited to support detailed analysis. Assuming that the same pattern of growth likely for grains, fiber, oilseeds and livestock products holds for these other commodities, CAFTA-DR would allow the United States to capture a larger share of these expanding markets as well. The added exports in these categories resulting from the agreement would likely exceed another $845 million by 2024. This is a conservative estimate of CAFTA-DR's impact because the six Central American countries generally have higher, escalating tariffs on the semi-processed and processed products that make up much of this other products category.

While there are numerous overall benefits for U.S. agriculture in the agreement, the U.S. sugar sector may see a less than positive impact. As a part of the agreement, the United States will allow the CAFTA-DR countries to import an additional 164,000 short tons of sugar above their current sugar quota. This additional sugar will have a minimal impact on the industry as demonstrated in our economic analysis.

We expect the U.S. sugar industry to experience about an $80.5 million impact to an approximate $2.1 billion domestic industry. This additional sugar translates into about 1.5 percent of domestic sugar production. In light of the possible, yet minimal, negative effects on the sugar industry, our trade negotiators negotiated certain protects for the U.S. sugar industry.

First, the tariff on U.S. sugar is never decreased or eliminated. Any sugar that the CAFTA-DR countries would export to the United States above their new sugar quotas would still be subject to a high tariff. This tariff would be set at an amount that would discourage these countries from shipping any additional sugar over their quota to the United States. Second, the countries involved agreed to a compensation provision that would allow the United States to shut off any additional imports of sugar from this region if those imports are significantly harming our U.S. sugar industry. If activated by the United States, the U.S. government would provide compensation for the lost sugar sales experienced by the CAFTA-DR countries. It is important to

note that if sugar had been excluded from the agreement, it could have led to other U.S. commodities facing the same type of exclusions by CAFTA-DR country negotiators. The CAFTA-DR countries had a list of roughly a dozen commodities they wished to exclude from the agreement. These products included U.S. beef, pork, poultry and rice.

U.S. agriculture will benefit a great deal from this agreement. The gains to U.S. agriculture certainly outweigh the losses. If this agreement fails, it will be to the disadvantage of America's farmers and ranchers. Without CAFTA-DR, these six countries retain existing duty-free access to the United States while U.S. agriculture will continue to face the same high tariffs currently applied.

In looking at the variety of U.S. commodities that would benefit because of increased trade due to a Central America-Dominican Republic Free Trade Agreement, one can only conclude that a "Yes" vote on CAFTA-DR is a vote for agriculture and agricultural exports.

Implications of a Dominican Republic-Central American Free Trade Agreement on U.S. Agriculture

American Farm Bureau Federation
Economic Analysis and Trade Teams

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AFBF's DR-CAFTA Analysis
Executive Summary

The proposed Dominican Republic - Central American Free Trade Agreement (DR-CAFTA) is indicative of the trade-offs that United States agriculture faces in negotiating free trade agreements and that organizations such as the AFBF face in deciding whether to support ratification of particular treaties.

United States agriculture has much to gain from the DR-CAFTA. The Agreement involves six middle and low-income countries with limited production capacity and expanding demand for a variety of bulk, semi-processed, and consumer ready farm products. American agriculture is strategically positioned to translate an agreement with the six countries into export gains across a variety of products estimated at $1.5 billion in the year 2024, when the agreement is fully implemented. To a large extent, American agriculture has already "paid" for their side of this agreement. The Caribbean Basin Initiative (CBI) eliminated or significantly reduced most of the tariffs for agricultural products coming into the United States from these and other Caribbean countries. Thus, most commodities have little to lose in this agreement. The other side of the agreement then has the DR-CAFTA countries removing their trade barriers, allowing what will eventually be free entry of United States products – entry that will not be afforded to other countries, like Brazil or the members of the European Union. In this kind of one-way deal, it is easy to figure out the direction of the agreement's affects.

There are, however, some costs. The United States' negotiating partners are looking for increased access to our sugar market to help balance DR-CAFTA changes in imports and exports. The DR-CAFTA draft allows the six countries to ultimately export 164,600 tons per year more sugar to the United States. However, this is subject to those countries meeting a net-exporter provision, which we believe to be unlikely in some countries, especially the Dominican Republic. Leaving the current sugar program in place will likely require an equal reduction in domestic sugar production. Sugar is the only commodity likely to show significant DR-CAFTA-related costs. Hence, by the end of the 20-year implementation period and assuming all six countries meet the net-exporter provision, added sugar imports would reduce DR-CAFTA benefits by $80.5 million per year and increased imports of other products could reach $87 million, resulting in a net gain in United States agricultural exports of $1.35 billion.

One line of the USTR's Trade Fact Sheet describing the Agreement is a good comment on which to close, "U.S. farmers and ranchers will have access to the Central American countries that is generally better than suppliers in Canada, Europe and South America." Given this preferred access, AFBF economic analysis suggests that the DR-CAFTA will be of overall, long-term benefit to American agriculture and to our membership.

AFBF Economic Analysis

Introduction

The United States Trade Representative (USTR) is completing language detailing a trade agreement between the United States and five Central American countries, including Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, as well as the Dominican Republic.

These six countries represent a broad range of economic and political maturity. Several were either directly or indirectly involved in bloody insurgencies in the past, which severely disrupted their economies. While these conflicts essentially ended by the mid-1990's, several of the countries faced further challenges with Hurricane Mitch in 1998. Nicaragua was hit particularly hard. With per capita income in 2002 of only $467, Nicaragua is the second poorest country in the Hemisphere. At the other end of the spectrum—and right next door—is Costa Rica, one of the major success stories in the region. Costa Rica boasts Internet equipped McDonalds, a surging tourism industry, and exports of electronic components and medical equipment. Costa Rica's per capita income is $3,850, almost 10 times that of neighboring Nicaragua.

Population for the six DR-CAFTA countries currently totals 44 million and is expected to grow at about 2% to 3% per year. While the recent global economic slowdown certainly affected the region, there are several signs of improving economic conditions. Tourism investment in the form of new resort and hotel construction is common in many of the countries. Foreign direct investment, while again dipping with the recent global economic slowdown, was up sharply at the end of the decade. Short-term projections for the individual countries vary, but the region as a whole is expected to show economic growth in the 4% range, without a trade agreement. Growth with an agreement is expected to be closer to 4.5%, with much of the difference due to the transfer of resources from agriculture to higher-return activities such as light manufacturing.

Methodology

This analysis of DR-CAFTA's impact on American agriculture is based on two different trade scenarios—the first assumes no agreement is reached and the second assumes

that the draft agreement is put in place. The first scenario, assuming no agreement, starts by anticipating what demand, supply, exports, and imports would be in the six countries for the major grain, oilseed, livestock, and fiber products when the agreement is fully implemented in the year 2024. For supply, this entailed looking at the countries' historical trends; while for demand, it entailed projecting economic growth and population gains. Exports were projected based on trends as well. Imports were then taken as a residual.

With an agreement in place, it was assumed that the main difference between the two scenarios would be due to commodity price changes resulting from tariff elimination and the higher general economic growth and per capita incomes likely with an agreement. Supply, demand, price, and income elasticities developed by the Food and Agriculture Organization of the United Nations were used to adjust production and consumption of the various commodities. Imports were then recalculated.

Once the six countries' import needs were re-estimated, the market share likely to accrue to the United States under the two scenarios was calculated using historical data. For the non-agreement base case, the 1999-2001 base share was used. For the DR-CAFTA scenario, the highest United States market share for the 1990's was assumed. These share estimates were then applied to the estimates of the countries' overall import demand to generate United States export estimates. This assumption of market share accruing to the United States is important. Given that the United States will have duty-free access for most agricultural products, goods from the United States will be at a competitive advantage over other countries and regions. Consequently, it is likely that the United States will gain market share. Rather than assume that the United States would capture the entire market, the assumption of "the highest historical level" seemed to be a reasonable assumption.

Analysis of the sugar market was done separately and drew directly on the specific United States import levels provided in the agreement. Estimating the cost of the added United States sugar imports in question was fairly straightforward and the results would essentially be subtracted directly from domestic sugar producers' receipts and income.

Specific trade data for the remaining commodities (such as horticultural products, tallow, and high-value consumer-ready products) between the member countries and the United States, other data on consumption, production, as well as trade with other countries are much more limited. Consequently, the same kind of detailed analysis consisting of

production and consumption adjustments due to lower tariff rates was not possible. Growth in United States exports of these items with an agreement then was assumed to be at the same average pace estimated for the major grain, oilseed, livestock, and fiber commodities. Growth in United States imports of items other than sugar were based on similar analysis.

Like any good economic report, it is necessary to list some caveats. First, due to data limitations, the study looked at fairly broad commodity aggregates. Beef is treated as a single commodity, even though it is certainly possible that some of the countries could boost their exports of low quality beef to the United States while at the same time significantly increasing their imports of high quality beef. Corn is corn, even though the countries' subsistence corn production for food consumption (generally white corn) is different than the feed corn (generally yellow corn) or fresh, frozen, and canned corn likely to move out of the United States. Finally, the data used for the analysis is from the United States Department of Agriculture's (USDA) PS&D View. While USDA works very hard to ensure the quality and internal consistency of the data, they are only as good as the country attaché is able to obtain.

Differences in Our Methodology

There are currently several DR-CAFTA analyses available, including this analysis as well as that done by the International Trade Commission (ITC). Each of these analyses have differing impact estimates for the United States agricultural sector. However, each of these analyses used different methodologies in coming to these impact estimates.

There are several factors that account for the difference in the analyses' impact estimates for the United States agriculture sector. The three main differences are outlined below.

- Different estimates of the size of the DR-CAFTA markets. This analysis assumes that a free trade agreement with the United States will boost incomes in the other six countries, while other analyses estimate slower income growth. This analysis assumes a growth rate of 2.95% for the six countries with an agreement in place, rather than the 2.45% forecasted from the World Bank. This is based on improved political stability and other, more conventional macroeconomic factors. Higher

income means that there will be more demand for food, beverage, and other agricultural products in the Central American market.

- Different estimates of the United States' share of the DR-CAFTA markets. This analysis assumes an increase in market share, while other analyses estimate a smaller market share increase. In the 1980's the United States had a large share of the Central American markets, but that market share has been slipping over the last decade or so. Preferential access to those markets through a free trade agreement should allow the United States to recapture some of this market share, allowing us to supply an average of 60% of the agricultural products, rather than the current 40% or so. This is discussed in further detail later in this report.
- Differences in the model used. This analysis relied on a more detailed model which examined approximately fifteen agricultural commodities specifically. The model was able to pick up on dynamic growth in the Central American markets. Other models do not initiate trade for a commodity if such trade did not exist prior to an agreement; they can only project more trade for commodities already being traded. Hence, other analyses assume little potential for the United States to expand exports of selected items like selected meats and specialty products.

However, there is one point to be garnered from all of these studies: the DR-CAFTA is a net gainer for the United States agricultural sector.

Agriculture Shares in General Gains

As mentioned above, while differing on some of the specifics, most analyses of the DR-CAFTA conclude that the free trade arrangement would benefit all of the countries involved. While the DR-CAFTA-related gains in United States economic activity are likely to be proportionally much smaller than in the six countries, they are still likely to outweigh agreement costs.

Focusing more specifically on a farm-sector scorecard indicates that United States agriculture would be a net gainer with the DR-CAFTA in place. The DR-CAFTA would essentially complete the one-sided trade liberalization process started with the Caribbean Basin Initiative (CBI) and assure the United States the same open access to the six countries'

markets that the United States has extended to each of them for more than decade. In this setting, DR-CAFTA-related expansion in United States farm exports to the six Central American signatories is likely to significantly outpace expansion in United States imports of farm products from those six countries.

Looking at the major commodities, the United States faces a significant increase in sugar imports form the DR-CAFTA countries due to quota concessions. Table 1 illustrates that by the 2024 end of the implementation period, a $80.5 million increase in sugar imports would be possible. As already noted, United States imports of other products could increase by $87 million.

Table 1
Impact of DR-CAFTA on United States Sugar Imports

	Without an Agreement			With an Agreement	
	2004	2024		2004	2024
	In 1,000 MT				
6 Countries' Combined Export Quotas[1]	311.7	311.7		311.7	311.7
Increase in Exports Related to DR-CAFTA	-	-		97.0	160.6
Combined Export Quotas & DR-CAFTA Increase	311.7	311.7		408.7	472.3
	In $1,000,000[2]				
6 Countries' Combined Export Quotas[1]	157.1	157.1		157.1	157.1
Increase in Exports Related to DR-CAFTA	0.0	0.0		49.0	80.5[3]
Combined Export Quotas & DR-CAFTA Increase	157.1	157.1	0.0	206.1	237.6

1 Assumes import quotas for other countries and allocation to the 6 DR-CAFTA member countries do not change from 2004 levels
2 Priced at 1999-2001 average of 22.9¢ per pound or $505 per ton
3 Assumes the DR meets the net exporter provision in 2024

However, the DR-CAFTA will provide added exports of grains, oilseeds, fiber, and livestock products. So, the increase in sugar imports would be more than offset by export gains in excess of $676 million in items such as wheat, rice, corn, cotton, soybean products, and livestock products. The increased United States agricultural exports likely with a DR-CAFTA in place could exceed $1.52 billion if provision is also made for growth at the same

pace for the other farm products (such as fruits and vegetables, tallow, sugar and tropical products, and other processed products) that the United States ships to the six countries. Table 2 shows the value of these increased exports.

Table 2
Impact of DR-CAFTA on Member Countries' Imports of U.S. Agricultural Products
In $1,000

Selected Commodity	1999-2001 Imports from United States	2024 Imports from US **Without** DR-CAFTA	2024 Imports from US **With** DR-CAFTA	DR-CAFTA Difference
Beef	10,050.4	27,258.2	74,332.7	47,074.5
Butter	709.6	1,793.7	3,091.5	1,297.8
Cheese	5,514.1	8,024.4	25,022.7	16,998.4
Corn	230,721.4	447,558.4	505,932.5	58,374.1
Cotton	50,558.4	87,729.8	115,331.9	27,602.1
Pork	11,008.1	95,438.1	203,388.9	107,950.8
Poultry	17,634.5	114,743.9	292,786.7	178,042.9
Rice	96,999.0	220,910.4	312,421.1	91,510.7
Soybean Meal	140,421.3	292,351.5	348,923.6	56,572.0
Soybean Oil	28,895.3	59,132.4	87,521.9	28,389.6
Wheat	121,821.0	218,977.3	281,164.2	62,186.9
Subtotal	714,333.2	1,573,918.0	2,249,917.8	675,999.8
Other Selected Commodities				
Fruit	88,768.7	196,738.8	278,281.1	81,542.3
Sugar & Tropical Product	111,754.7	247,682.9	350,340.0	102,657.1
Tallow	62,489.3	138,495.7	195,898.0	57,402.3
Vegetables	69,560.7	154,168.0	218,065.9	63,898.0
All Other Commodities	587,601.5	1,302,306.9	1,842,073.7	539,766.8
Total	1,634,508.1	3,613,310.3	5,134,576.5	1,521,266.2

Note: Assumes constant 1999-2001 prices; hence, value estimates reflect changes in quantities only.

This suggests a surplus of DR-CAFTA-related gains in exports over imports of $1.35 billion. Even without the commodities with limited data, there still is a positive balance of more than $500 million.

Major Agreement Provisions

Many of the terms of the DR-CAFTA draft were worked out at the very end of the negotiating window and reflect the countries' concerns with easing any transition and

protecting vulnerable sectors as with maximizing export potential. From a United States perspective, key DR-CAFTA provisions related to agriculture include:

- **Agreement provision for the eventual elimination of all tariffs on agricultural products exported by the United States to the six Central American countries.** This levels the playing field by ensuring the same open market access for United States products moving to the six countries as products moving from the member countries currently enjoy in the United States. Tariffs on United States farm products are phased out completely over 20 years. The agreement not only eliminates the relatively low tariffs currently applied to agricultural imports from the United States, but would also preclude member countries from the possibility of shifting to the much higher bound tariffs for farm products, as shown in Table 3.

Table 3
Average Tariff Rates for Selected Commodities
Weighted Average of 6 DR-CAFTA Countries
Values in Percentage

Commodity	Applied[1]	Bound[2]
All Fruits	15.0	45.0
All Vegetables	15.0	45.0
Beef	16.2	101.0
Butter	9.7	88.1
Cheese	25.2	61.7
Corn	11.7	106.4
Cotton	15.0	40.5
Pork	21.8	54.5
Poultry	20.2	176.7
Rice	39.7	67.2
Soybean Meal	6.6	36.0
Soybean Oil	8.9	78.5
Wheat	0.7	107.7

[1] *Applied tariff rates are the charges actually levied on imports*
[2] *Bound tariff rates are the maximum charges that can be levied on imports, given a country's commitments under successive trade liberalization agreements*

This elimination of both applied tariffs, averaging 16%, and bound tariffs, averaging 78%, ensures the United States open access regardless of market developments that might lead the six countries to revert to their higher bound rates on record with the World Trade Organization.

Equally important, the agreement provides preferential United States access to the six countries' markets. This is critical, given intensifying competition from alternative suppliers – including neighboring Brazil and Argentina, as well as suppliers such as the European Union – for what most analysts agree will be the expanding Central American market for bulk, intermediate, and consumer-ready products. By 2024, this open, preferential access is likely to boost United States farm exports to the five countries $1.5 billion above the $3.6 billion mark likely without an agreement. This growth in trade comes both from stronger economic performance by the member countries and from improved market share by the United States. In essence, the preferential treatment allows the United States to take markets away from other competitors. These increases in market share are shown in Table 4.

Table 4
U.S. Share of DR-CAFTA Member Countries' Markets for Selected Commodities
Values in Percentage

Commodity	1999 - 2001 Base Period	2024 Without an Agreement	2024 With an Agreement
Beef	15	15	22.5
Butter	5	5	7.5
Cheese	11	11	15
Corn	80	80	87.5
Cotton	62	62	75
Pork	19	19	27.5
Poultry	87	87	90
Rice	98	98	100
Soybean Meal	87	87	93.5
Soybean Oil	74	74	87
Wheat	54	54	65

- **Agreement provision expanding Central American sugar quotas.** The six countries' combined sugar quotas are increased immediately by 97,000 tons and 2% per year thereafter to 160,600 tons by the year 2024. (This is assuming that the Dominican Republic is able to meet their net exporter provision by 2024. If not, it would be only 145,700 tons supplied by the other five countries by the year 2024.)

This is in addition to their existing quota of 311,700 tons and amounts to an increase in exports to the United States of $49 million in the first year of the agreement. This arrangement allows the six countries to capture the windfall involved in selling more sugar on the higher-priced United States market and was critical in winning their support for an agreement. Assuming United States sugar import quotas for other countries remain unchanged, United States production would have to drop an equivalent amount (about 1.5%) to keep market prices above support rates and keep government costs at zero per the 1996 and 2002 farm legislation.

The administration also reserved the right to compensate the six DR-CAFTA countries for their increased sugar quotas in lieu of actually importing the sugar, if such action was needed to help with sugar stock and program management in the United States.

- **Agreement provisions on timing.** Several items of interest to the United States are front-loaded, as is access to the United States sugar market for the six DR-CAFTA countries. While more than half of the products shipped from the United States to the member countries will be tariff-free immediately, much of the gains accruing to American agriculture will come from long-term import demand growth in the member countries, led by population and income growth and the market share expansion discussed earlier. Thus, while the costs to the sugar sector will be fairly immediate, the gains will start slowly and then increase over time. This exact time path will be difficult to project, but the end point of significant gain to the United States agriculture seems fairly assured. Assuming straight-line growth, the deal becomes positive for American agriculture within two to three years of signing the agreement.
- **Agreement provision for establishing a stronger framework for resolving trade problems.** These include issues such as differences in sanitary and phytosanitary regulations and food inspection regimes. The six countries will accept products that have passed United States inspection without re-inspection and will work with the United States to harmonize standards.

Looking at the major commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on:

- Central American growth in imports of **grains and oilseed products** related both to growing food demand for wheat, rice, and vegetable oils and to growing livestock demand for feed grains and protein meals. With no wheat and limited rice and oilseed production capacity, the region's dependence on imports is likely to grow steadily. The free trade agreement puts the United States in a strong "preferred supplier" position to maintain/expand its high market share for items such as rice and soybean meal and to build on its lower market share for items such as wheat;
- Expanding regional import demand for **livestock products** related to growth in population and per capita incomes, combined with limited domestic production potential. Rapid growth in tourism should also help to stimulate demand for meats in the hotel and restaurant trade, which could be significant on its own. Growth in domestic demand for livestock products is likely to outpace production despite significantly larger imports of feed grains and protein meals. The DR-CAFTA would allow the United States to use its cost advantages and its wide variety of beef, pork, and poultry products to fill a growing share of these markets;
- Gains in **cotton** import demand related to both increased domestic demand for textiles and apparel and import demand for textiles from the United States. The six countries' textile and apparel exports to the United States will be duty-free and quota-free as of the start of 2004, so long as the products meet DR-CAFTA rules of origin. The six countries will have to make significant investment in manufacturing capacity over the first several years of an agreement in order to take full advantage of this demand, which may support the domestic cotton milling industry until such investments could be made. Should this added capacity come into being, and with domestic cotton production at virtually zero, all growth in the countries' demand for cotton would have to be met through imports. The DR-CAFTA would put the United States in a position to under price competitors and boost market share; and
- Gains in **other products**. The United States exports a diverse basket of farm products to the six Central American countries. The commodities noted above account for approximately half of the United States total exports. Other commodities

or commodity groupings of importance include fruits, vegetables, tallow, sugar and tropical products, and other processed products. Data on production and trade in these products for the six countries is generally too limited to support detailed analysis. Assuming that the same pattern of growth likely for grains, fiber, oilseeds, and livestock products holds for these other commodities, DR-CAFTA would allow the United States to capture a larger share of these expanding markets as well. The added exports in these categories likely with an agreement would exceed another $845 million by 2024. This is a conservative estimate of DR-CAFTA's impact to the extent that the Central American countries generally have higher, escalating tariffs on the semi-processed and processed products that make up much of this other products category.

However, in addition to the additional sugar access, the agreement would lead to small United States import increases in semi-processed and processed agricultural products, mainly canned fruits and vegetables. Given the generally low or zero tariffs on most products from the six DR-CAFTA countries already in place, this increase would be less than $87 million by the end of the implementation period. However, this increase in United States imports, for the most part, would not compete directly with American products. This would be due to the size of the market already in place and the potential for DR-CAFTA products to compete with other suppliers.

Conclusion: Positive Impact on the Farm Sector

The DR-CAFTA, as proposed, involves a mix of costs and benefits for the United States farm sector. The benefits involve expanded exports of a wide range of farm products, some of which come later in the implementation period as Central American import demand for farm products expands. The costs center on the increased imports of sugar slated to begin in the first year of the implementation period, as well as minor imports of semi-processed and processed products. By 2024, when the agreement would be fully operational, increased sugar imports are likely to total $80.5 million while increased exports of the major grain, oilseed, fiber, and livestock products are likely to exceed $676 million. The total increase in United States farm exports associated with the DR-CAFTA could

exceed $1.52 billion if provisions are made for other commodities shipped to the six countries including items such as fruits, vegetables, sugar and tropical products, tallow, and other high-valued processed products.

Even if the suppliers that the United States displaces in the Central American market – primarily Argentina, Brazil, Canada, and the European Union – market their agricultural exports more aggressively elsewhere and displace as much as a quarter of the United States' DR-CAFTA gains, the balance for agriculture is still positive. United States export gains would still exceed increased imports by $1.1 billion.

In closing, it is important to understand that the agreement puts the United States in the role of a preferred supplier of agricultural products to these five countries. While Brazil, Argentina, Canada, and Europe will continue to face transportation and tariff challenges, the United States will be able to land product duty free. The six countries also agree to deal with sanitary and phytosanitary and other non-tariff barriers to United States exports. The agreement does lower sugar producers' revenues. But, for agriculture as a whole, the economics suggest it will have a positive effect.

Sugar – A Special Case

The one commodity that stands out like a sore thumb in the DR-CAFTA negotiations is sugar. Much has been made in the press of the significant gap that exists between the domestic and the "world" price of sugar. Bilateral trade agreements at set or negotiated prices tend to dominate much of actual world sugar trade. A classic example is Cuba's current policy of selling their domestically produced sugar under bilateral trade agreements and then purchase sugar on spot markets for domestic consumption. The Philippines have engaged in similar practices in the past in order to land product into the Unites States. This is arbitrage at its finest.

The United States' sugar program, as its proponents claim, is different than other program commodities. First, the popular press is absolutely wrong when it talks about government subsidies paid to the sugar sector. There are no subsidies paid to United States sugar producers. If anything, the producers, through their member-owned cooperatives and other processors, pay the cost of keeping product off the market in order to help the program operate at no direct cost to the United States taxpayers. The Federal Agriculture Improvement and Reform Act of 1996 (Sec 156(g)(1)) states that "to the maximum practicable, the Secretary shall operate the program established under this section at no cost to the Federal Government by avoiding forfeiture of sugar to the Commodity Credit Corporation." The 2002 Farm Bill went a little further, saying that "…the Secretary shall establish for that crop year appropriate allotments…at a level the Secretary estimates will result in no forfeitures of sugar to the Commodity Credit Corporation…" The 2002 Bill also allows the Secretary to adjust this allotment quantity, both between and within years, again to provide as many levers as possible to preclude forfeiture.

The basic structure of the program is fairly straightforward. Like other programs however, things can appear very complicated when one gets into the details.

The program starts with the Secretary of Agriculture establishing the amount of sugar the United States public will consume in the coming year at a price level that will preclude sugar being turned over to the United States government. A "reasonable" amount of sugar is added to this amount to maintain end of the year stocks. From this, the Secretary subtracts the amount of sugar to be imported, a fairly well known number given the tariff protection scheme operated by the United States, as well as the quantity of stocks coming in

to the year. The remainder is then allocated to sugar processors for further allocation to their producers.

The complications of this program come in the allocation of these production amounts to the various sugar sources and processors. For example, the law deals with "in-process" sugars, the reporting duties of processors and importers, as well as nearly fifteen pages of law dealing with the allocation of these "flexible marketing allotments."

While all of this detail is important, it does not take away from the critical point that an expansion of the import quotas must be offset by a near pound-for-pound reduction in the amount of sugar allowed to be produced here in the United States. This reduction in production leads to similar declines in producer revenues, as well as a cutback in the capacity utilization of sugar processing plants.

And this is the fundamental challenge to the sugar sector in trade negotiations in general, and in particular, bilateral trade agreements.

DR-CAFTA is a case in point. The agreement allows the six member countries to boost their sales to the United States market by 107,000 tons. Put in context, domestic production of sugar for the 2003/2004 fiscal year was 7.8 million tons. Consequently, this agreement in isolation will not significantly affect the industry. The rise in access will be equivalent to $80.5 million per year, when fully implemented. This compares to total cash receipts for sugar producers in 2002 of $2.1 billion.

But, eventually the industry and the government could reach a "cliff." The law governing the sugar market, again, directs the Secretary of Agriculture to operate the program "to the maximum extent practicable" at no net cost to the taxpayer. The law also provides that these flexible marketing allotments are to be removed, should imports exceed 1.532 million tons and "the imports would lead to a reduction of the overall allotment quantity." The exact definition of this "reduction of overall allotment quantity" has kept lawyers occupied at the USDA. Reduction from "what" has been the issue. Again, the law provides for adjustments across and within years, anyway. Tying a reduction directly back to increased imports, as opposed to declining domestic demand, is difficult.

At the very least, however, allowing imports above the 1.532 million ton level will make program operation much more difficult to predict. It may also be costly. In the past, the Secretary has utilized PIK (Payment in Kind) program to cut back production. Other

countries have been paid not to ship their sugar to the United States. (This is a specific provision provided under the DR-CAFTA.) Both options, as well as others not considered in the past, may also be needed. The bottom line is that sitting on one of the triggers due to trade agreements will either add uncertainty to sugar program operations or will simply continue to cut back on domestic sugar production.

Continuing to expand quotas under other bilateral or regional trade agreements, while failing to deal with other country's programs, such as subsidized exports from the European Union or the entire sugar/ethanol system in Brazil, will continue to force the United States sugar industry into a difficult position.

United States Trade Representative
Fact Sheet

Free Trade with Central America
http://www.ustr.gov/regions/whemisphere/camerica/2003-01-08-cafta-facts.PDF

Trade Capacity Building in Central America
http://www.ustr.gov/regions/whemisphere/camerica/2003-01-08-cafta-tcbfacts.PDF

Summary of Central American Free Trade Agreement
http://www.ustr.gov/new/fta/Cafta/2003-12-17-factsheet.pdf

Sugar: Putting CAFTA into Perspective
http://www.ustr.gov/new/fta/Cafta/2004-01-26-sugar.pdf

Fact Sheet on Agriculture
http://www.ustr.gov/new/fta/Cafta/2004-04-09-agriculture-overview.pdf

Fact Sheet on Specific Agricultural Products
http://www.ustr.gov/new/fta/Cafta/2004-04-09-agriculture-specific.pdf

Fact Sheet on Ethanol
http://www.ustr.gov/new/fta/Cafta/2004-04-09-agriculture-ethanol.pdf

Explanation of Food and Agriculture Organization's Food Balance Sheets

The United Nation's Food and Agriculture Organization's Food Balance Sheets provide one with a good, quick overview of how people eat in a given country. The data are based not only on surveys, but also those commodities produced, exported, and imported in the country.

Take Costa Rica as an example. The first set of numbers indicates the total caloric intake for the average Costa Rican consumer and the make-up of those calories. In Costa Rica, on average between 1999 and 2001, the average individual consumed 2,757.6 calories, including 70.3 grams of protein and 74.1 grams of fat. Vegetable products (or Non-Animal products) made up the bulk of those calories at 2,218.5 calories. Animal products contributed the other 539.1 calories each day.

Within the commodity block, we start with Cereals. The first column indicates domestic production, imports, and exports, which gives a total supply number. The Domestic Utilization column indicates what is fed to livestock, what goes on to processing, and from there, what is used for food or human consumption. The next block converts that into a per capita consumption figure in kilograms per year, and the daily caloric equivalent of that number. This is repeated for the breakdown of cereals, as well as each of the other product groups and their respective commodities.

For soybeans, for example, total domestic supply comes to 221.1 thousand metric tons. Of that, 214.3 thousand metric tons were processed, but 6.8 thousand metric tons, or 1.7 kilograms per capita per day make it into the food system.

Meat production and consumption show up on the third page. Notice that in Costa Rica, beef and poultry products dominate in consumption, while pigmeat is a distant third. Notice as well that Costa Rican dairy consumption is fairly high at 165.3 kilograms per capita per year. In other words, dairy products account for half of their animal caloric intake each year.

In short, these tables – while tedious – do provide an individual with a very quick read on how consumers behave in a particular country, what they produce in their country, and how they've been trading with other countries.

Food Balance Sheet
Costa Rica
Population - 4,023,000
1999 - 2001 Average
All Values in 1,000 Mt (Metric Ton)

	Domestic Supply					Domestic Utilization						Per Caput Supply			
Product	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Grand Total													2757.6	70.3	74.1
Vegetal Products													2218.5	35.5	40.5
Animal Products													539.1	34.8	33.6
Miscellaneous													3.8	0.2	0.0
Cereals (Excluding Beer)	217.6	798.9	20.1	66.6	970.1	445.2	3.2	9.6	39.6	8.2	464.4	115.4	989.6	22.4	2.6
Wheat		237.5	0.0	41.4	196.1				7.9	0.0	188.2	46.8	357.4	9.4	1.1
Rice (Milled Equivalent)	197.8	50.6	22.5	9.9	261.0		3.0		7.4	0.1	250.5	62.3	581.9	11.5	1.0
Barley		21.8	-2.4	0.0	19.4	0.0		9.6			9.8	2.4	17.1	0.6	0.1
Maize	19.8	480.8	0.0	12.4	488.2	444.0	0.2		24.3	8.1	11.6	2.9	27.1	0.7	0.3
Rye		0.0			0.0						0.0	0.0	0.0		
Oats		6.9		2.6	4.3	0.2					4.1	1.0	5.9	0.2	0.1
Millet		0.4			0.4	0.4									
Sorghum	0.0	0.0		0.0	0.0	0.0	0.0		0.0						
Cereals, Other		1.0		0.2	0.8	0.6					0.1	0.0	0.2	0.0	0.0
Starchy Roots	301.8	20.8		197.5	125.1	3.4	3.4		8.5	5.8	107.9	26.8	56.4	1.2	0.1
Potatoes	81.3	20.6		1.0	100.9	3.4	3.4		8.5	5.8	79.8	19.9	37.6	1.0	0.1
Cassava	161.3	0.0		156.9	4.5						4.5	1.1	2.8	0.0	0.0
Sweet Potatoes				0.1	-0.1										
Yams	21.8	0.0			21.8						21.8	5.4	15.0	0.2	0.0
Roots, Other	37.3	0.1		39.5	-2.0						1.7	0.4	1.1	0.0	0.0
Sugarcrops	3610.0	0.0		0.0	3610.0	6.5	30.0	3511.0	62.5						
Sugar Cane	3610.0	0.0		0.0	3610.0	6.5	30.0	3511.0	62.5						
Sugar Beet				0.0	0.0										

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Sugar & Sweeteners	380.4	15.2	0.6	152.9	243.3			0.0		20.9	222.3	55.3	531.0	0.0	0.0
Sugar, Non-Centrifugal	11.5				11.5			0.0			11.5	2.9	27.9	0.0	0.0
Sugar (Raw Equivalent)	367.7	7.8	0.0	150.0	225.5					20.9	204.5	50.8	488.1		
Sweeteners, Other		7.0	0.6	2.9	4.7						4.7	1.2	11.5		
Honey	1.3	0.4	0.0	0.0	1.7						1.7	0.4	3.5	0.0	
Pulses	16.5	27.9	-5.3	0.5	38.6	0.0	1.3		1.7		35.6	8.8	81.8	5.3	0.4
Beans	16.5	26.1	-5.3	0.5	36.7		1.3		1.7		33.7	8.4	77.4	5.1	0.4
Peas		0.5			0.5						0.5	0.1	1.2	0.1	0.0
Pulses, Other		1.3		0.0	1.3	0.0					1.3	0.3	3.2	0.2	0.0
Treenuts	1.6	1.1	0.0	1.9	0.8						1.9	0.5	2.8	0.1	0.3
Oilcrops	42.6	226.9	1.3	17.4	253.4	0.0	0.0	239.1	2.6	4.2	14.3	3.5	29.1	2.2	2.0
Soyabeans	0.0	220.2	1.0	0.2	221.1			214.3			6.8	1.7	15.5	1.8	0.8
Groundnuts (Shelled Eq)	0.1	2.1		0.4	1.9						2.2	0.5	8.1	0.4	0.7
Sunflowerseed		0.6			0.6						0.6	0.1	1.2	0.1	0.1
Rape and Mustardseed		0.4		0.2	0.1					0.0	0.1	0.0	0.2	0.0	0.0
Cottonseed	0.2	0.4		0.0	0.6		0.0	0.6							
Coconuts - Incl Copra	17.5	0.3	0.0	9.0	8.8			1.7	2.6		4.4	1.1	4.1	0.1	0.4
Sesameseed	0.1	0.2			0.3			0.3							
Palmkernels	24.7	2.1	0.0	0.7	26.1			22.0		4.1					
Olives		0.3		0.0	0.3						0.3	0.1	0.2	0.0	0.0
Oilcrops, Other		0.4	0.3	7.0	-6.3	0.0		0.3							
Vegetable Oils	178.9	12.3	-7.8	97.0	86.5			0.0		38.0	48.4	12.0	290.5	0.0	32.9
Soyabean Oil	36.1	1.4	-5.7	7.7	24.2						24.2	6.0	145.6		16.5
Groundnut Oil		0.0			0.0						0.0	0.0	0.0		0.0
Sunflowerseed Oil		3.4	-2.2	0.0	1.3						1.3	0.3	7.6		0.9
Rape and Mustard Oil		0.0			0.0					0.0					
Cottonseed Oil	0.1	0.0		0.0	0.1						0.1	0.0	0.5		0.1
Palmkernel Oil	9.9	1.9	0.0	3.0	8.8					7.8	1.0	0.3	6.2	0.0	0.7
Palm Oil	132.0	3.5	0.0	86.0	49.5					29.4	20.1	5.0	119.8	0.0	13.5

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Coconut Oil	0.2	0.0		0.0	0.2					0.0	0.2	0.0	1.1		0.1
Sesameseed Oil	0.1	0.0			0.2						0.2	0.0	1.0		0.1
Olive Oil		0.5		0.0	0.5						0.5	0.1	3.2		0.4
Maize Germ Oil		0.9		0.0	0.9						0.9	0.2	5.6		0.6
Oilcrops Oil, Other	0.6	0.6	0.1	0.4	0.8			0.0		0.8	0.0	0.0	0.0	0.0	0.0
Vegetables	344.5	34.9	0.0	225.9	153.4				12.0		149.7	37.2	27.0	0.9	0.2
Tomatoes	32.1	13.3	0.0	0.6	44.8				4.8		40.0	9.9	6.1	0.2	0.1
Onions	23.3	6.2		1.8	27.7				3.0		24.8	6.2	6.9	0.2	0.0
Vegetables, Other	289.1	15.3	0.0	223.5	80.9				4.2		84.9	21.1	13.9	0.4	0.1
Fruits (Excluding Wine)	3501.8	80.4	0.0	2917.8	664.4	56.6			265.2		376.0	93.5	114.4	1.3	1.8
Oranges, Mandarines	374.9	17.8		263.3	129.4				56.3		111.2	27.6	18.9	0.3	0.1
Lemons, Limes	3.1	1.6		0.5	4.2						1.1	0.3	0.1		
Grapefruit	11.9	0.4		5.6	6.8										
Citrus, Other		0.1		0.0	0.1						0.0	0.0	0.0		
Bananas	2266.7	0.4	0.0	2090.2	176.8	53.3			53.3		70.2	17.4	29.6	0.4	0.1
Plantains	64.2	0.1		22.5	41.8	3.2			9.6		29.0	7.2	16.6	0.1	0.0
Apples		18.5		2.8	15.7						15.7	3.9	4.2	0.0	0.0
Pineapples	491.7	2.2		354.3	139.5				98.7		40.9	10.2	10.2	0.1	0.0
Dates		0.2		0.0	0.2						0.2	0.1	0.2	0.0	
Grapes		7.6		0.2	7.4						7.4	1.8	2.9	0.0	0.0
Fruits, Other	289.3	31.6	0.0	178.5	142.5				47.3		100.4	25.0	31.8	0.4	1.6
Stimulants	171.4	5.0	3.5	139.5	40.4			0.0	1.7		38.7	9.6	12.8	1.6	0.1
Coffee	170.6	0.6	3.3	135.8	38.7			0.0	1.7		37.0	9.2	11.7	1.5	
Cocoa Beans	0.8	3.9	0.2	3.7	1.1						1.1	0.3	1.0	0.1	0.1
Tea		0.6		0.0	0.6						0.6	0.2	0.1	0.0	
Spices	3.5	0.7	1.3	4.3	1.2						2.7	0.7	6.0	0.2	0.1
Pepper	0.4	0.1		0.1	0.5						0.5	0.1	0.8	0.0	0.0
Pimento		0.1		1.5	-1.5										
Cloves		0.0		0.0	0.0						0.0	0.0	0.0		0.0

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Spices, Other	3.1	0.5	1.3	2.7	2.2						2.2	0.6	5.2	0.1	0.1
Alcoholic Beverages	68.6	26.0	0.0	45.3	49.2					0.0	79.8	19.8	73.3	0.1	
Wine		4.0		0.0	4.0						4.0	1.0	2.0		
Beer	43.6	2.5	0.0	0.3	45.8						45.8	11.4	11.2	0.1	
Beverages, Fermented		0.1		0.0	0.1						0.1	0.0	0.0		
Beverages, Alcoholic	25.0	5.1		0.2	29.9						29.9	7.4	60.0		
Alcohol, Non-Food		14.3		44.9	-30.6					0.0					
Meat	187.9	4.1	0.0	21.7	170.3						170.4	42.4	141.6	14.1	9.0
Bovine Meat	82.5	1.8	0.0	16.7	67.6						67.6	16.8	55.3	6.8	2.9
Mutton & Goat Meat	0.0	0.0		0.0	0.0						0.0	0.0	0.1	0.0	0.0
Pigmeat	31.8	1.5	0.0	2.1	31.1						30.9	7.7	24.6	2.0	1.8
Poultry Meat	73.6	0.8		2.9	71.5						71.8	17.8	61.6	5.3	4.3
Meat, Other		0.1	0.0	0.0	0.1						0.1	0.0	0.0	0.0	
Offals	9.0	1.0	0.0	0.5	9.5						9.5	2.4	6.9	1.2	0.2
Animal Fats	23.7	2.6	-0.7	0.2	25.4	0.0				11.4	14.1	3.5	69.2	0.1	7.7
Fats, Animals, Raw	18.9	2.4		0.0	21.2					11.4	9.9	2.5	48.5	0.1	5.4
Butter, Ghee	4.8	0.2	-0.7	0.2	4.2						4.2	1.1	20.7	0.0	2.3
Cream				0.0	0.0										
Milk (Excluding Butter)	758.5	32.5	-43.7	42.4	704.9				37.9	1.7	665.1	165.3	279.4	15.4	14.3
Eggs	42.4	1.0	0.0	0.7	42.7		5.0		0.9		36.9	9.2	32.7	2.5	2.2
Fish, Seafood	35.0	34.3	2.3	46.4	25.2	3.8		-2.4		0.0	23.8	5.9	9.5	1.6	0.3
Freshwater Fish	8.8	0.2		0.1	8.9					0.0	8.9	2.2	4.2	0.7	0.2
Demersal Fish	3.6	0.7		1.2	3.2						3.2	0.8	0.9	0.2	0.0
Pelagic Fish	2.6	26.7	2.2	26.6	4.9	3.8		-2.4			3.5	0.9	2.1	0.3	0.1
Marine Fish, Other	13.7	0.6	0.0	13.9	0.4	0.0		0.0			0.4	0.1	0.2	0.0	0.0
Crustaceans	6.2	0.3		4.6	1.9			0.0			1.9	0.5	1.0	0.2	0.0
Cephalopods	0.0	2.1		0.1	2.0						2.0	0.5	0.9	0.2	0.0
Molluscs, Other	0.1	3.8		0.0	4.0						4.0	1.0	0.2	0.0	0.0
Fish, Liver Oil		0.0			0.0					0.0					

Food Balance Sheet
Dominican Republic
Population - 8,372,333
1999 - 2001 Average
All Values in 1,000 Mt (Metric Ton)

	Domestic Supply					Domestic Utilization						Per Caput Supply			
Product	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Grand Total													2323.0	50.0	81.1
Vegetal Products													1985.5	26.9	58.2
Animal Products													337.5	23.1	22.9
Miscellaneous													3.1	0.1	0.0
Cereals (Excluding Beer)	454.6	1435.6	-206.3	8.8	1675.0	848.5	10.6	61.9	49.9	6.9	697.1	83.3	737.5	17.5	2.7
Wheat		368.7	-39.0	8.8	320.9	86.7			6.8	0.0	227.4	27.2	197.3	6.2	0.9
Rice (Milled Equivalent)	415.9	64.8	-28.1	0.0	452.6		8.9	40.8	12.5		390.5	46.6	453.2	9.0	0.8
Barley		21.4	0.0	0.0	21.4			21.1			0.2	0.0	0.2	0.0	
Maize	30.3	976.3	-143.3	0.0	863.2	750.0	1.7		30.0	6.9	74.7	8.9	83.8	2.2	1.0
Oats		4.3		0.0	4.3	0.0					4.3	0.5	3.0	0.1	0.1
Sorghum	8.4	0.1	4.0		12.6	11.9	0.1		0.6						
Starchy Roots	265.9	0.0		28.9	237.0		2.8		26.6	0.0	207.6	24.8	63.7	0.8	0.2
Potatoes	39.7	0.0		0.0	39.7		2.8		4.0		32.9	3.9	7.2	0.3	0.0
Cassava	125.6	0.0		0.2	125.4				12.6	0.0	112.8	13.5	37.2	0.2	0.1
Sweet Potatoes	40.7			9.4	31.3				4.1		27.2	3.3	7.7	0.1	0.0
Yams	14.2			0.3	13.9				1.4		12.5	1.5	3.7	0.1	0.0
Roots, Other	45.7			18.9	26.8				4.6		22.2	2.7	7.9	0.1	0.0
Sugarcrops	4536.1				4536.1			4536.1							
Sugar Cane	4536.1				4536.1			4536.1							

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Sugar & Sweeteners	440.7	56.8	29.9	198.2	329.1			0.0	17.6		311.6	37.2	360.2	0.0	
Sugar (Raw Equivalent)	439.3	52.1	29.9	197.8	323.4			0.0	17.6		305.9	36.5	356.4		
Sweeteners, Other	0.0	4.7		0.2	4.5						4.5	0.5	2.7		
Honey	1.4		0.0	0.2	1.2						1.2	0.1	1.2	0.0	
Pulses	52.6	16.3	1.0	9.0	60.9	0.0	2.4		2.1		59.5	7.1	65.5	3.9	0.3
Beans	26.0	15.1	0.0	0.0	41.1		1.8		1.2		38.1	4.6	42.0	2.4	0.2
Peas	0.3	0.0			0.3				0.0		0.3	0.0	0.3	0.0	0.0
Pulses, Other	26.3	1.2	1.0	9.0	19.5	0.0	0.5		0.8		21.2	2.5	23.3	1.5	0.1
Treenuts	1.0	0.0		0.0	1.0						1.0	0.1	0.8	0.0	0.1
Oilcrops	163.1	1.4	0.0	33.7	130.9		0.1	42.2	0.1	0.0	88.5	10.6	37.6	0.5	3.6
Soyabeans		0.1			0.1			0.1							
Groundnuts (Shelled Eq)	2.6	0.0			2.6		0.1	2.4	0.1		0.0	0.0	0.1	0.0	0.0
Coconuts - Incl Copra	154.8		0.0	33.7	121.2			34.0			87.2	10.4	37.1	0.5	3.5
Palmkernels	5.7				5.7			5.7							
Olives		1.3			1.3						1.3	0.2	0.5	0.0	0.1
Vegetable Oils	40.0	137.8	0.0	1.8	176.0			0.0		25.9	150.0	17.9	433.9	0.0	49.1
Soyabean Oil	0.0	110.4	0.0		110.5					20.0	90.5	10.8	261.7		29.6
Groundnut Oil	1.0	0.0	0.0		1.0					0.0	1.0	0.1	2.9		0.3
Sunflowerseed Oil		10.6			10.6						10.6	1.3	30.7		3.5
Cottonseed Oil	0.0	0.0	0.0		0.0						0.0	0.0	0.0		0.0
Palmkernel Oil	2.8				2.8					2.8					
Palm Oil	25.2	9.2			34.4					0.1	34.3	4.1	99.1		11.2

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Coconut Oil	6.9	0.0	0.0	0.1	6.8						6.8	0.8	19.8		2.2
Olive Oil		1.3			1.3						1.3	0.2	3.9		0.4
Maize Germ Oil		3.2			3.2						3.2	0.4	9.2		1.0
Oilcrops Oil, Other	4.1	3.1		1.8	5.4			0.0		3.0	2.4	0.3	6.8	0.0	0.8
Vegetables	438.1	10.5		57.6	391.0				44.3		352.2	42.1	29.9	1.3	0.2
Tomatoes	256.5	0.0		0.5	256.0				25.7		230.3	27.5	16.2	0.8	0.2
Onions	37.4	3.0		0.0	40.4				4.0		36.4	4.3	4.9	0.2	0.0
Vegetables, Other	144.2	7.5		57.2	94.6				14.6		85.6	10.2	8.8	0.3	0.1
Fruits (Excluding Wine)	1132.3	32.2		186.4	978.1	21.6			113.3		843.3	100.7	139.3	1.5	1.6
Oranges, Mandarines	93.4			4.8	88.6				9.3		79.3	9.5	7.5	0.1	0.0
Lemons, Limes	8.7			0.4	8.3				0.9		7.4	0.9	0.7	0.0	0.0
Grapefruit	3.3			0.0	3.3				0.3		2.9	0.4	0.2	0.0	0.0
Bananas	406.9			90.3	316.7				40.7		276.0	33.0	58.7	0.7	0.3
Plantains	199.2			60.2	139.0				19.9		119.1	14.2	29.2	0.2	0.1
Apples		7.6			7.6						7.6	0.9	1.3	0.0	0.0
Pineapples	91.3	0.0		2.6	88.7				9.1		79.6	9.5	8.1	0.1	0.0
Grapes		5.1			5.1						5.1	0.6	1.1	0.0	0.0
Fruits, Other	329.7	19.4		28.2	320.9	21.6			33.0		266.4	31.8	32.6	0.3	1.2
Stimulants	74.5	1.2	5.1	46.7	34.0						34.0	4.1	7.4	0.7	0.3
Coffee	38.5	0.0		10.0	28.5						28.5	3.4	3.9	0.6	
Cocoa Beans	36.0	1.2	5.1	36.7	5.5						5.5	0.7	3.5	0.1	0.3
Tea		0.0			0.0						0.0	0.0	0.0	0.0	
Spices	2.5	0.6		0.1	3.0						3.0	0.4	3.3	0.1	0.1
Pepper		0.2			0.2						0.2	0.0	0.2	0.0	0.0
Pimento		0.1			0.1						0.1	0.0	0.1	0.0	0.0
Spices, Other	2.5	0.3		0.1	2.7						2.7	0.3	3.1	0.1	0.1

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Alcoholic Beverages	383.9	20.7		28.2	376.5						376.5	45.0	103.3	0.5	
Wine		8.0		0.0	8.0						8.0	1.0	1.8		
Beer	338.1	2.7		25.8	315.0						315.0	37.6	50.5	0.5	
Beverages, Fermented		0.7			0.7						0.7	0.1	0.1		
Beverages, Alcoholic	45.7	9.3		2.3	52.7						52.7	6.3	50.9		
Meat	329.1	6.6	0.0	0.0	335.7						335.7	40.1	160.2	12.3	11.9
Bovine Meat	68.4	0.2	0.0	0.0	68.6						68.6	8.2	48.5	3.1	3.9
Mutton & Goat Meat	1.0	0.1		0.0	1.2						1.2	0.1	0.7	0.1	0.1
Pigmeat	60.6	2.4		0.0	63.0						63.0	7.5	27.3	2.0	2.1
Poultry Meat	199.1	3.5		0.0	202.6						202.6	24.2	83.5	7.2	5.8
Meat, Other		0.4			0.4						0.4	0.1	0.2	0.0	0.0
Offals	15.7	1.7		0.0	17.4						17.4	2.1	6.1	1.1	0.2
Animal Fats	21.7	63.4			85.2	0.0				69.7	15.5	1.9	43.0	0.0	4.8
Fats, Animals, Raw	20.2	60.9			81.1					69.7	11.4	1.4	33.4	0.0	3.7
Butter, Ghee	1.5	2.6			4.1						4.1	0.5	9.5	0.0	1.1
Milk (Excluding Butter)	406.3	115.7	0.0	0.0	522.0				20.3	0.5	501.2	59.9	91.7	5.4	4.3
Eggs	59.8	0.7		0.0	60.5		11.7		3.0		45.9	5.5	19.5	1.5	1.3
Fish, Seafood	11.9	108.5	0.0	0.5	119.8	0.7					119.1	14.2	17.1	2.8	0.5
Freshwater Fish	1.6	0.5		0.0	2.1						2.1	0.3	0.5	0.1	0.0
Demersal Fish	3.0	59.1		0.0	62.1						62.1	7.4	7.1	1.4	0.1
Pelagic Fish	1.7	45.3		0.0	47.0						47.0	5.6	8.4	1.2	0.4
Marine Fish, Other	2.3	1.5	0.0	0.0	3.8	0.7					3.1	0.4	0.6	0.1	0.0
Crustaceans	1.5	0.5	0.0	0.1	1.9						1.9	0.2	0.3	0.1	0.0
Cephalopods	0.1	0.4			0.5						0.5	0.1	0.1	0.0	0.0
Molluscs, Other	1.6	1.3		0.4	2.5						2.5	0.3	0.1	0.0	0.0
Aquatic Animals, Others	0.0	0.0			0.0						0.0	0.0	0.0	0.0	
Fish, Body Oil		0.0			0.0	0.0					0.0	0.0	0.0		0.0
Fish, Liver Oil		0.0			0.0						0.0	0.0	0.1		0.0
Aquatic Products, Other	0.0	0.0									0.0	0.0	0.0	0.0	

Food Balance Sheet
El Salvador
Population - 6,278,000
1999 - 2001 Average
All Values in 1,000 Mt (Metric Ton)

	Domestic Supply					Domestic Utilization						Per Caput Supply			
Product	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Grand Total													2460.2	61.1	54.8
Vegetable Products													2172.5	44.2	35.6
Animal Products													287.7	16.9	19.2
Miscellaneous													4.2	0.2	0.0
Cereals (Excluding Beer)	782.6	573.8	-43.0	70.8	1242.6	294.5	5.4	19.0	57.1	5.3	861.4	137.2	1249.9	32.0	11.6
Wheat		193.7	22.4	44.1	172.0				1.7	0.0	170.3	27.1	220.7	5.9	0.6
Rice (Milled Equivalent)	31.6	37.5	0.3	0.3	69.2		0.4	6.8	1.2	0.0	60.8	9.7	94.3	1.9	0.2
Barley		12.3		0.0	12.3	0.0		12.2			0.0	0.0	0.0	0.0	
Maize	604.6	328.3	-65.7	26.4	840.9	257.3	4.3		46.8	5.2	527.3	84.0	789.2	20.6	9.4
Rye		0.0		0.0	0.0	0.0					0.0	0.0	0.0		
Oats		0.6		0.0	0.6	0.0					0.6	0.1	0.5	0.0	0.0
Millet		0.0			0.0						0.0	0.0	0.0		
Sorghum	146.3	0.5	0.0	0.0	146.8	36.7	0.7		7.3		102.1	16.3	144.7	3.7	1.4
Cereals, Other		0.9		0.0	0.9	0.4					0.4	0.1	0.4	0.0	0.0
Starchy Roots	87.8	49.9		0.4	137.3		0.7		10.0	2.8	123.9	19.7	47.6	0.9	0.1
Potatoes	15.7	49.0		0.4	64.3		0.7		2.8	2.5	58.3	9.3	17.9	0.5	0.1
Cassava	19.3	0.8		0.0	20.0				1.9	0.2	17.9	2.9	7.0	0.1	0.0
Sweet Potatoes	0.6	0.1		0.0	0.6				0.0		0.6	0.1	0.2	0.0	0.0
Roots, Other	52.3	0.0			52.4				5.2		47.1	7.5	22.4	0.4	0.1
Sugar Crops	5108.1	0.0	216.7	0.0	5324.7	140.0	159.7	4985.0	40.0						
Sugar Cane	5108.1		216.7	0.0	5324.7	140.0	159.7	4985.0	40.0						
Sugar Beet		0.0		0.0	0.0	0.0									

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Sugar & Sweeteners	489.4	13.0	40.0	290.8	251.6						258.0	41.1	400.7	0.0	0.0
Sugar, Non-Centrifugal	12.8	0.0			12.8						12.8	2.0	19.9	0.0	0.0
Sugar (Raw Equivalent)	474.6	6.6	39.5	281.1	239.6						239.6	38.2	372.2		
Sweeteners, Other		6.4		8.3	-2.0						4.4	0.7	7.0		
Honey	2.0	0.0	0.5	1.4	1.2						1.2	0.2	1.6	0.0	
Pulses	69.9	15.6	0.0	3.0	82.4		3.8		3.4		75.2	12.0	110.6	7.2	0.5
Beans	69.9	15.5	0.0	3.0	82.4		3.8		3.4		75.1	12.0	110.5	7.2	0.5
Peas		0.0			0.0						0.0	0.0	0.0	0.0	
Pulses, Other		0.1			0.1						0.1	0.0	0.1	0.0	0.0
Treenuts	2.6	0.2	0.0	2.1	0.7				0.1		0.7	0.1	0.5	0.0	0.0
Oilcrops	97.9	44.7	0.8	3.8	139.6	2.4	0.7	41.2	10.6	0.1	84.6	13.5	61.9	1.6	5.5
Soyabeans	2.5	0.4		0.1	2.8		0.0				2.8	0.4	4.1	0.5	0.2
Groundnuts (Shelled Eq)	0.3	3.5	0.0	0.3	3.5		0.0				3.5	0.6	8.6	0.4	0.7
Sunflowerseed		0.0			0.0						0.0	0.0	0.0		0.0
Rape and Mustardseed		1.0		0.4	0.5					0.0	0.5	0.1	0.9	0.1	0.1
Cottonseed	1.3	0.1		0.2	1.2		0.0	1.2							
Coconuts - Incl Copra	83.1	36.3		0.0	119.3			36.4	9.5		73.5	11.7	38.2	0.4	3.6
Sesameseed	7.2	0.4	0.8	2.7	5.9		0.7	0.1	1.1		4.0	0.6	10.0	0.3	0.9
Palmkernels		0.1		0.0	0.0					0.1					
Olives	3.5	0.3		0.0	3.7			3.5			0.2	0.0	0.1	0.0	0.0
Oilcrops, Other	0.0	2.6		0.1	2.5	2.4		0.1		0.0					
Vegetable Oils	5.8	98.0	1.0	14.1	90.7			0.1		55.0	35.5	5.7	136.9	0.0	15.5
Soyabean Oil		23.6	-4.3	4.9	14.3						14.3	2.3	55.2	0.0	6.2
Groundnut Oil		0.0			0.0						0.0	0.0	0.1		0.0
Sunflowerseed Oil		4.7		0.8	3.9						3.9	0.6	14.9		1.7
Rape and Mustard Oil		2.6		0.0	2.6					2.6					
Cottonseed Oil	0.2	3.3	5.3	1.6	7.2					0.0	7.2	1.2	27.8	0.0	3.2
Palmkernel Oil		1.5			1.5					1.5					
Palm Oil		51.2		0.8	50.4					50.4					

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Coconut Oil	4.7	0.1	0.0	0.2	4.6					0.0	4.6	0.7	17.7		2.0
Sesameseed Oil	0.1	0.0		0.0	0.0						0.0	0.0	0.1		0.0
Olive Oil	0.6	0.8		0.0	1.4						1.4	0.2	5.3		0.6
Maize Germ Oil		2.1		0.1	2.1						2.1	0.3	8.0		0.9
Oilcrops Oil, Other	0.3	8.0	0.0	5.7	2.6			0.1		0.5	2.0	0.3	7.7	0.0	0.9
Vegetables	145.7	145.0	0.0	5.0	285.7	0.0			28.0		257.7	41.1	24.2	0.9	0.2
Tomatoes	23.8	37.4		0.7	60.5				8.7		51.8	8.3	4.9	0.2	0.1
Onions	3.8	12.5		0.0	16.3				1.6		14.6	2.3	2.6	0.1	0.0
Vegetables, Other	118.1	95.1	0.0	4.3	208.9	0.0			17.7		191.2	30.5	16.7	0.6	0.2
Fruits (Excluding Wine)	262.5	183.9		25.8	420.6	10.7		0.0	54.1		355.8	56.7	88.7	1.0	1.9
Oranges, Mandarines	40.1	15.3		2.4	53.0				8.0		45.0	7.2	5.3	0.1	0.0
Lemons, Limes	24.7	6.4		12.2	18.9				2.5		16.4	2.6	1.5	0.0	0.0
Grapefruit		1.3		0.1	1.3						1.3	0.2	0.1		
Citrus, Other		0.6		0.0	0.6						0.6	0.1	0.1		
Bananas	66.7	51.6		0.0	118.2	5.9			17.7		94.6	15.1	25.6	0.3	0.0
Plantains	53.7	41.4		0.0	95.0	4.8			14.3		76.0	12.1	27.9	0.2	0.1
Apples		22.3		4.1	18.3				0.5		17.8	2.8	2.5	0.0	0.0
Pineapples	6.1	4.5		0.5	10.1				1.9		8.3	1.3	1.2	0.0	0.0
Dates		0.1			0.1						0.1	0.0	0.1		
Grapes		6.5		0.0	6.5				0.3		6.2	1.0	1.5	0.0	0.0
Fruits, Other	71.2	34.0		6.6	98.6			0.0	9.0		89.6	14.3	23.1	0.3	1.7
Stimulants	129.5	4.6	-3.0	121.9	9.2				2.0		7.5	1.2	2.9	0.2	0.1
Coffee	129.0	1.8	-3.0	120.4	7.4				2.0		5.4	0.9	1.1	0.2	
Cocoa Beans	0.4	2.7		1.2	2.0						2.0	0.3	1.8	0.1	0.1
Tea		0.2		0.4	-0.2						0.0	0.0	0.0	0.0	
Spices		1.0	0.0	0.4	0.6						0.6	0.1	0.8	0.0	0.0
Pepper		0.2	0.0	0.1	0.1						0.1	0.0	0.1	0.0	0.0
Pimento		0.1			0.1						0.1	0.0	0.2	0.0	0.0
Cloves		0.1		0.0	0.1						0.1	0.0	0.1	0.0	0.0
Spices, Other		0.5		0.2	0.3						0.3	0.1	0.5	0.0	0.0

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Alcoholic Beverages	111.8	30.3	0.0	26.9	115.2						119.0	19.0	43.7	0.1	
Wine		1.3	0.0	0.0	1.3						1.3	0.2	0.4		
Beer	97.6	4.2	0.0	6.3	95.5						95.5	15.2	15.0	0.1	
Beverages, Fermented		0.2		0.0	0.2						0.2	0.0	0.0		
Beverages, Alcoholic	14.2	8.2	0.0	0.4	21.9						21.9	3.5	28.3		
Alcohol, Non-Food		16.5		20.2	-3.7										
Meat	90.1	15.8	0.0	3.1	102.8						102.8	16.4	61.0	5.8	4.0
Bovine Meat	34.6	9.6	0.0	0.0	44.2						44.2	7.0	27.3	3.1	1.6
Mutton & Goat Meat	0.1	0.0		0.0	0.1						0.1	0.0	0.1	0.0	0.0
Pigmeat	8.2	4.8		0.7	12.3						12.3	2.0	8.2	0.5	0.7
Poultry Meat	47.3	1.2		2.4	46.0						46.0	7.3	25.3	2.2	1.8
Meat, Other		0.2	0.0	0.0	0.2						0.2	0.0	0.1	0.0	0.0
Offals	6.4	0.5		0.0	6.9						6.9	1.1	3.2	0.6	0.1
Animal Fats	4.1	70.2	0.7	4.1	70.9	17.9				38.9	15.9	2.5	49.3	0.0	5.6
Fats, Animals, Raw	3.9	69.0	0.7	4.1	69.6	17.9				38.9	14.6	2.3	45.1	0.0	5.1
Butter, Ghee	0.2	1.2		0.0	1.3						1.3	0.2	4.2	0.0	0.5
Cream		0.0		0.0	0.0						0.0	0.0	0.0		0.0
Milk (Excluding Butter)	379.8	186.4	0.0	5.5	560.6				19.1	0.5	541.0	86.2	145.5	7.9	7.8
Eggs	52.8	1.3	0.0	8.3	45.8		3.0		1.6		42.0	6.7	23.8	1.8	1.6
Fish, Seafood	15.5	9.9	0.0	4.5		0.8		0.0		0.0	20.1	3.2	4.9	0.7	0.2
Freshwater Fish	2.5	0.1		0.0	2.6					0.0	2.6	0.4	0.8	0.1	0.0
Demersal Fish	0.3	0.0		0.0	0.3						0.3	0.1	0.1	0.0	0.0
Pelagic Fish	0.1	8.5		0.1	8.5	0.8					7.7	1.2	2.2	0.3	0.1
Marine Fish, Other	1.0	0.2	0.0	0.6	0.6	0.0		0.0			0.6	0.1	0.2	0.0	0.0
Crustaceans	11.0	0.5	0.0	3.7	7.8	0.0					7.8	1.2	1.6	0.3	0.0
Cephalopods	0.0	0.0			0.0						0.0	0.0	0.0	0.0	
Molluscs, Other	0.6	0.6		0.0	1.2						1.2	0.2	0.1	0.0	0.0
Fish, Liver Oil		0.0			0.0						0.0	0.0	0.0		0.0

Food Balance Sheet
Guatemala

Population - 11,387,330
1999 - 2001 Average
All Values in 1,000 Mt (Metric Ton)

	Domestic Supply					Domestic Utilization						Per Caput Supply			
Product	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Grand Total													2160.9	54.7	46.8
Vegetal Products													1961.5	40.7	33.5
Animal Products													199.4	14.0	13.3
Miscellaneous													2.3	0.1	0.0
Cereals (Excluding Beer)	1149.1	862.5	78.3	96.9	1993.1	447.8	21.4	23.5	37.3	9.8	1455.5	127.8	1126.6	30.5	11.0
Wheat	9.1	366.7	32.9	40.0	368.7		2.0	0.0	2.6	0.2	363.9	32.0	230.4	7.4	0.8
Rice (Milled Equivalent)	30.9	40.9	0.1	17.0	54.8		1.0		2.0	0.0	51.4	4.5	42.3	0.8	0.1
Barley	1.5	23.7	0.0	0.1	25.1	1.4	0.1	23.5			0.1	0.0	0.1	0.0	
Maize	1056.6	410.3	44.7	32.6	1479.1	399.8	18.0	0.0	31.7	9.6	1019.9	89.6	841.5	21.9	10.0
Rye		0.0	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0	
Oats		2.7		4.8	-2.1	0.6					0.0	0.0	0.0	0.0	0.0
Millet		0.5	0.0	0.0	0.5	0.5									
Sorghum	51.0	0.2	0.6	0.2	51.5	44.9	0.3		1.0		5.3	0.5	4.2	0.1	0.0
Cereals, Other		17.7	0.1	2.3	15.5	0.6					14.9	1.3	8.2	0.2	0.0
Starchy Roots	235.3	15.8	6.4	70.4	187.2		5.0		133.1	1.0	48.4	4.3	8.6	0.2	0.0
Potatoes	216.7	15.8	6.4	69.3	169.7		5.0		131.3	1.0	32.4	2.8	5.2	0.1	0.0
Cassava	18.6	0.0	0.0	0.8	17.8				1.9		16.0	1.4	3.5	0.0	0.0
Sweet Potatoes				0.3	-0.3										
Roots, Other		0.0		0.0	0.0						0.0	0.0	0.0		
Sugarcrops	16612.4			0.1	16612.4	30.0		16382.3	166.1	33.9					
Sugar Cane	16612.4			0.0	16612.4	30.0		16382.3	166.1	33.9					
Sugar Beet				0.0	0.0										

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Sugar & Sweeteners	1688.0	22.7	-3.6	1189.5	517.5	1.7		25.5			492.2	43.2	418.4	0.0	0.0
Sugar, Non-Centrifugal	46.5	0.0		0.0	46.5			25.5			21.0	1.8	18.0	0.0	0.0
Sugar (Raw Equivalent)	1640.0	9.5	-3.6	1183.2	462.7	1.7					461.0	40.5	394.2		
Sweeteners, Other		13.2	0.0	5.3	7.9						9.8	0.9	6.0		
Honey	1.5	0.0	0.0	1.1	0.4						0.4	0.0	0.3	0.0	
Pulses	126.3	5.3	0.0	4.5	127.1		7.1		5.3		114.6	10.1	93.2	6.1	0.5
Beans	91.1	4.9	0.0	4.4	91.6		5.9		4.8		80.9	7.1	65.6	4.3	0.3
Peas		0.1		0.0	0.1						0.1	0.0	0.1	0.0	
Pulses, Other	35.2	0.3		0.1	35.4		1.2		0.5		33.6	3.0	27.5	1.8	0.2
Treenuts	22.9	0.7	0.0	0.7	22.9						23.3	2.1	12.0	0.1	1.3
Oilcrops	131.6	10.0	2.4	53.9	90.1	4.9	0.4	58.1	0.1	0.4	27.9	2.5	26.6	1.0	2.2
Soyabeans	30.7	5.8		0.7	35.8	4.7		27.4			3.7	0.3	3.5	0.3	0.1
Groundnuts (Shelled Eq)	1.1	1.5	0.0	0.3	2.3		0.1		0.1		2.2	0.2	3.0	0.1	0.3
Sunflowerseed		0.4		0.1	0.4						0.4	0.0	0.3	0.0	0.0
Rape and Mustardseed		0.3		1.7	-1.4					0.0	0.2	0.0	0.2	0.0	0.0
Cottonseed	1.3	0.0		0.0	1.3	0.3	0.0	1.0							
Coconuts - Incl Copra	41.3	0.2	0.0	32.2	9.3	0.0					9.3	0.8	3.2	0.0	0.3
Sesameseed	27.9	1.2	2.3	18.5	12.8		0.3	0.7			11.8	1.0	16.3	0.5	1.4
Palmkernels	29.3	0.0		0.4	28.9			28.9							
Olives		0.3		0.0	0.3						0.3	0.0	0.1	0.0	0.0
Oilcrops, Other		0.4	0.0	0.1	0.3	0.0		0.0		0.3			0.0		
Vegetable Oils	63.3	84.9	1.0	56.5	92.7			0.0		23.4	72.1	6.3	152.9	0.0	17.3
Soyabean Oil	4.9	25.1		0.0	30.1						30.1	2.6	64.0		7.2
Groundnut Oil		0.1		0.0	0.1						0.1	0.0	0.2		0.0
Sunflowerseed Oil		32.8		8.0	24.8						24.8	2.2	52.8		6.0
Rape and Mustard Oil		0.6			0.6					0.6					
Cottonseed Oil	0.2	0.4	0.3	0.0	0.8					0.0	0.8	0.1	1.8	0.0	0.2
Palmkernel Oil	13.0	0.5		1.7	11.8					11.8					
Palm Oil	43.9	17.3	0.1	38.8	22.4					9.4	13.0	1.1	27.3	0.0	3.1

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Coconut Oil		0.3	0.0	0.0	0.2					0.2					
Sesameseed Oil	0.3	0.0		0.2	0.1						0.1	0.0	0.3		0.0
Olive Oil		0.7		0.0	0.6						0.7	0.1	1.4		0.2
Maize Germ Oil		2.0	0.3	0.0	2.3						2.3	0.2	4.9		0.6
Oilcrops Oil, Other	1.0	5.3	0.2	7.8	-1.2			0.0		1.4	0.2	0.0	0.4	0.0	0.0
Vegetables	936.7	36.9	1.0	403.5	571.1		0.1		71.9		525.4	46.1	31.5	1.2	0.3
Tomatoes	171.3	16.5		39.7	148.1				25.7		122.4	10.8	6.3	0.3	0.1
Onions	105.2	9.2	0.0	27.2	87.2				11.4		75.8	6.7	7.5	0.2	0.0
Vegetables, Other	660.2	11.2	1.0	336.7	335.7		0.1		34.7		327.2	28.7	17.8	0.7	0.1
Fruits (Excluding Wine)	1787.1	126.2	1.0	1161.1	753.2	153.7		0.6	113.7		727.1	63.9	64.1	0.9	0.6
Oranges, Mandarines	102.6	30.6		37.9	95.3						117.2	10.3	9.6	0.2	0.0
Lemons, Limes	128.7	0.2		1.2	127.7						127.7	11.2	4.6	0.2	0.1
Grapefruit		2.1		0.0	2.1						2.1	0.2	0.1	0.0	
Citrus, Other	3.5	27.9		14.9	16.6				0.5		16.6	1.5	0.8	0.0	0.0
Bananas	823.9	1.7		766.3	59.2	5.3			30.5		23.3	2.1	3.5	0.0	0.0
Plantains	263.5	0.3		57.3	206.5	148.4			39.5		18.7	1.6	3.8	0.0	0.0
Apples	28.8	26.6		18.0	37.4			0.6	3.7		29.7	2.6	3.6	0.0	0.0
Pineapples	100.6	11.2		6.8	105.1				20.2		84.9	7.5	6.3	0.0	0.0
Dates		0.0		0.0	0.0						0.0	0.0	0.0		
Grapes	14.3	7.8		0.2	22.0				1.0		21.0	1.8	2.8	0.0	0.0
Fruits, Other	321.1	17.8	1.0	258.4	81.5				18.4		286.0	25.1	29.1	0.3	0.5
Stimulants	296.6	6.8	0.0	270.4	32.9				1.0		31.9	2.8	5.6	0.5	0.2
Coffee	293.8	2.9	0.0	269.5	27.1				1.0		26.1	2.3	2.9	0.4	
Cocoa Beans	2.4	3.6	0.0	0.8	5.2						5.2	0.5	2.6	0.1	0.2
Tea	0.5	0.3		0.2	0.6						0.6	0.1	0.1	0.0	
Spices	16.7	1.5	0.0	15.5	2.6						2.7	0.2	2.7	0.1	0.2
Pepper	0.4	0.2	0.0	0.4	0.2						0.2	0.0	0.1	0.0	0.0
Pimento		0.4		0.2	0.2						0.2	0.0	0.2	0.0	0.0
Cloves		0.1		0.0	0.1						0.1	0.0	0.0	0.0	0.0
Spices, Other	16.3	0.8	0.0	14.9	2.2						2.2	0.2	2.3	0.0	0.1

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Alcoholic Beverages	122.6	5.8	0.0	45.6	82.7					0.0	110.4	9.7	17.1	0.1	
Wine		1.9	0.0	0.3	1.6						1.6	0.1	0.3		
Beer	96.9	1.6		1.6	96.9						96.9	8.5	8.4	0.1	
Beverages, Fermented	0.5	0.0		0.5	0.0						0.0	0.0	0.0		
Beverages, Alcoholic	25.3	2.2		15.6	11.8						11.8	1.0	8.4		
Alcohol, Non-Food		0.0		27.7	-27.7					0.0					
Meat	230.6	33.7	0.0	5.4	258.9				0.0		259.2	22.8	81.9	7.6	5.5
Bovine Meat	62.0	7.6		2.3	67.2				0.0		67.4	5.9	22.9	2.6	1.3
Mutton & Goat Meat	1.7	0.0		0.0	1.7						1.7	0.2	0.7	0.1	0.1
Pigmeat	24.5	10.3	0.0	1.9	32.9						32.9	2.9	10.9	0.7	0.9
Poultry Meat	140.2	14.9		1.1	154.0						154.0	13.5	46.7	4.0	3.2
Meat, Other	2.3	0.8		0.1	3.0						3.1	0.3	0.7	0.1	0.0
Offals	9.2	0.5		0.1	9.6					0.1	9.6	0.8	2.5	0.4	0.1
Animal Fats	10.2	80.2	0.0	5.4	85.0	0.2				77.6	12.0	1.1	20.7	0.0	2.3
Fats, Animals, Raw	9.7	78.2	0.0	5.4	82.5					77.3	10.0	0.9	18.0	0.0	2.0
Butter, Ghee	0.6	0.9		0.0	1.4						1.4	0.1	2.4	0.0	0.3
Cream		0.6		0.0	0.6						0.6	0.1	0.3	0.0	0.0
Milk (Excluding Butter)	262.7	205.3	0.0	2.3	465.7					0.2	466.3	41.0	67.9	3.8	3.8
Eggs	81.3	1.5		0.6	82.2		6.1		1.6		74.5	6.5	23.3	1.8	1.5
Fish, Seafood	15.9	18.2	0.0	4.4		10.0		0.0		0.0	19.7	1.7	3.1	0.5	0.1
Freshwater Fish	10.4	0.1		0.2	10.2					0.0	10.2	0.9	1.7	0.3	0.1
Demersal Fish	0.2	0.0	0.0	0.0	0.2						0.2	0.0	0.0	0.0	0.0
Pelagic Fish		15.9	0.0	0.0	15.9	10.0					6.0	0.5	1.0	0.1	0.1
Marine Fish, Other	0.7	0.8	0.0	0.1	1.4	0.0					1.4	0.1	0.2	0.0	0.0
Crustaceans	4.5	0.3	0.0	4.1	0.8			0.0			0.8	0.1	0.2	0.0	0.0
Cephalopods	0.0	0.1			0.1						0.1	0.0	0.0	0.0	
Molluscs, Other	0.0	1.1		0.0	1.1						1.1	0.1	0.0	0.0	0.0
Fish, Body Oil		0.2			0.2	0.2									
Fish, Liver Oil		0.3			0.3					0.3					

Food Balance Sheet
Honduras

Population - 6,416,666
1999 - 2001 Average
All Values in 1,000 Mt (Metric Ton)

	Domestic Supply					Domestic Utilization						Per Caput Supply			
Product	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Grand Total													2397.9	60.4	66.2
Vegetal Products													2042.6	38.7	42.3
Animal Products													355.3	21.6	23.8
Miscellaneous													4.0	0.1	0.0
Cereals (Excluding Beer)	586.3	461.8	0.3	6.5	1041.9	161.8	7.7	23.0	69.1	0.0	781.4	121.8	1095.6	27.8	10.8
Wheat	1.0	220.6	-23.3	1.9	196.4	0.0	0.1		12.3	0.0	183.9	28.7	224.6	5.7	1.5
Rice (Milled Equivalent)	6.0	77.2	-6.4	0.6	76.3		0.1	6.4	4.3	0.0	65.5	10.2	95.7	1.9	0.2
Barley		14.5		0.0	14.5	0.0		14.4			0.0	0.0	0.0	0.0	
Maize	509.1	144.5	30.0	2.0	681.5	116.7	6.4	2.2	49.0		507.3	79.1	742.8	19.3	8.9
Oats		1.8		0.0	1.8	0.2					1.6	0.3	1.4	0.1	0.0
Sorghum	70.2	0.2	0.0	0.1	70.4	45.0	1.1		3.5		20.8	3.2	28.8	0.7	0.3
Cereals, Other		3.1	0.0	2.0	1.1	0.0					2.3	0.4	2.2	0.1	0.0
Starchy Roots	36.8	11.9	0.0	4.4	44.3		2.9		4.1	4.6	32.7	5.1	10.7	0.2	0.0
Potatoes	22.3	11.4	0.0	3.7	30.1		2.9		2.9	4.6	19.7	3.1	5.7	0.1	0.0
Cassava	10.0	0.6		0.1	10.4				0.6		9.8	1.5	3.9	0.0	0.0
Sweet Potatoes	2.0				2.0				0.2		1.8	0.3	0.7	0.0	0.0
Roots, Other	2.4	0.0		0.6	1.8				0.4		1.4	0.2	0.6	0.0	0.0
Sugarcrops	3948.9				3948.9	32.3	118.5	3758.7	39.5						
Sugar Cane	3948.9				3948.9	32.3	118.5	3758.7	39.5						

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Sugar & Sweeteners	368.8	26.2	-85.9	43.6	265.4			17.8		0.0	248.9	38.8	379.6	0.0	0.0
Sugar, Non-Centrifugal	19.4	0.0		0.0	19.4			17.8			1.6	0.2	2.4	0.0	0.0
Sugar (Raw Equivalent)	344.9	20.7	-85.9	42.1	237.6						237.6	37.0	363.2		
Sweeteners, Other	4.3	5.3		1.5	8.1					0.0	9.5	1.5	13.7		
Honey	0.2	0.1		0.0	0.3						0.3	0.1	0.4	0.0	
Pulses	65.9	3.9	6.7	6.7	69.7		4.3		3.9		61.5	9.6	88.5	5.8	0.4
Beans	65.9	3.9	6.7	6.7	69.7		4.3		3.9		61.5	9.6	88.5	5.8	0.4
Pulses, Other		0.0		0.0	0.0						0.0	0.0	0.0	0.0	0.0
Treenuts	0.5	0.4	0.0	0.3	0.6						0.7	0.1	0.5	0.0	0.1
Oilcrops	49.8	3.5	0.0	1.3	52.0	0.8	0.1	31.1	0.0	0.0	20.0	3.1	13.4	0.3	1.2
Soyabeans	3.0	0.6		0.0	3.5			3.4			0.1	0.0	0.1	0.0	
Groundnuts (Shelled Eq)	0.3	0.4		0.1	0.6		0.0		0.0		0.6	0.1	1.4	0.1	0.1
Sunflowerseed		0.1			0.1						0.1	0.0	0.1	0.0	0.0
Rape and Mustardseed		0.7		0.0	0.7						0.7	0.1	1.1	0.1	0.1
Cottonseed	1.1	0.0	0.0	0.1	1.1		0.0	1.0							
Coconuts - Incl Copra	20.7	0.1		0.2	20.7			2.4			18.3	2.9	10.6	0.1	1.0
Sesameseed	1.7	0.3	0.0	0.8	1.2		0.0	1.2							
Palmkernels	23.0	0.1		0.1	23.1			23.1							
Olives		0.3		0.1	0.2						0.2	0.0	0.1	0.0	0.0
Oilcrops, Other		0.9		0.1	0.9	0.8				0.0					
Vegetable Oils	106.3	15.3	0.0	36.2	85.4					18.5	67.6	10.5	254.8	0.0	28.8
Soyabean Oil	0.5	3.3	0.0	0.7	3.1						3.1	0.5	11.5		1.3
Groundnut Oil		0.0			0.0						0.0	0.0	0.0		0.0
Sunflowerseed Oil		0.9		0.0	0.9						0.9	0.2	3.5		0.4
Rape and Mustard Oil		0.0			0.0					0.0					
Cottonseed Oil	0.1	0.1	0.0	0.0	0.2						0.2	0.0	0.8		0.1
Palmkernel Oil	10.2	0.1		2.5	7.8					7.8					
Palm Oil	92.0	6.2	0.0	31.0	67.2					7.4	60.4	9.4	227.5	0.0	25.7

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Coconut Oil	0.3	0.0		0.3	0.0						0.1	0.0	0.5		0.1
Sesameseed Oil	0.6	0.0			0.6						0.6	0.1	2.1		0.2
Olive Oil		0.1		0.0	0.1						0.1	0.0	0.5		0.1
Maize Germ Oil	1.8	0.5		0.1	2.2						2.2	0.4	8.4		1.0
Oilcrops Oil, Other	0.8	4.1	0.0	1.6	3.3					3.3	0.0	0.0	0.0	0.0	0.0
Vegetables	280.9	22.8	0.0	53.2	250.5				31.8		225.0	35.1	24.8	1.0	0.2
Tomatoes	46.5	9.8		8.3	47.9				7.1		40.9	6.4	5.3	0.2	0.1
Onions	10.6	5.1		0.4	15.3				1.6		13.7	2.1	2.4	0.1	0.0
Vegetables, Other	223.9	7.8	0.0	44.5	187.2				23.1		170.3	26.6	17.1	0.7	0.1
Fruits (Excluding Wine)	997.9	78.8	0.0	436.2	640.4	39.6			126.4		478.8	74.6	123.1	1.3	0.4
Oranges, Mandarines	122.1	26.4		58.3	90.2				18.3		71.9	11.2	7.2	0.1	0.0
Lemons, Limes	4.7	0.0		0.3	4.4						4.4	0.7	0.3	0.0	0.0
Grapefruit	17.6	20.8		22.4	16.0				2.6		13.3	2.1	1.0	0.0	0.0
Citrus, Other	0.4	0.9		0.4	0.9				0.1		0.9	0.1	0.1	0.0	0.0
Bananas	479.1	5.8		306.5	178.4	26.7			38.8		113.0	17.6	29.9	0.4	0.1
Plantains	254.0	5.1		0.8	258.2	13.0			38.9		206.4	32.2	74.0	0.6	0.2
Apples	0.2	4.4		0.0	4.6						4.6	0.7	0.9	0.0	0.0
Pineapples	70.3	2.0		36.0	36.3				22.1		16.9	2.6	2.4	0.0	0.0
Dates		0.0		0.0	0.0						0.0	0.0	0.0		
Grapes	0.2	2.0		0.0	2.2						2.2	0.3	0.5	0.0	0.0
Fruits, Other	49.4	11.4	0.0	11.5	49.3				5.6		45.3	7.1	6.7	0.1	0.1
Stimulants	187.5	2.1	0.4	113.3	76.8				3.7		73.1	11.4	17.9	2.1	0.3
Coffee	185.4	0.4	0.0	111.6	74.2				3.7		70.5	11.0	14.2	2.0	
Cocoa Beans	2.1	1.5	0.4	1.7	2.4						2.4	0.4	3.7	0.1	0.3
Tea		0.2	0.0	0.1	0.2						0.2	0.0	0.0	0.0	
Spices	0.5	0.8	0.0	0.5	0.8						1.0	0.2	1.5	0.0	0.1
Pepper	0.2	0.2		0.2	0.2						0.2	0.0	0.3	0.0	0.0
Pimento		0.0		0.1	0.0						0.0	0.0	0.0	0.0	0.0
Cloves		0.0		0.0	0.0						0.0	0.0	0.0		
Spices, Other	0.3	0.5	0.0	0.2	0.6						0.7	0.1	1.2	0.0	0.1

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Alcoholic Beverages	99.0	7.3	0.0	0.5	105.8					0.2	105.6	16.5	28.4	0.1	
Wine		0.8		0.0	0.8						0.8	0.1	0.3		
Beer	90.1	4.1		0.2	93.9						93.9	14.6	14.4	0.1	
Beverages, Fermented		0.1		0.1	0.0						0.0	0.0	0.0		
Beverages, Alcoholic	8.9	2.2		0.2	10.8						10.8	1.7	13.7		
Alcohol, Non-Food		0.2	0.0	0.0	0.2					0.2					
Meat	140.3	15.9	0.0	1.4	154.8	0.6					154.3	24.0	107.4	8.7	7.8
Bovine Meat	55.0	0.4		1.2	54.2						54.2	8.5	33.3	3.7	1.9
Mutton & Goat Meat	0.3	0.0		0.0	0.3						0.3	0.0	0.2	0.0	0.0
Pigmeat	9.5	7.4	0.0	0.1	16.9						16.9	2.6	18.7	0.8	1.7
Poultry Meat	74.9	7.8		0.1	82.6						82.6	12.9	55.1	4.1	4.2
Meat, Other	0.6	0.3	0.0	0.0	0.8	0.6					0.3	0.0	0.2	0.0	0.0
Offals	6.8	0.7	0.0	0.1	7.4	0.1					7.1	1.1	3.2	0.6	0.1
Animal Fats	9.8	30.9	0.0	2.1	38.5	0.5				22.7	15.3	2.4	46.5	0.0	5.3
Fats, Animals, Raw	5.4	29.5	0.0	1.1	33.8					22.7	11.1	1.7	33.6		3.8
Butter, Ghee	4.4	0.9		1.0	4.2						4.2	0.7	12.9	0.0	1.5
Milk (Excluding Butter)	575.9	125.8	0.0	5.9	695.7			0.3		0.3	695.4	108.4	170.1	10.0	8.9
Eggs	41.8	7.5		0.0	49.2		5.5		1.0		42.8	6.7	23.7	1.8	1.6
Fish, Seafood	15.4	21.6	0.0	9.0	28.0	10.3				0.0	17.8	2.8	4.4	0.6	0.2
Freshwater Fish	0.3	0.0		0.1	0.2					0.0	0.2	0.0	0.1	0.0	0.0
Demersal Fish	0.8	0.2		0.0	1.0						1.0	0.2	0.2	0.0	0.0
Pelagic Fish	0.0	19.9	0.0	0.1	19.9	10.3					9.6	1.5	2.7	0.3	0.2
Marine Fish, Other	3.0	0.1	0.0	2.2	0.9	0.0					0.9	0.1	0.2	0.0	0.0
Crustaceans	9.6	0.9	0.0	6.2	4.3						4.3	0.7	0.9	0.2	0.0
Cephalopods	1.7	0.0		0.3	1.4						1.4	0.2	0.4	0.1	0.0
Molluscs, Other	0.1	0.3	0.0	0.0	0.4						0.4	0.1	0.0	0.0	0.0
Aquatic Animals, Others	0.0				0.0						0.0	0.0	0.0		
Fish, Body Oil		0.5	0.0	0.0	0.5	0.5									
Fish, Liver Oil		0.0			0.0	0.0					0.0	0.0	0.0		0.0
Aquatic Products, Other	0.0										0.0	0.0	0.0		

Food Balance Sheet
Nicaragua

Population - 5,072,334
1999 - 2001 Average
All Values in 1,000 Mt (Metric Ton)

	Domestic Supply					Domestic Utilization						Per Caput Supply			
Product	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Grand Total													2246.6	59.3	47.8
Vegetal Products													2081.0	47.2	36.8
Animal Products													165.6	12.1	11.0
Miscellaneous													7.1	0.3	0.1
Cereals (Excluding Beer)	614.2	246.9	-60.8	11.5	788.8	54.7	12.6	10.1	57.0	21.1	633.3	124.9	1118.5	27.2	8.4
Wheat		133.4	3.3	7.7	129.1				2.2	0.0	126.8	25.0	195.8	5.0	1.0
Rice (Milled Equivalent)	157.9	52.1	-14.6	0.1	195.3	3.7	5.3		14.7	0.0	171.6	33.8	314.3	6.2	0.5
Barley		10.0	0.5	0.0	10.4	0.1		10.1			0.3	0.1	0.4	0.0	0.0
Maize	374.3	43.1	-50.0	3.1	364.3	41.7	6.6	0.0	32.0	21.1	263.0	51.9	486.3	12.7	5.8
Rye		0.0		0.0	0.0						0.0	0.0	0.0	0.0	0.0
Oats		6.4		0.4	5.9	0.1					5.8	1.2	6.7	0.3	0.1
Sorghum	82.0	0.3	0.0	0.0	82.2	9.0	0.7		8.2		64.3	12.7	112.9	2.9	1.1
Cereals, Other		1.7	0.0	0.1	1.5	0.2					1.3	0.3	2.3	0.1	0.0
Starchy Roots	84.1	20.8		4.9	100.1	18.5	1.1		10.7	0.3	70.4	13.9	30.2	0.5	0.1
Potatoes	27.7	20.4		0.0	48.0		1.1		5.6	0.3	41.1	8.1	16.0	0.4	0.0
Cassava	51.5	0.5		1.2	50.8	18.5			5.2		27.9	5.5	13.6	0.1	0.1
Sweet Potatoes		0.0		0.0	0.0						0.0	0.0	0.0		
Roots, Other	5.0	0.0		3.7	1.3						1.3	0.3	0.7	0.0	0.0
Sugarcrops	3452.0	0.0	53.3	0.0	3505.3			3463.3		42.0					
Sugar Cane	3452.0	0.0	53.3	0.0	3505.3			3463.3		42.0					

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Sugar & Sweeteners	380.9	4.7	9.1	139.7	254.9			4.3		76.0	174.6	34.4	338.4	0.0	0.0
Sugar, Non-Centrifugal	8.9				8.9			4.3			4.5	0.9	8.7	0.0	0.0
Sugar (Raw Equivalent)	371.6	3.0	9.1	139.5	244.2					76.0	168.2	33.2	327.4		
Sweeteners, Other		1.7	0.0	0.0	1.7						1.7	0.3	1.9		
Honey	0.4	0.0		0.2	0.2						0.2	0.0	0.4		
Pulses	161.5	7.3	5.0	13.2	160.6		8.3		7.0		145.3	28.7	264.6	17.3	1.3
Beans	161.5	6.2	5.0	13.2	159.5		8.3		7.0		144.2	28.4	262.5	17.1	1.3
Peas		0.8		0.0	0.8						0.8	0.2	1.5	0.1	0.0
Pulses, Other		0.3	0.0	0.0	0.3						0.3	0.1	0.6	0.0	0.0
Treenuts		0.1	0.2	0.4	-0.1						0.0	0.0	0.1	0.0	0.0
Oilcrops	73.5	3.4	-5.2	44.5	27.3	0.8	1.1	21.6	1.5		7.3	1.4	10.7	0.4	0.9
Soyabeans	10.1	0.3	0.0	0.4	10.0		0.1	9.9			0.0	0.0	0.0	0.0	
Groundnuts (Shelled Eq)	50.6	0.2	-5.7	33.9	11.2		0.9	7.1	1.5		1.7	0.3	4.9	0.2	0.4
Sunflowerseed		0.0			0.0						0.0	0.0	0.0		0.0
Rape and Mustardseed		0.7		0.0	0.7						0.7	0.1	1.3	0.1	0.1
Cottonseed	2.1	0.0		0.0	2.1		0.0	2.1							
Coconuts - Incl Copra	4.8	0.1	0.0	0.3	4.6			0.4			4.5	0.9	3.3	0.0	0.3
Sesameseed	3.9	0.0	0.5	4.0	0.4		0.1				0.3	0.1	1.0	0.0	0.1
Palmkernels	2.0	0.1		0.0	2.1			2.1							
Olives		0.2			0.2						0.2	0.0	0.1	0.0	0.0
Oilcrops, Other	0.0	2.1		6.0	-4.0	0.8		0.0							
Vegetable Oils	14.6	57.6	0.6	1.6	71.2					23.9	47.3	9.3	225.4	0.0	25.5
Soyabean Oil	1.8	16.7	2.3	0.1	20.7					1.0	19.7	3.9	94.1		10.6
Groundnut Oil	3.3	0.0	0.0	1.1	2.2					0.3	1.9	0.4	9.0		1.0
Sunflowerseed Oil		0.8			0.8					0.4	0.3	0.1	1.6		0.2
Rape and Mustard Oil		4.0			4.0					4.0					
Cottonseed Oil	0.3	3.1	-1.7	0.0	1.8					0.0	1.8	0.4	8.4		1.0
Palmkernel Oil	0.9	0.1	0.0	0.0	1.0					1.0					
Palm Oil	8.1	23.1	0.0	0.3	30.8					15.5	15.3	3.0	73.2		8.3

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Coconut Oil	0.1	0.5		0.0	0.6						0.6	0.1	2.7		0.3
Sesameseed Oil		0.3	0.0	0.0	0.2						0.2	0.0	0.8		0.1
Olive Oil		0.5			0.5						0.5	0.1	2.3		0.3
Maize Germ Oil		1.3		0.1	1.2						1.2	0.2	5.7		0.7
Oilcrops Oil, Other	0.1	7.4	0.0	0.0	7.5					1.6	5.9	1.2	27.6	0.0	3.1
Vegetables	30.0	25.1	0.0	15.8	39.4				4.2		44.8	8.8	7.3	0.3	0.1
Tomatoes	5.0	6.1	0.0	2.3	8.8				0.9		7.9	1.6	1.0	0.0	0.0
Onions	5.9	7.9		2.6	11.2				1.4		9.9	1.9	2.2	0.1	0.0
Vegetables, Other	19.1	11.1	0.0	10.9	19.3				2.0		27.0	5.3	4.1	0.2	0.0
Fruits (Excluding Wine)	229.5	35.3		61.2	203.6	2.1			33.9		174.8	34.5	37.8	0.4	0.1
Oranges, Mandarines	71.3	8.6		0.3	79.7				11.5		68.3	13.5	9.7	0.2	0.0
Lemons, Limes		0.0		0.2	-0.2										
Grapefruit		0.8		0.0	0.8						0.8	0.2	0.1		
Citrus, Other		0.0		0.3	-0.3						0.0	0.0	0.0		
Bananas	62.5	3.5		48.9	17.0				5.3		11.8	2.3	3.9	0.1	0.0
Plantains	39.0	2.4		2.2	39.2	2.1			6.2		30.9	6.1	14.0	0.1	0.0
Apples		12.5		0.0	12.5				0.1		12.4	2.4	1.3	0.0	0.0
Pineapples	46.8	0.4		2.4	44.9				9.4		35.5	7.0	6.0	0.0	0.0
Dates				0.0	0.0										
Grapes		1.0		0.0	1.0						1.0	0.2	0.3	0.0	0.0
Fruits, Other	9.8	6.1		6.9	9.1				1.5		14.1	2.8	2.4	0.0	0.0
Stimulants	80.6	3.6	5.0	68.1	21.1				1.0		20.1	4.0	9.4	0.7	0.4
Coffee	80.3	2.0	5.0	67.9	19.3				1.0		18.3	3.6	4.6	0.6	
Cocoa Beans	0.3	1.5		0.2	1.6						1.6	0.3	4.7	0.1	0.4
Tea		0.2			0.2						0.2	0.0	0.0	0.0	
Spices		0.3	0.0	0.4	-0.1						0.2	0.1	0.4	0.0	0.0
Pepper		0.1		0.0	0.1						0.1	0.0	0.1	0.0	0.0
Pimento		0.0		0.0	0.0						0.0	0.0	0.0		
Cloves		0.0			0.0						0.0	0.0	0.0		0.0
Spices, Other		0.2	0.0	0.4	-0.2						0.2	0.0	0.2	0.0	0.0

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Alcoholic Beverages	58.8	4.3		13.5	49.5						61.2	12.1	31.3	0.1	
Wine		0.6			0.6						0.6	0.1	0.2		
Beer	44.4	2.4		0.0	46.8						46.8	9.2	9.1	0.1	
Beverages, Fermented		0.2			0.2						0.2	0.0	0.0		
Beverages, Alcoholic	14.4	0.6		1.2	13.8						13.8	2.7	21.9		
Alcohol, Non-Food		0.6		12.3	-11.7										
Meat	105.9	3.9	0.0	27.9	81.9						82.5	16.3	63.7	5.7	4.4
Bovine Meat	51.5	0.2	0.0	26.0	25.8						26.0	5.1	17.9	2.2	0.9
Mutton & Goat Meat	0.1	0.0		0.0	0.1						0.1	0.0	0.1	0.0	0.0
Pigmeat	5.9	1.4	0.0	0.9	6.4						6.4	1.3	4.2	0.3	0.3
Poultry Meat	46.5	2.2		0.7	48.1						48.1	9.5	40.7	3.0	3.1
Meat, Other	1.9	0.0	0.0	0.4	1.5						1.9	0.4	0.9	0.2	0.0
Offals	8.4	0.1		2.0	6.5						6.1	1.2	3.5	0.6	0.1
Animal Fats	6.9	22.9	0.0	1.3	28.5	0.7				23.3	5.5	1.1	21.8	0.0	2.4
Fats, Animals, Raw	6.1	21.3	0.0	1.2	26.2	0.7				23.3	3.2	0.6	13.0	0.0	1.4
Butter, Ghee	0.7	1.6		0.1	2.3						2.3	0.4	8.7	0.0	1.0
Milk (Excluding Butter)	234.4	54.2	0.0	107.3	181.2	0.0			11.7	0.0	186.4	36.8	55.6	3.7	2.9
Eggs	20.8	2.0		0.0	22.7		2.2		0.5		20.1	4.0	14.1	1.1	0.9
Fish, Seafood	24.8	8.3	1.4	13.9	20.5	0.0				0.0	20.5	4.1	6.9	1.0	0.3
Freshwater Fish	1.1	0.0		0.1	1.1					0.0	1.1	0.2	0.4	0.1	0.0
Demersal Fish	0.1			0.1	0.0						0.0	0.0	0.0		
Pelagic Fish	0.0	6.1	0.0	0.0	6.0	0.0					6.0	1.2	2.1	0.2	0.1
Marine Fish, Other	8.4	1.6		2.9	7.1	0.0					7.1	1.4	2.8	0.4	0.1
Crustaceans	15.0	0.5	1.4	10.8	6.0						6.0	1.2	1.6	0.3	0.0
Cephalopods		0.0	0.0	0.0	0.0						0.0	0.0	0.0		
Molluscs, Other	0.2	0.1		0.0	0.3						0.3	0.1	0.0	0.0	
Fish, Body Oil		0.0			0.0	0.0							0.0		
Fish, Liver Oil		0.0			0.0					0.0					

Senate Committee on Agriculture, Nutrition & Forestry

Hearing on Central America Free Trade Agreement

Testimony of Bob McLendon on behalf of the National Cotton Council of America

June 6, 2005

Mr. Chairman and members of the Committee. My name is Robert McLendon. I own and operate a diversified farming operation in Leary, Georgia. I am a past President of the National Cotton Council of America and Southern/Southeastern, representing Cotton Growers and ginners. I am pleased to be here today to discuss the Central America Free Trade Agreement.

Since the very early stages of the Central America negotiations, the National Cotton Council has been involved in the process with respect both to cotton fiber and cotton textiles. After over a year of evaluation and discussion within the industry and with the Administration, the National Cotton Council voted to support this agreement and urges its adoption.

For simplicity today, I will refer to the Dominican Republic – Central American Free Trade Agreement as CAFTA.

The U.S. cotton industry cannot view CAFTA in isolation. It is a part of an important effort to enhance the competitiveness of cotton fiber and cotton textiles and apparel produced in the Western Hemisphere. It is also part of a continuing evolution that began with the North American Free Trade Agreement, was partially extended into the Caribbean by Caribbean Basin trade initiatives, and will now be fully incorporated into trading patterns by the acceptance of this agreement.

It is critically important to the U.S. textile industry that there be a sustainable, effective Western Hemisphere platform for the efficient transformation of cotton fiber into apparel products. While China is a valuable trading partner for U.S. cotton, China is also a competitive earthquake for textile and apparel production throughout the world. Trade restrictions and safeguard actions are important, but only short-term responses to the competitive inequality that exists today. The only long-term answer lies in improving our competitiveness. Enactment of this agreement improves our ability to do that.

In short, if the production of cotton textiles is to continue in any significant amount in the United States, we must nourish cut-and-sew operations near our shores. A CAFTA nourishes those operations by giving them duty-free access to our market. It nourishes our yarn and cloth operations by tying that duty preference to the use of textiles made in the free trade zone.

I know this is a controversial agreement. I was deeply involved in industry discussions over another controversial agreement – the North American Free Trade Agreement. All over Georgia and the Southeast, cut-and-sew apparel operations were in opposition to that agreement – and many of those operations have gone out of business since NAFTA passed. However, the Council knew at that time that U.S. cut-and-sew operations were facing a new wave of competition from China and other producers – with or without NAFTA. It evaluated NAFTA within that international context and concluded that NAFTA was the only way the U.S. cotton industry could hope to meet this new competition. It also

concluded, correctly, that fewer U.S. jobs would be lost with NAFTA than without it. NAFTA has been very beneficial to U.S. cotton. The decision of the Council to support that agreement has proven to be the correct one.

Likewise, the Council is convinced that CAFTA is another critical component in building a solid, Western Hemisphere manufacturing base for textiles and apparel.

COTTON FIBER CONSIDERATIONS

Failure to enact CAFTA would jeopardize a market that currently imports 200 thousand bales of U.S. cotton fiber and 2.5 million bales of cotton textile products produced by the U.S. textile industry. The agreement provides for the immediate elimination of bound tariff rates among the Central American participants, ensuring the continued access of US raw cotton fiber to CAFTA markets.

All CAFTA countries import cotton from the U.S., with only Costa Rica applying a small one percent duty. However, the WTO permits the imposition of duties as high as 60%. The agreement immediately eliminates all bound import duties on US cotton while phasing out U.S. tariff rate quotas over a 15-year period.

This Administration has taken a consistent approach to the opening of the U.S. cotton fiber market under free trade agreements. Imports of cotton fiber into the United States are currently subject to a tariff rate quota that typically goes unfilled. Under CAFTA, import restrictions and duties on cotton fiber will be phased out completely over the longest time-frame provided in the agreement.

The CAFTA countries only produce approximately 20 thousand bales per year, so increased imports of raw fiber to the US are not a concern. This limited domestic production and a 90 percent import market share by U.S. cotton fiber suggests that any growth in mill use in CAFTA countries will translate into additional imports of U.S. cotton fiber.

We support the approach on cotton fiber in this Agreement.

TEXTILE AND APPAREL PROVISIONS AND IMPACT

Textile and apparel provisions of CAFTA have been more controversial and were difficult to negotiate. Cotton is essentially an industrial raw material from which textiles and food products are produced. The U.S. cotton industry cannot evaluate a free trade agreement without considering its textile and apparel components. In today's world cotton market, textile and apparel trade is the most significant factor affecting price and demand.

Despite the shift in the demand base of US cotton from domestic use to exports, the US textile industry remains the number one customer for the U.S. cotton industry, consuming more than 6 million bales annually.

Of the 6.3 million bales of cotton currently consumed by U.S. textile mills, only about one-fourth is "dirt-to-shirt," meaning the cotton is grown in the U.S., spun into yarn here, made into fabric here, and finally made into consumer products in the U.S. The remaining three-fourths is dependent on cut-and-sew operations outside the U.S. -- primarily in Central America and Mexico -- and this dependence will continue to grow.

In 2004, the U.S. textile industry exported the equivalent of 2.5 million bales of cotton textile products to CAFTA countries. This is up from 1.6 million bale equivalents in 2001.

Conversely, in calendar year 2004 the U.S. imported 3.4 million bales of cotton textile products from CAFTA countries, with the almost 80% being made of U.S.-produced cotton fiber. We already have a healthy trade of cotton and cotton textile products – a trade that needs to be enhanced by enactment of CAFTA or we fear it will be eroded by outside competition.

The CAFTA builds upon the "one-way" trade preferences included in the Caribbean Basin Trade Partnership Act by extending duty-free access to the U.S. market beyond the scheduled 2008 expiration date of the earlier Act, fully opens the CAFTA market to duty free entry of US products, and removes restrictive quotas on knit apparel that could qualify for duty-free treatment under that Act and, by doing so, encourages additional investment and use of U.S.-produced yarn. The agreement will remove certain Central American import duties that are as high as 18% on some textile products.

As an agricultural raw product, our evaluation of the downstream aspects of a free trade agreement hinges on the applicable rule of origin. With the conclusion of NAFTA, the cotton industry has generally supported what is referred to as a "yarn-forward" rule of origin, meaning that everything in an apparel garment, including the yarn, must have been produced in the free trade zone in order to benefit from the agreement. Each agreement contains exceptions to this rule, some more restrictive, some less restrictive.

CAFTA continues the use of a "yarn-forward" rule, and we support this approach. There are some exceptions to the rule that have proven controversial. For example, the agreement contains an exemption from the basic rule of origin for 100 million square meter equivalents of cotton and manmade fiber apparel from Nicaragua. It also provides for an exemption for a certain quantity of apparel products that contain components produced in Mexico. While the U.S. has a free trade agreement with Mexico, the CAFTA is not equivalent to a regional agreement and does not include Mexico as one of the participants.

Both of these exceptions, along with an exception for pocketing and linings and allowances for single transformation in the case of boxer shorts, nightwear and bras , undermine some of the benefits of this free trade agreement, particularly with respect to U.S. producers of products that compete directly with products that have been granted the exemption. But even with these exceptions, this agreement contains fewer exceptions to the basic rule of origin that most other free trade agreements we have in place.

CAFTA also contains stricter Customs enforcement provisions that NAFTA. These enforcement provisions allow U.S. Customs to send "jump teams" to Central America to conduct surprise onsite visits to help counter transshipments and allows Customs to deny entry to suspect goods. CAFTA also includes a special textile safeguard provision, allowing the U.S. to re-impose tariffs on apparel products if there is injury due to import surges.

The Administration has indicated it will take the concerns of the textile industry into consideration during implementation of the agreement and will work with the industry to ensure the agreement enhances the overall competitiveness of the U.S. textile industry.

Mr. Chairman, after carefully weighing all of these issues, the National Cotton Council concluded that overall this agreement will be helpful to the U.S. cotton industry. We also believe, Mr. Chairman, that failure to enact this agreement will harm our long-term competitiveness.

The Council is joined in this endorsement by the National Council for Textile Organizations, the American Fiber Manufacturers Association, the American Textile Machinery Association, the Carpet and Rug Institute, and INDA, the primary association representing the nonwoven fabrics industry.

CONCLUSION

In conclusion, I would like to put this agreement into a long-term context. I have told you today that the maintenance of a viable trading platform in the Western Hemisphere is critical to the survival of the U.S. cotton textile industry. Such a platform provides the best means of competing with textile products sourced from Asia, primarily China.

However, many of these high volume cotton textile products cut-and-sewn in CAFTA countries using yarns and fabrics sourced from the U.S. will be cost competitive with the same products sourced from Asia only if:

- The products from CAFTA countries enter the U.S. duty free; **and**
- The products from Asia continue to pay duties at the current rate

CAFTA is a critical part of our strategy to retain a competitive U.S. cotton and cotton textile industrial complex. This strategy could be undermined, however, by ill-advised, excessive reductions in textile duties in the context of the Doha negotiations. For U.S. cotton, the benefits of CAFTA are linked to other trade decisions that are yet to be made.

Attachments

ATTACHMENT TO TESTIMONY OF BOB MCLENDON

COTTON TRADING STATISTICS WITH RESPECT TO CENTRAL AMERICA

PSD Official Statistics

Cotton

	Area Harvested (Acres)	Beginning Stocks (480-lb. Bales)	Production (480-lb. Bales)	Imports (480-lb. Bales)	Exports (480-lb. Bales)	Mill Use (480-lb. Bales)	Ending Stocks (480-lb. Bales)
CAFTA-DR							
1998/1999	34,594	86,003	26,001	244,998	10,003	266,006	80,997
1999/2000	34,594	80,997	23,002	229,000	9,002	240,010	84,001
2000/2001	34,594	84,001	27,002	233,001	9,002	256,007	79,003
2001/2002	34,594	79,003	22,000	223,002	9,002	241,006	73,997
2002/2003	34,594	73,997	22,000	209,003	9,002	235,003	60,994
2003/2004	34,594	60,994	22,000	210,004	9,002	227,007	56,994
2004/2005	34,594	56,994	22,000	208,001	9,002	217,004	60,999
Costa Rica							
1998/1999	2,471	5,002	4,000	2,999	-	9,999	1,998
1999/2000	2,471	1,998	1,001	2,999	-	5,002	1,001
2000/2001	2,471	1,001	1,001	1,998	-	2,999	1,001
2001/2002	2,471	1,001	1,001	2,999	-	2,999	1,998
2002/2003	2,471	1,998	1,001	1,001	-	2,999	1,001
2003/2004	2,471	1,001	1,001	1,998	-	2,999	1,001
2004/2005	2,471	1,001	1,001	1,998	-	2,999	1,001
Dominican Republic							
1998/1999	9,884	8,001	2,999	1,998	1,001	5,002	7,000
1999/2000	9,884	7,000	2,999	5,998	-	9,002	7,000
2000/2001	9,884	7,000	2,999	41,001	-	42,003	9,002
2001/2002	9,884	9,002	2,999	15,001	-	22,000	5,002
2002/2003	9,884	5,002	2,999	5,002	-	11,000	1,998
2003/2004	9,884	1,998	2,999	5,002	-	8,001	1,998
2004/2005	9,884	1,998	2,999	5,002	-	8,001	1,998
El Salvador							
1998/1999	2,471	31,002	1,001	110,001	-	110,001	31,999
1999/2000	2,471	31,999	1,001	110,001	-	110,001	33,000
2000/2001	2,471	33,000	1,001	91,000	-	95,001	30,001
2001/2002	2,471	30,001	1,001	92,002	-	100,002	23,002
2002/2003	2,471	23,002	1,001	105,000	-	105,000	23,998
2003/2004	2,471	23,998	1,001	100,002	-	100,002	24,999
2004/2005	2,471	24,999	1,001	95,001	-	95,001	26,001
Guatemala							
1998/1999	4,942	36,000	2,999	120,000	-	125,002	34,002
1999/2000	4,942	34,002	2,999	100,002	-	100,002	37,001
2000/2001	4,942	37,001	2,999	93,003	-	100,002	33,000
2001/2002	4,942	33,000	2,999	103,002	-	100,002	38,999
2002/2003	4,942	38,999	2,999	85,999	-	100,002	27,999
2003/2004	4,942	27,999	2,999	93,003	-	100,002	23,998
2004/2005	4,942	23,998	2,999	95,001	-	95,001	27,002
Honduras							
1998/1999	4,942	4,000	5,002	9,999	-	15,001	4,000
1999/2000	4,942	4,000	5,002	9,999	-	15,001	4,000
2000/2001	4,942	4,000	9,002	5,998	-	15,001	4,000
2001/2002	4,942	4,000	4,000	9,999	-	15,001	2,999
2002/2003	4,942	2,999	4,000	12,001	-	15,001	4,000
2003/2004	4,942	4,000	4,000	9,999	-	15,001	2,999
2004/2005	4,942	2,999	4,000	11,000	-	15,001	2,999
Nicaragua							
1998/1999	9,884	1,998	9,999	-	9,002	1,001	1,998
1999/2000	9,884	1,998	9,999	-	9,002	1,001	1,998
2000/2001	9,884	1,998	9,999	-	9,002	1,001	1,998
2001/2002	9,884	1,998	9,999	-	9,002	1,001	1,998
2002/2003	9,884	1,998	9,999	-	9,002	1,001	1,998
2003/2004	9,884	1,998	9,999	-	9,002	1,001	1,998
2004/2005	9,884	1,998	9,999	-	9,002	1,001	1,998

	2000	2001	2002	2003	2004	YTD 3/04	YTD 3/05	Percent Change 3/04 to 3/05
US Fiber Imports from CAFTA-DR*								
All Fibers	$ 9,058,622,143	$ 9,009,159,265	$ 9,158,134,521	$ 9,244,646,187	$ 9,578,553,844	$ 2,143,848,177	$ 2,284,661,677	7%
All Cotton	$ 6,107,896,742	$ 5,962,250,229	$ 6,288,641,982	$ 6,581,175,021	$ 6,792,391,331	$ 1,564,471,210	$ 1,677,336,778	7%
Cotton Apparel	$ 6,072,012,581	$ 5,928,944,812	$ 6,253,654,267	$ 6,543,215,404	$ 6,756,195,465	$ 1,552,232,573	$ 1,669,926,772	8%
*OTEXA								
US Fiber Imports from All Sources*								
All Fibers	$ 71,691,546,462	$ 70,239,764,571	$ 72,183,130,570	$ 77,434,041,083	$ 83,310,891,395	$ 18,939,039,110	$ 21,053,195,293	11%
All Cotton	$ 37,173,306,880	$ 36,681,172,682	$ 39,047,984,879	$ 42,128,451,427	$ 44,101,104,339	$ 10,725,977,926	$ 12,216,698,920	14%
Cotton Apparel	$ 32,012,508,964	$ 31,646,331,686	$ 33,345,813,327	$ 36,115,236,868	$ 37,398,833,925	$ 9,068,098,636	$ 10,379,886,352	14%
**OTEXA								

*US Raw Cotton Exports to CAFTA-DR****			*U.S. Cotton Mill Use*		*Cotton Textile Imports from CAFTA-DR*		*Cotton Textile Imports from All Sources*	*Cotton Textile Exports to CAFTA-DR*	*Cotton Textile Exports to All Sources*
Cal. Year	**Value**	**Bales**	**Cal. Year**	**Million 480 lb. Bales**	**Cal. Year**	**Million 480 lb. Bales**	**Million 480 lb. Bales**	**Million 480 lb. Bales**	**Million 480 lb. Bales**
1989	$ 3,405,666	12,143	**1989**	8.43	**1989**	0.28	4.90	0.20	1.02
1990	$ 7,247,564	19,654	**1990**	8.55	**1990**	0.33	5.02	0.22	1.33
1991	$ 6,721,976	20,086	**1991**	9.06	**1991**	0.44	5.39	0.28	1.41
1992	$ 7,218,602	25,052	**1992**	10.01	**1992**	0.61	6.62	0.43	1.66
1993	$ 33,571,626	106,341	**1993**	10.25	**1993**	0.78	7.45	0.49	1.91
1994	$ 40,316,925	141,967	**1994**	10.90	**1994**	0.93	7.97	0.58	2.25
1995	$ 72,082,986	192,383	**1995**	10.80	**1995**	1.13	8.52	0.74	2.77
1996	$ 68,710,739	176,770	**1996**	10.72	**1996**	1.27	8.67	0.92	3.13
1997	$ 80,061,901	214,836	**1997**	11.29	**1997**	1.68	10.50	1.15	3.66
1998	$ 128,693,665	376,664	**1998**	10.89	**1998**	2.04	12.49	1.30	4.08
1999	$ 21,199,902	75,061	**1999**	10.47	**1999**	2.46	13.98	1.25	4.32
2000	$ 54,379,771	203,040	**2000**	9.89	**2000**	2.76	15.71	1.71	5.09
2001	$ 51,750,578	198,406	**2001**	7.99	**2001**	2.72	15.65	1.64	4.45
2002	$ 33,109,797	174,336	**2002**	7.67	**2002**	2.92	17.69	2.03	4.55
2003	$ 48,403,776	183,913	**2003**	6.81	**2003**	3.19	19.23	2.42	4.83
2004	$ 66,810,788	204,566	**2004**	6.29	**2004**	3.41	19.84	2.48	4.88
YTD 02/05	$ 10,385,522	39,110	**YTD 03/05**	1.60	**YTD 01/05**	0.22	1.56	0.20	0.38

***USDA-FAS Bico Report

U.S. Cottonseed Product Exports to CAFTA Countries

Source: FAS Online Database

			AUGUST - JULY QUANTITIES									
Destination	**Product**	**Unit**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
COSTA RICA	COTTONSEED	MT	-	-	-	120.80	-	-	200.10	588.20	199.20	106.50
	COTTONSEED OIL	MT	5.30	-	-	-	-	-	-	-	-	-
DOMINICAN REPUBLIC	COTTONSEED	MT	-	-	-	119.10	-	-	-	589.10	-	-
	COTTONSEED OIL	MT	-	11.30	33.60	43.80	22.50	-	14.60	-	-	-
	COTTONSEED CAKE&MEAL	MT	-	-	454.30	-	-	-	-	-	-	-
EL SALVADOR	COTTONSEED OIL	MT	37,835.80	28,134.70	20,630.90	21,963.10	3,797.10	-	3,000.00	3,249.50	406.60	-
GUATEMALA	COTTONSEED	MT	19.20	-	-	360.30	-	-	-	-	-	-
	COTTONSEED OIL	MT	7,098.20	1,199.70	900.00	-	-	-	520.40	-	-	-
	COTTONSEED CAKE&MEAL	MT	-	-	1,467.80	3,521.20	119.00	-	120.20	-	-	-
HONDURAS	COTTONSEED CAKE&MEAL	MT	-	-	-	-	-	-	19.60	-	-	576.40
	COTTONSEED	MT	250.00	78.20	79.00	53.90	53.90	117.40	53.30	79.00	59.30	-
	COTTONSEED OIL	MT	1.80	3.90	186.30	11.80	-	-	-	-	-	-
NICARAGUA	COTTONSEED	MT	42.50	9.90	-	-	-	-	-	-	-	-
	COTTONSEED OIL	MT	15,397.80	6,299.40	2,848.80	714.00	-	-	-	10,749.60	-	-
TOTAL		MT	60,650.60	35,737.10	26,600.70	26,908.00	3,992.40	117.40	3,928.30	15,255.50	665.00	682.90

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Remarks by
Cal Dooley
President and CEO
Food Products Association
Washington, DC
Before the
Agriculture, Nutrition and Forestry Committee
United States Senate
On
"CAFTA-DR: Potential Impacts on Agriculture and Food Sectors"
Tuesday, June 7, 2005

Good afternoon. I am Cal Dooley, President and CEO of the Food Products Association, based in Washington, D.C. FPA is the largest trade association serving the food and beverage industry in the United States and worldwide, and our laboratory centers, scientists and professional staff provide technical and regulatory assistance to member companies and represent the food industry on scientific and public policy issues involving food safety, food security, nutrition, consumer affairs and international trade.

FPA strongly supports the Free Trade Agreement with Central America and the Dominican Republic, or CAFTA-DR. The evidence is clear that this Agreement will provide new market opportunities for U.S. agricultural products, including processed foods and beverages.

Taken together, CAFTA-DR countries represent our 12th largest trading partner. It is estimated that CAFTA-DR could expand U.S. farm exports by $1.5 billion a year.

Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua already have one-way access to the U.S. market through trade preference arrangements. In fact, more than 80 percent of the food and agriculture products imported into the United States from CAFTA-DR nations enter duty-free.

By contrast, U.S. exporters to Central America face average duties of 11 percent on average. Certain food products – such as cheese and yogurt – face prohibitive tariffs in excess of 60 percent in a number of CAFTA-DR countries.

Under the Agreement, tariffs on most food products will be phased out within 15 years. Many food products – like pet foods, cereals, soups and cookies – will become duty-free immediately. Others, such as certain canned or frozen fruits and vegetables have immediate or 5-year phase out.

Because the U.S. market is already largely open to agricultural imports from CAFTA-DR countries, the Agreement will result in little additional import competition.

FPA's colleagues at the Grocery Manufacturers of America (GMA) recently commissioned a study to quantify CAFTA-DR related benefits for their members' food and beverage products. The study found that potential savings from the tariff reductions and quota expansions alone will be nearly $8.8 million on the first day of the agreement. This figure grows to nearly $28 million annually upon full implementation of the agreement.

The study also measures the potential aggregated increase in exports to the five Central American countries and the Dominican Republic one year after the elimination of tariffs on certain products. GMA's trade flow analysis suggests that upon elimination of tariffs, exports could increase from $359 million to $662 million – an 84% increase over current exports to the region. The study also projects strong growth in particular sectors as a result of the agreement. For example, exports of snack foods, confectionary products, and soups could each nearly double to around $30 million annually as a result of the CAFTA-DR.

I understand that GMA is submitting a complete copy of the report, "GMA's Processed Foods Demand Model," for the hearing record.

The Agreement will foster economic stability and regional cooperation. The countries in the CAFTA-DR region are our neighbors and friends, and they want access to high-quality U.S. food products. It is a ready-made market for our country's food exports.

It also is particularly important to point out that CAFTA-DR is specifically designed to improve the enforcement of labor and environmental laws in Central America:

- The agreement requires that countries effectively enforce their labor and environmental laws. Countries in the region have already taken numerous, concrete steps to improve labor law enforcement.

CAFTA-DR contains ground-breaking environmental provisions, including a process designed to identify and correct trade-related environment problems. Additionally, CAFTA-DR establishes a forum for addressing technical and sanitary concerns, to ensure the safety of food products in the international market and to quickly resolve emerging technical trade barriers.

FPA is not alone in its support for CAFTA-DR; far from it. Support has been voiced by food and agriculture organizations throughout the food chain, from growers to food processors to the retail community.

We should not allow the few sectors of our economy unwilling to compete internationally to deny this market opportunity for the vast majority of U.S. food and agriculture sector willing and eager to compete in the international marketplace.

With respect to sugar – It is a travesty that this one commodity is unwilling to allow a minimal increase in sugar imports and is willing to hold hostage the benefits this agreement provides to so many other sectors of the economy. Consider these three points:

- The increased market access for sugar is equal to about a day's production in the United States.
- The over quota tariff remains unchanged.
- Finally, I know of no other commodity covered by this agreement that has a "safe harbor" provision allowing the United States to provide alternative compensation to CAFTA-DR country exporters in exchange for imports of sugar.

The sugar industry itself is not united in its opposition to CAFTA-DR. For example, Imperial Sugar has been a vocal supporter of CAFTA-DR and its benefits.

Moreover, failure to pass CAFTA-DR could have dire implications for the future of other important trade agreements, including the DOHA round of the WTO, the Andean Free Trade Agreement, and Free Trade Area of the Americas.

The export trade in processed and packaged foods has been a bright light for our nation's economy, now accounting for more than 40 percent of U.S. agricultural exports. CAFTA-DR promises to increase the trade in such products, which in turn will lead to growth in production and the creation of new jobs in the United States.

So, in closing, I join with the many other organizations in the food and agriculture sector who support CAFTA in urging prompt consideration by the U.S. Senate of this important trade agreement.

Thank you for the opportunity to speak today on this important issue.

Statement of
Mr. Tom Buis
Vice President, Government Relations
National Farmers Union

Before the
United States Senate Committee on Agriculture, Nutrition and Forestry

Washington, DC
June 7, 2005

Chairman Chambliss, Ranking Member Harkin, Members of the Senate Agriculture Committee, it is a pleasure to appear before you today on behalf of the farmer and rancher members of the National Farmers Union to discuss the issue of agricultural trade negotiations, specifically the Central America Free Trade Agreement (CAFTA).

Before I discuss our concerns about CAFTA, I would like to offer a few general observations concerning agricultural trade.

I do not believe there is any question but that farmers and ranchers are more concerned about the impact of globalization, market concentration and the results of trade agreements on their operations and on U.S. production agriculture than at any time in recent memory. The reason for increased skepticism--in more and more cases downright cynicism--is that the results of agricultural trade negotiations and the agreements that follow have consistently failed to match the promises and rhetoric of free trade proponents.

Time and time again, farmers have been told that because of the increased demand created by growing populations and expanding incomes beyond our borders, prosperity based on free trade is just around the corner. As producers, we never seem to get to that elusive corner. The farmer expectations created by the advocates of the North American Free Trade Agreement (NAFTA), the Uruguay and Doha Rounds and China's ascension to the World Trade Organization (WTO) have not been fulfilled. The prospect that the current WTO Round or myriad of bilateral and regional trade agreements will create a different result is just as unlikely.

At times, the proponents of these agreements seem to suggest that without these commitments, no agricultural goods, or at least no U.S. agricultural commodities, would move in world commerce. However in during the five years, 1990-94, before farmers began to realize the costs and the benefits of NAFTA and the WTO, our agricultural exports, which were comprised of a significantly higher proportion of bulk commodities than occurs today, resulted in an average trade surplus over the imports of competitive products of about $23 billion. Last year, exports were at a record level and just barely exceeded the flood of agriculture imports. This year, for the first time in nearly a half-century, the United States is likely to import more agriculture products than we export. This clearly demonstrates that the Free Trade Agenda is not working to the benefit of America's farmers and ranchers

From 1985 to 1994, when agriculture was not a focal point of trade negotiations, our farm exports grew by nearly 41 percent, while all agricultural imports rose by about 35 percent. From 1994 to 2003, after agricultural trade became subject to trade rules under the WTO and NAFTA, agricultural exports increased 34.4 percent and imports 86.1 percent, the vast majority of which were comprised of competitive products.

As proponents of Free Trade tout our increased sales to Canada and Mexico as a result of NAFTA, we must also acknowledge that we are selling proportionately less to the rest of the world than we used to, while at the same time importing from overseas increased quantities of products that we already produce. This is not due to increased tariff or non-tariff barriers in the non-NAFTA countries or a decline in demand, but because we have been displaced in third-country and our own domestic markets by our trade competitors.

Exports are important to farmers and ranchers, however, the misrepresentation of trade data should be curtailed to present a more fair and objective view of trade as it relates to agricultural producers.

CAFTA

Estimates of sizable trade gains for U.S. farmers and ranchers are overly optimistic. The CAFTA countries have a combined population of approximately 40 million people with limited resources that can be used for the purchase of agricultural products. If the Free Trade of the Americas agreement becomes reality or if CAFTA nations establish similar agreements with other countries, these limited market opportunities would become further reduced.

Additional market access and tariff relief for a few U.S. products will not offset the negative impact of increased agricultural imports from these CAFTA countries. The CAFTA would substantially open the U.S. market to sugar products that directly compete with U.S. sugar beet and cane producers

As a whole, the free trade proponents seem more inclined to negotiate with countries that want increased access to U.S. markets rather than with countries interested in buying more of our agricultural products. If our markets are opened in every agreement by even a small amount, eventually it adds up to a huge increase in imports. This incremental

approach has the potential to be just as devastating as one big deal, especially when our agricultural imports are already increasing at a faster rate than our exports.

The CAFTA resembles failed trade policies of the past that further encourage a race to the bottom for producer prices and fails to address major issues that distort fair trade. For example, it does not address exchange rates, yet CAFTA nation currencies have continued to decline against the U.S. dollar providing a trade advantage to those nations. This would make their products less expensive in international markets.

Labor costs are a major component of U.S. agriculture. The CAFTA does not implement enforceable requirements for participating nations to achieve International Labor Organization standards with regard to labor issues. It only provides that domestic labor laws be enforced, which will continue to provide a competitive agricultural production and processing advantage to those nations relative to the United States in both bilateral and third-country trade.

Additionally, the CAFTA does not establish a timeframe or enforcement procedures to harmonize environmental standards with U.S. levels. Environmental compliance is a major element in U.S. agriculture production and to forfeit these standards in trade deals makes no sense to U.S. agricultural interests.

The CAFTA also does not adequately address tariffs. While some tariffs will be eliminated immediately, the 15-year phase-out of tariffs on other agricultural products will continue the market access advantages the United States already provides these nations.

National Farmers Union supports trade that benefits agricultural producers in both countries and cannot support agreements like the CAFTA that trade away our agricultural markets for no visible returns to American farmers and ranchers.

In summary, Mr. Chairman, the National Farmers Union is opposed to CAFTA because we believe the benefits are being oversold, the consequences understated and important trade factors such as currency manipulation, labor, health and environmental standards are not included in the agreement which will increase, not decrease the "outsourcing of our nation's food and fiber production.

Mr. Chairman, thank you for the opportunity to participate in this important hearing. I will be pleased to respond to any questions you or your colleagues may have.

Testimony of
Jack Roney
Director of Economics and Policy Analysis
American Sugar Alliance

Committee on Agriculture, Nutrition and Forestry
United States Senate
Hearing on the
Dominican Republic-Central America Free Trade Agreement:
Potential Impacts on the Agriculture and Food Sectors

June 7, 2005

The American Sugar Alliance is grateful for the opportunity to provide testimony for this important hearing. The ASA represents the 146,000 American farmers, workers, and their families in 19 states, engaged directly and indirectly in the growing, processing and refining of sugarbeets and sugarcane. The U.S. sugar industry generates nearly $10 billion in annual economic activity.

Background on U.S. and World Sugar Markets

In some states, sugar is the most important cash crop, or among the most important. Sugar accounts for 44% of crop receipts in Louisiana, 37% in Wyoming, 24% in Hawaii, and 10-20% in Idaho, Minnesota, Florida, North Dakota, Montana, and Michigan.

American sugar growers and processors are among the most efficient in the world, and, like other American farmers, we would welcome the opportunity to compete globally on a level playing field, free of government intervention *(Chart 1)*. Like other American farmers, we *can* compete against foreign farmers, but we *cannot* compete against foreign government subsidies and predatory trading practices.

The world sugar market is the world's most distorted commodity market, because of a vast, global array of subsidies. Subsidized growers overproduce and dump their surpluses on the world market for whatever price it will bring. As a result of all this dumping, the so-called world sugar price has averaged barely half the world average cost of producing sugar for the past 20 years *(Chart 2)*. The ASA supports correcting this distorted dump market through genuine global sugar trade liberalization.

Only Path to Sugar Trade Liberalization: WTO

There is a right way and a wrong way to achieve global sugar trade liberalization.

- The right way: The World Trade Organization (WTO) – all countries at the table; all programs and all subsidies on the table. The ASA has supported sugar trade liberalization in the WTO context since the initiation of the Uruguay Round of the GATT in 1986.

- The wrong way: Bilateral and regional free trade agreements (FTAs), where markets are wrenched open without addressing *any* foreign subsidies. The Administration has rightfully declared it will not address any support programs or subsidies in FTAs. Yet it has effectively negotiated away the U.S. sugar support program in the CAFTA.

Virtually every FTA ever completed around the world *excludes* import-access mandates for sugar. Sugar import mandates are excluded from the U.S.-Canada portion of the NAFTA; from the Mercosur agreement among four South American sugar producing countries, including Brazil; from the European Union's (EU) trade agreements with South Africa, with Japan, and now with Mercosur; from Mexico's FTAs with other Latin American countries and with Japan; from Japan's pending agreements with Thailand and with the Philippines. Sugar was excluded from the U.S.-Australia FTA, which USTR touted as a "state of the art" agreement that gained the U.S. immediate duty-free access for 99% of its exports to Australia, and which Congress passed easily.

The only exceptions: Sugar market-access mandates were included in the U.S.-Mexico portion of the NAFTA, and those provisions have been mired in controversy ever since, and in the CAFTA, whose fate in the Congress is highly uncertain.

The ASA's recommendation to the Administration has been long-standing and unambiguous: Reserve sugar negotiations for the WTO, where genuine trade liberalization can occur.

CAFTA Dangers to U.S. Sugar, U.S. Economy, WTO Process

The U.S. sugar industry adamantly opposes the CAFTA and urges that Congress do the same. The potential benefits for the U.S. economy simply do not outweigh the definite risks. The possible benefits are tiny: The entire GDP of the six countries is about the same as New Haven, Connecticut's. At serious risk are American jobs in sugar and a host of other sectors.

- The government's own analysis, by the International Trade Commission (ITC), predicts that at the end of the 15-year implementation period, the U.S. trade *deficit* with the CAFTA region will have *increased*, not fallen, to $2.4 billion *("U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects,"* Investigation No. TA-2104-13, August 2004). Other ITC findings from the same study:

    - Job losses in the sugar sector will be 38 times greater than job loss in the next most harmed sector, textiles. ITC also predicted American job losses in electronic equipment, transport equipment, oil, gas, coal and other minerals.

    - The U.S. already has 100% duty-free access for wheat exports to the CAFTA countries.

- The U.S. already accounts for 94% of the small CAFTA market's grain imports; and 95% of soybean imports.

- The U.S. gets immediate tariff-free access only for prime and choice cuts of beef. With 40% of the CAFTA population earning less than $2 per day, the demand for such expensive cuts of beef cannot be great.

- FTAs such as the CAFTA distract from, and harm, the progress toward genuine trade liberalization in the WTO. A recent WTO report confirms this ("*The Changing Landscape of Regional Trade Agreements*," WTO Secretariat Discussion Paper No. 8, 2005).

  For example, after the CAFTA countries have spent years negotiating special access to the United States, the world's biggest market, why should these countries cooperate in Geneva to provide the same access to the U.S. for the rest of the world?

  The FTA approach risks fragmenting the world economy into to a matrix of trading blocs, each with its own tariff wall around it to protect the subsidies within. Only in the WTO can we address both the tariff walls and the subsidies within.

- Opposition to the CAFTA is widespread.

  The American public correctly perceives that CAFTA dangers outweigh the risks. Polls indicate a majority of Americans opposes the CAFTA, including pluralities of Republicans, Democrats, and Hispanics.

  Opposition extends to labor, environmental, textile, human rights, and faith-based organizations, both here and in the CAFTA countries. The Congressional Hispanic Caucus recently voted overwhelmingly to oppose the CAFTA.

  Some national farm groups oppose CAFTA, some others are split. American farmers have grown understandably skeptical that the promises of trade agreements and other efforts to expand U.S. exports far exceed actual performance. In 1996, the U.S. achieved a record agricultural trade surplus of $27.3 billion. In 2004, 11 years into the NAFTA, 10 years into the Uruguay Round Agreement on Agriculture, and 9 years after the 1996 Freedom to Farm Bill reduced commodity prices to encourage more exports, our ag trade surplus has plummeted to zero *(Chart 3)* – despite the weaker dollar that made our exports more competitive. Our ag imports have skyrocketed under these agreements; our exports have been essentially flat.

  The CAFTA promises more of the same, particularly in the near term. U.S. import concessions are frontloaded – concentrated in the early years of the

agreement – and CAFTA-country import concessions are backloaded, to the final stages of the 15-year implementation period.

As the Senators from sugar-producing states know, if the CAFTA passes, it will have devastating effects on the U.S. sugar industry. Our farmers know their industry and their policy well, and have examined the CAFTA provisions soberly and carefully. We regard the CAFTA as a fully genuine, life-or-death issue. Our farmers, whose livelihoods are at stake, are insulted when USTR trivializes the potential harm from this agreement with cutesy, misleading estimates such as the amount of additional access in teaspoons per consumer or production per day.

We are already one of the world's most open sugar markets. Past trade-agreement concessions have made us the world's fourth-largest net importer. We are required, under WTO concessions, to import 1.256 million short tons of sugar per year from 41 countries, essentially duty free, whether we need the sugar or not. *The six CAFTA countries are already our largest duty free supplier, accounting for 27% of our WTO-required imports.* In addition, we are required under the NAFTA to import up to 276,000 short tons per year of Mexican surplus sugar production, again, whether we need the sugar or not.

Unfortunately, U.S. sugar consumption has declined in recent years, rather than grown. As a result, every additional ton of sugar we are forced to import from foreign countries is one ton less that struggling American sugar farmers will be able to produce or sell in their own market.

U.S. sugar policy is unique. It is the only U.S. commodity policy designed to operate at no cost to taxpayers. During this time of enormous federal budget pressures, American sugar farmers are proud to have a program with no budgetary costs *(Chart 4)*.

Congress in the 2002 Farm Bill provided an inventory management approach for sugar and a mandate for the Administration to operate the program at no cost by avoiding sugar loan forfeitures. The Administration has two tools to balance the domestic market: the WTO-legal tariff-rate import quota and domestic marketing allotments. Basically, USDA forecasts U.S. sugar consumption, subtracts required WTO and NAFTA imports, and sets the remainder as the American sugar producers' share of their own market. With a large part of our market guaranteed to foreign suppliers, American sugar farmers – taxpayers, businessmen, and cooperative owners – must line up behind the foreign farmers for access to their own U.S. market. If we produce more sugar than our marketing allotment, our producers store the excess *at their own expense*, not the government's expense, until that sugar is needed.

Congress stipulated that if imports exceed 1.532 million short tons – the sum of the WTO commitment of 1.256 million short tons and the NAFTA/Mexico commitment of up to 276,000 short tons – USDA would lose its authority to administer marketing allotments and sustain no-cost sugar-program operation. In effect, the Congress was saying: Though American sugar producers are among the world's most efficient, we have already ceded to foreign producers over 1.5 million short tons of the U.S. market. Let's reserve the

remainder of the U.S. market for American farmers, rather than giving our market away, piecemeal, to foreign producers in FTAs *(Charts 5, 6)*.

American sugar producers are currently storing at their own expense about 500,000 tons of surplus sugar, and many are reducing acreage, idling or shutting down mills – many of them farmer owned – to absorb the oversupply. Sugar prices have been flat or depressed for some time – the raw cane sugar support price has been the same 18 cents per pound for 20 years now, since 1985; prices in 2004 averaged 11% lower than in 2003 *(Charts 7, 8)*. Unlike other program crops, sugar farmers receive *no* income support from the government to compensate for low market prices. This allows scarce federal dollars to be directed toward assisting farmers of export crops.

Sugar farmers, meanwhile, are making wrenching adjustments to survive, or just going out of business. Fully a third of all U.S. beet and cane mills and refineries have closed just since 1996, 30 plants in total *(Chart 9)*.

As independent beet processors and cane refiners have gone out of business, beet and cane farmers, desperate to retain outlets for their beets and raw cane sugar, have organized cooperatively to purchase those operations. Beet farmers now own 94% of U.S. beet processing capacity and cane farmers own 57% of U.S. cane refining capacity *(Chart 10)*.

This vertical integration has helped to increase efficiency, but growers have literally mortgaged the farm to stay afloat and are deeply in debt. Since sugar farmers derive 100% of their return from the marketplace and none from government payments, they are more dependent on, and more vulnerable to, market forces than other farmers. Sugar farmers are generally unable to switch to other crops because of their commitment to supplying beets and cane to the processing mills they now own. This makes sugar farmers all the more vulnerable to the type of market disruption the CAFTA would be likely to cause.

Sugar farmers based their investment decisions on the promise in the 2002 Farm Bill of volume and price levels that would enable them to remain in business and repay their loans. The CAFTA, and other FTAs, now threaten to break that promise.

Low, Steady U.S. Consumer Prices for Sugar

The low producer prices for sugar over the past several years have been a hardship for sugar farmers and caused considerable job loss as mills have closed. Unfortunately, consumers have seen no benefit from the low producer prices for sugar. Though wholesale sugar prices in 2004 averaged 11% lower than the previous year and 20% less than in 1996, consumer prices for sugar in the grocery store have risen modestly; and, sweetened product prices have continued a steady rise, at least with the overall rate of inflation *(Chart 11)*.

Nonetheless, American consumers are getting a great deal on the sugar they purchase, with low, steady prices. U.S. retail sugar prices are essentially unchanged since the early 1990's. We are releasing today a new global survey by LMC International that shows foreign developed-country retail sugar price averages 30% higher than the United States.' EU average prices are 35% higher than the United States', and retail sugar prices in Australia and Canada, which claim to be exposed to world dump market sugar, are virtually the same as prices here *(Chart 12 -- "Retail and Wholesale Prices of Sugar Around the World,"* LMC International Ltd, Oxford, England, June 2005).

Taking into account developing countries, and varying income levels, LMC discovered that sugar here is about the most affordable in the world. In terms of minutes of work to purchase one pound of sugar, only tiny Singapore is lower; the world average is four times higher than the U.S. And, our expenditure on sugar as a percent of per capita income is the lowest in both the developed and the developing world *(Charts 13, 14).*

World Average Wholesale Prices are Double Dump Market Levels

In the same survey, LMC also examined wholesale refined prices and found that the global average is 22 cents per pound – double the world dump market average price for 2004 – and about the same as the United States'. This reinforces the meaninglessness of the world dump price. Globally, the vast majority of sugar is sold in domestic markets at price levels that are, on average, double the world dump market price and similar to the United States' *(Chart 15).*

It is worth noting that LMC found wholesale prices in Mexico to be 5 cents higher than the United States' 23 cents per pound, and Canada's price to be just 2 cents lower. This contradicts notions that U.S. candy manufacturers are moving to these countries for lower sugar prices. Other factors are far more important in those decisions. For example, the same candy company that paid average wages in Chicago of more than $14 per hour now pays an average of 56 cents per hour in Juarez, Mexico *(Chart 16).*

CAFTA: Short and Long-term Dangers to U.S. Sugar Market

Despite the fact that our market is already oversupplied, and despite the fact that the six CAFTA countries already supply more than a fourth of our guaranteed duty-free imports, the proposed CAFTA more than doubles the five Central American countries' duty-free access to the U.S. market, an increase of 111%. With an additional, smaller concession to the Dominican Republic, additional imports would total 120,000 short tons in the first year, growing to 169,000 short tons per year in year 15, and an additional 2,910 short tons per year forever after *(Chart 17).*

The CAFTA poses serious short-term and long-term dangers to the U.S. sugar industry.

1. In the short term, the CAFTA sugar market-access concessions – on top of import commitments the U.S. has made already in the WTO, to 41 countries, and in the NAFTA, to Mexico – will prevent the USDA from administering a no-cost U.S. sugar

policy, as Congress directed it to in the 2002 Farm Bill, and will badly further oversupply the U.S. sugar market.

The additional concessions will trigger off the marketing allotment program that permits USDA to restrict domestic sugar sales and balance the market. Absent marketing allotments, surplus U.S. sugar – the 500,000 tons producers are currently holding off the market and storing it at their own expense – would cascade onto the market and destroy the price.

- Contrary to USTR's misleading claims, there is no "cushion" – no amount of additional import access Congress intended to make available in FTAs. The difference between recent actual imports and the 1.532-million-ton trigger has already been allocated to Mexico under the NAFTA. Mexico has not recently had the surplus sugar available to send to the U.S. But surplus Mexican sugar may soon become available again, with improved crops and with the successful conclusion of sweetener-trade discussions with Mexico that Members of Congress from sugar and corn states strongly support.

  We find it disturbing that USTR would ignore commitments made in past agreements in order to promote new agreements.

2. In the longer term, the CAFTA is the tip of the FTA iceberg.

   Behind the CAFTA countries, 21 other sugar-exporting countries are lined up, like planes on a tarmac, waiting to do their deal with the U.S. and, no doubt, expecting no less access than already granted to the CAFTA countries. Combined, these 21 countries export over 25 million tons of sugar per year, nearly triple U.S. sugar consumption. Obviously, the precedent the CAFTA concession would set will make it impossible for the U.S. sugar industry to survive future agreements *(Charts 18, 19)*.

   The U.S. is pushing to complete the Panama, the Andean, and the Thailand FTAs this year. The South Africa Customs Union FTA and the Free Trade Area of the Americas are on hold, but still very much on the Administration's FTA agenda. All these involve major sugar producers and exporters.

Conclusion

In conclusion, Mister Chairman, the certain dangers of the CAFTA to the U.S. economy outweigh the marginal, possible benefits. We respectfully urge that Congress reject the CAFTA, and focus U.S. trade liberalization efforts instead on the WTO, where there is a genuine potential for progress.

The CAFTA would devastate the U.S. sugar industry. We are, therefore, expending all possible resources and energy to urge Congress to defeat this ill-conceived agreement.

Thank you.

Chart 1

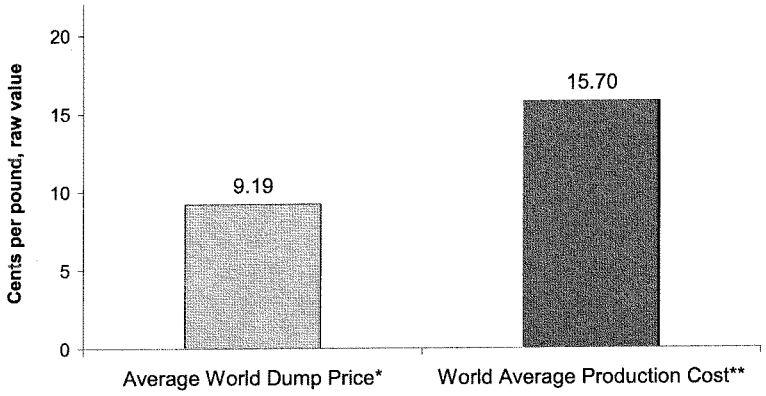
U.S. Cost of Production Rank Among World Sweetener Producers, 1997/98 – 2002/03

	U.S. Rank (Lowest = 1)	Number of Producing Countries/Regions
Beet Sugar	3	41
Cane Sugar	26	64

Source: "LMC Worldwide Survey of Sugar and Corn Sweetener Production Costs: 2003 Report," LMC International Ltd., Oxford, England, June 2004.

Chart 2

World Sugar Dump Market Price: Barely More Than Half the World Average Cost of Producing Sugar
(20-Year Average, 1983/84 - 2002/03)



*New York contract #11, f.o.b. Caribbean ports. Source: USDA.
**Beet and cane sugar weighted average, raw value. Source: "The LMC Worldwide Survey of Sugar and HFCS Production Costs: The 2003 Report," LMC International, Ltd., Oxford, England, December 2003.

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Chart 3

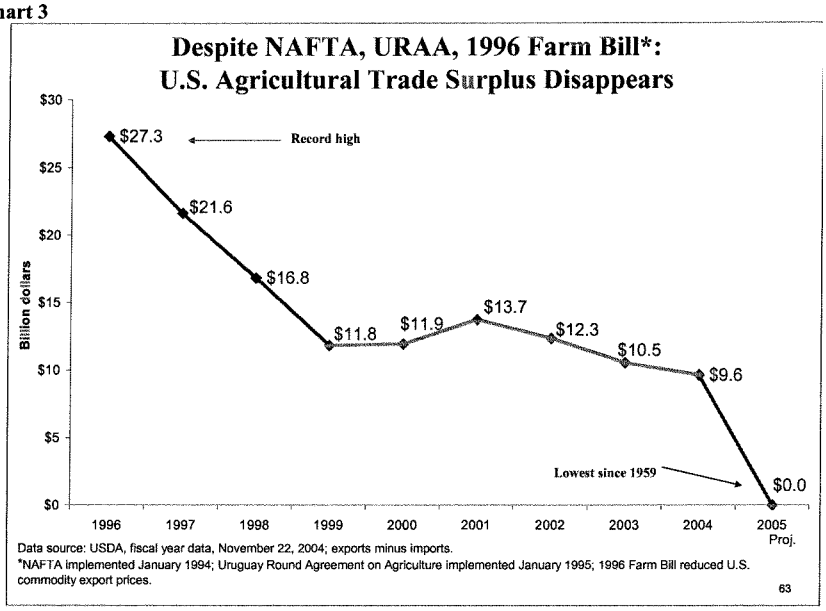


Chart 4

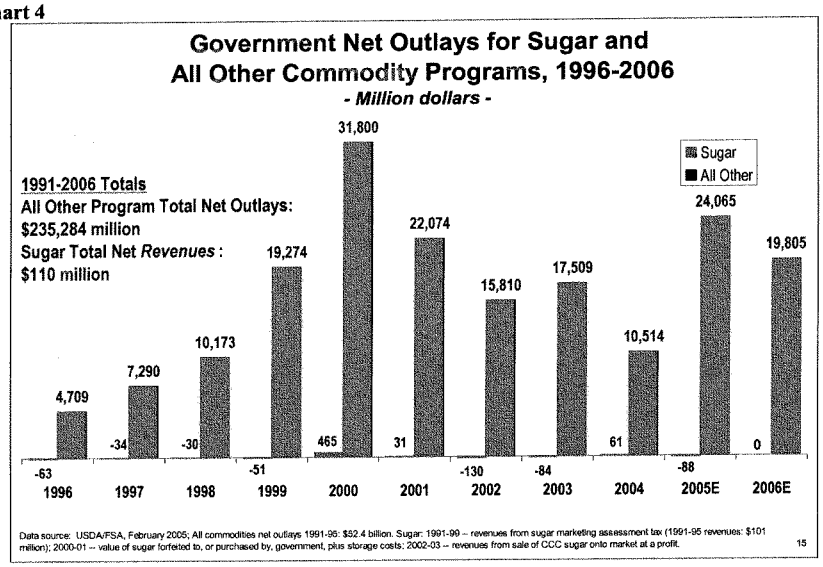
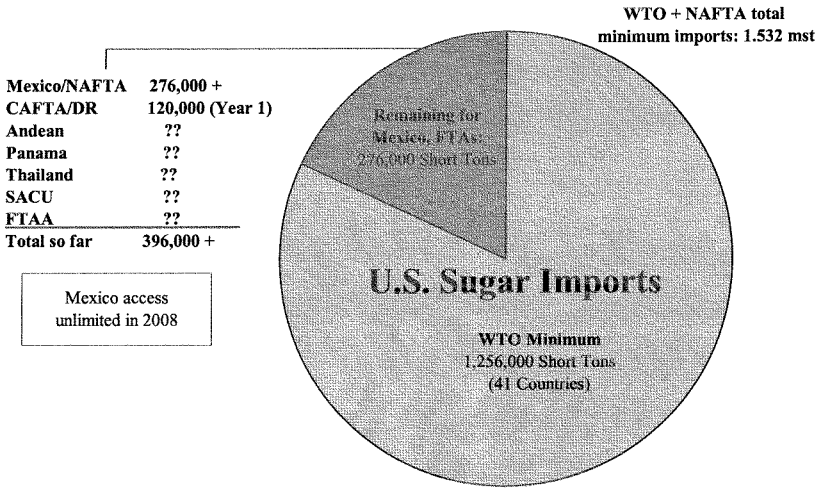


Chart 5

No-Cost US Sugar Policy Impossible if Imports Exceed 1.532 Million Short Tons*
-- Available for Mexico and all FTAs: 276,000 ST; Committed So Far: 396,000 ST



*** Marketing allotments triggered off; surplus sugar floods market; prices drop.**

Chart 6

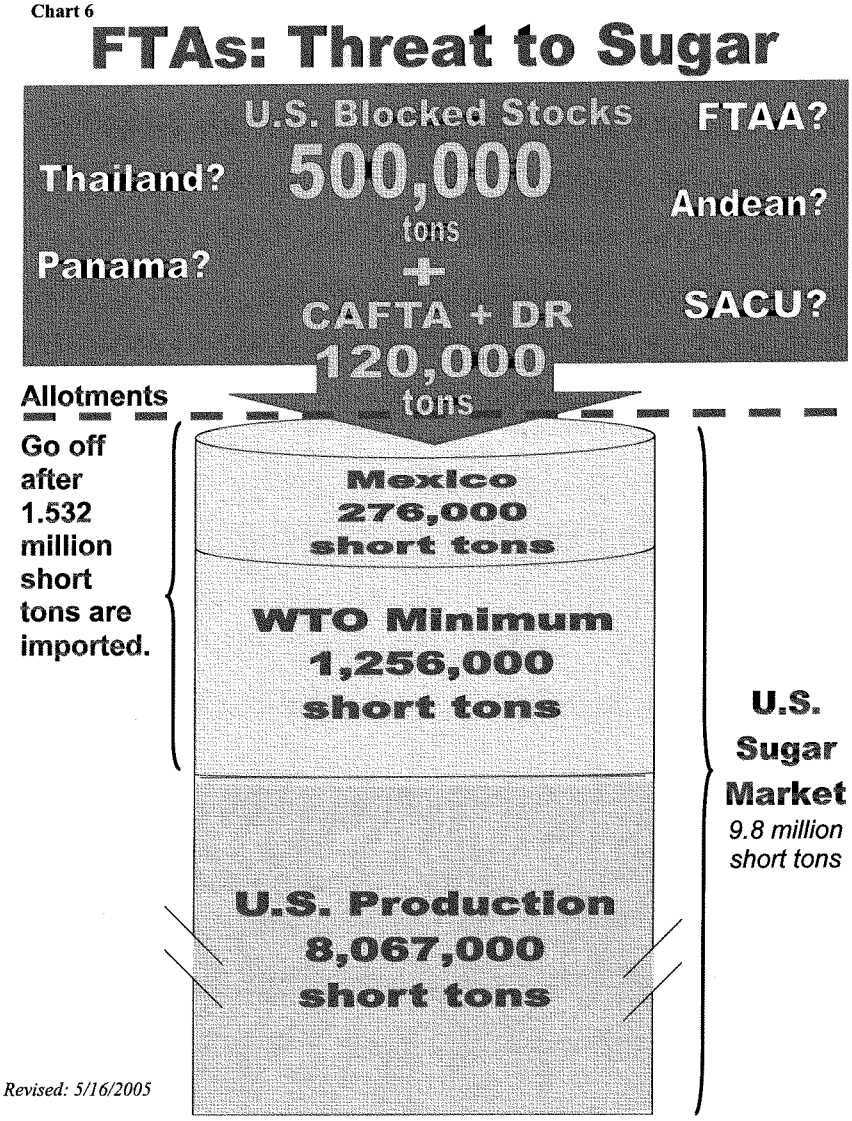


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Chart 7

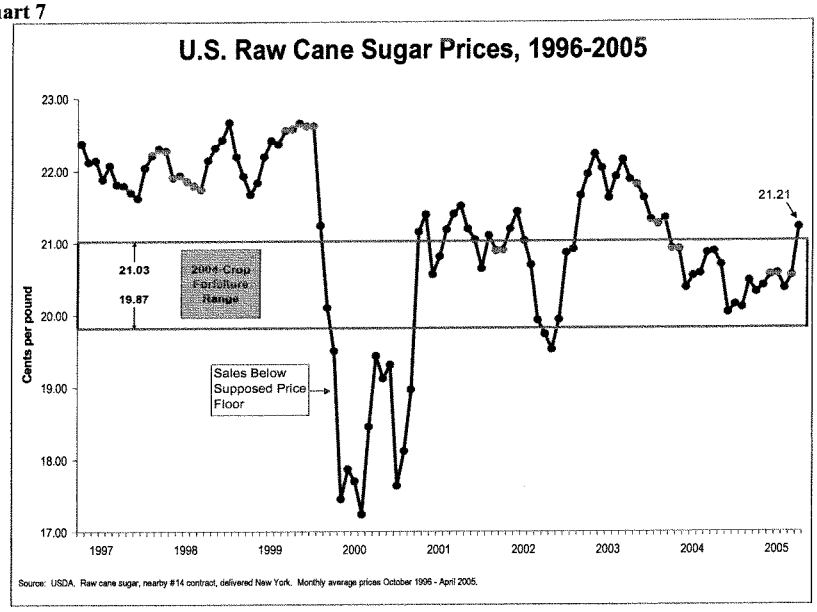

Chart 8

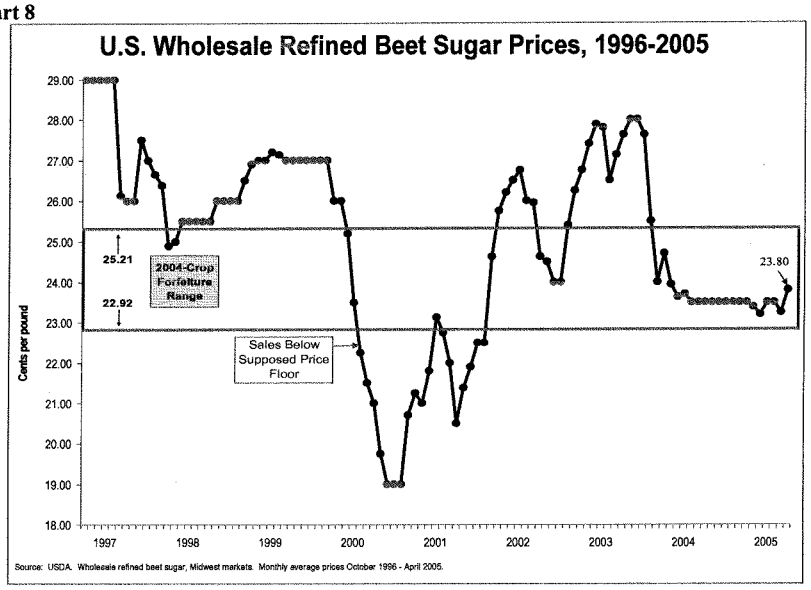

Chart 9

30 Sugar Mill and Refinery Closures Since 1996

BEET CLOSURES

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
California, 2000

Holly Sugar, Woodland
California, 2000

Western Sugar, Bayard
Nebraska, 2002

Pacific Northwest, Moses Lake
Washington, 2003

Amalgamated Sugar, Nyssa
Oregon, 2005**

Michigan Sugar, Carrollton
Michigan, 2005**

CANE CLOSURES

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugar Cooperative
Louisiana, 2001

Glenwood Sugar Cooperative
Lousiana, 2003

New Iberia Sugar Cooperative
Louisiana, 2005

Jeanerette Sugar Company
Louisiana, 2005

U.S. Sugar, Bryant
Florida, 2005*

CANE REFINERY CLOSURES

Aiea, C & H
Hawaii, 1996

Everglades, Imperial
Florida, 1999

Sugarland, Imperial
Texas, 2003

Brooklyn, Domino
New York, 2004

Note: In 2005, 24 beet factories, 21 raw cane mills, and 7 cane refineries remain in operation.
*Phasing out operations, 2005-07. **Suspended operations for 2005.

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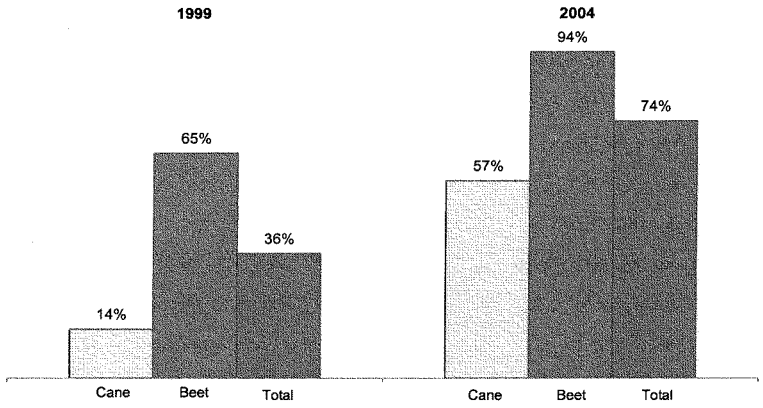
Chart 10

U.S. Refined Sugar Sellers: Grower-Owned Share More Than Doubled in Five Years

(% of production capacity)



Source: Production capacity estimates from McKeany-Favell Company, Inc. American Sugar Alliance, October 2004.

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Chart 11

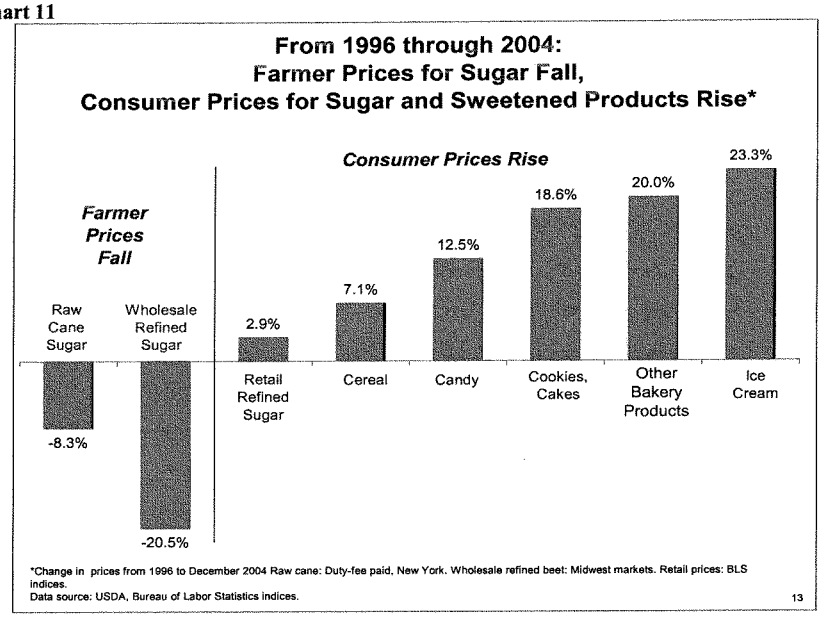

Chart 12

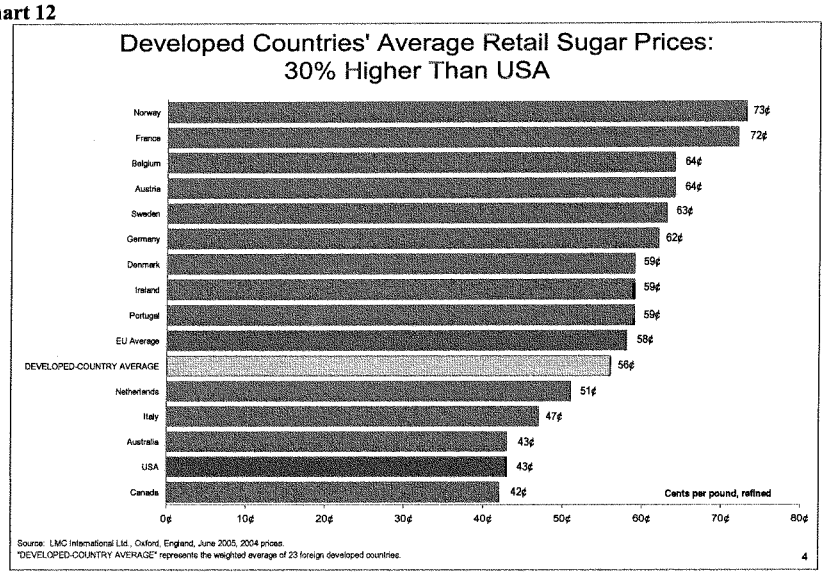

Chart 13

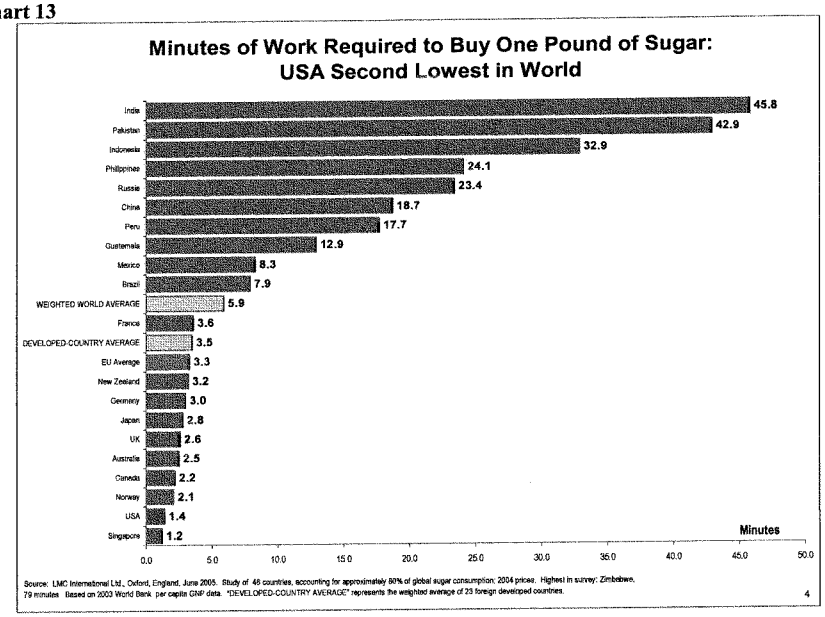

Chart 14

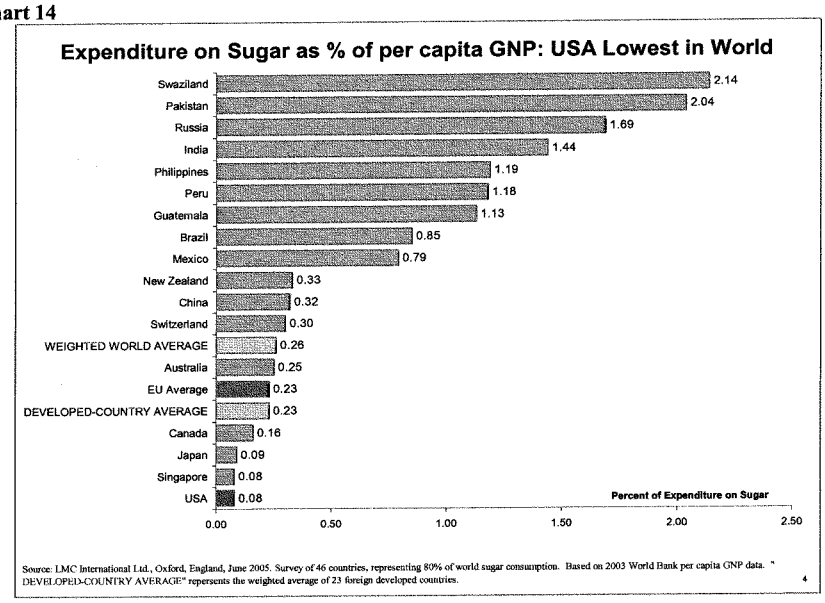

Chart 15

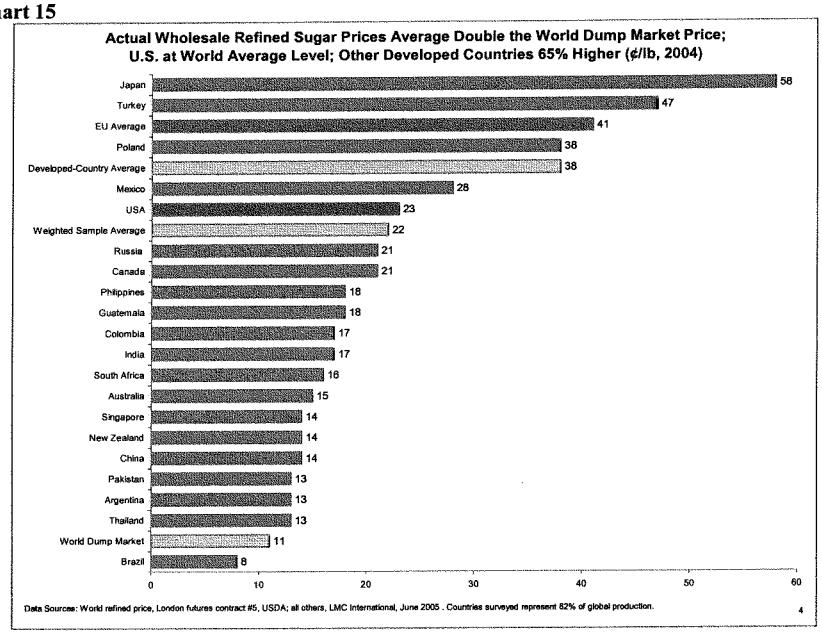

Chart 16

Candy companies don't flee America because of sugar

	U.S.	MEXICO	CANADA
Wages per hour	$14.04	$0.56	$12.50
Annual healthcare costs per worker	$2400	$360	$605
Tax percentage	42%	9%	31%
Rent per square foot	$10.00	$4.00	$4.60
2004 wholesale sugar price per pound*	**$0.23**	**$0.28**	**$0.21**

Source: "North America's Confectionary Industries: Structure, Trade, and Costs and Trends in Sugar Demand" Peter Buzzanell & Associates, Inc., March 2003
*Source: "Retail and Wholesale Prices of Sugar Around the World in 2004" LMC International Ltd, June 2005

Chart 17

CAFTA & D.R.-FTA Sugar Import Access
(Metric Tons)

	2003/04 quota	Increase year 1	Increase year 15*	Total year 15	Annual increase year 16 onward
Guatemala	50,546	32,000	49,820	100,366	+ 940
El Salvador	27,379	24,000	36,040	63,419	+ 680
Nicaragua	22,114	22,000	28,160	50,274	+ 440
Honduras	10,530	8,000	10,240	20,770	+ 160
Costa Rica**	15,796	13,000	16,080	31,876	+ 220
TOTAL	**126,365**	**99,000**	**140,340**	**266,705**	**2,440**
Dominican Republic	185,335	10,000	12,800	198,135	+200

*CAFTA increases of varying increments during years 2-15; total CAFTA increase is 111% of 2003/04 quota share.
** Increase includes Costa Rica's additional TRQ of 2,000 mt of organic sugar.

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Chart 18

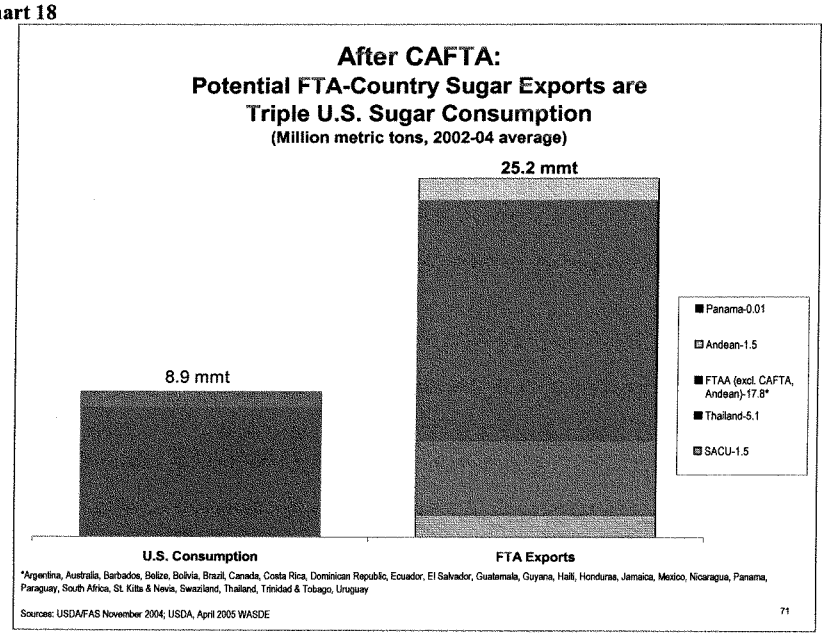

Chart 19

Potential U.S. Free Trade Agreement (FTA) Countries/Regions: Sugar Production and Exports, 2002/03 - 2004/05 Average, and Share of U.S. Raw Sugar Import Quota, 2004/05

Country	Production	Exports	U.S. TRQ Allocation
		-Metric Tons-	
North America			
Mexico	5,416,000	34,000	7,258
Canada	87,000	65,000	---
Caribbean[1]			
Barbados	40,000	40,000	7,371
Dominican Republic	503,000	186,000	185,335
Haiti	10,000	0	7,258
Jamaica	158,000	119,000	11,583
St.Kitts & Nevis	20,000	18,000	7,258
Trinidad & Tobago	83,000	55,000	7,371
Central America			
Costa Rica	393,000	167,000	15,796
El Salvador	497,000	275,000	27,379
Guatemala	1,970,000	1,368,000	50,546
Honduras	347,000	53,000	10,530
Nicaragua	370,000	194,000	22,114
CAFTA Total	**3,577,000**	**2,057,000**	**126,365**
Belize	109,000	96,000	11,583
Panama	172,000	45,000	30,538
North America Total[2]	10,175,000	2,715,000	401,920
South America			
Bolivia	390,000	135,000	8,424
Colombia	2,637,000	1,292,000	25,273
Ecuador	497,000	69,000	11,583
Peru	941,000	40,000	43,175
Andean Total	**4,465,000**	**1,536,000**	**88,455**
Argentina	1,772,000	255,000	45,281
Brazil	26,193,000	15,780,000	152,691
Guyana	324,000	300,000	12,636
Paraguay	118,000	20,000	7,258
Uruguay	142,000	27,000	7,258
South America Total	33,014,000	17,918,000	313,579
FTAA Total[2]	**43,189,000**	**20,633,000**	**715,499**
% of U.S. TRQ			***64.0%***
South Africa	2,621,000	1,222,000	24,221
Swaziland	583,000	263,000	16,850
SACU Total	**3,204,000**	**1,485,000**	**41,071**
Thailand	**6,939,000**	**5,080,000**	**14,743**
FTA Total[3]	**53,332,000**	**27,198,000**	**771,313**
% of U.S. TRQ			***69.0%***

1/ Excludes Cuba. 2/ North and South America, excluding United States and Cuba; includes CAFTA countries and Dominican Republic. 3/ FTA total less CAFTA and D.R.: production, 49.252 mmt; exports, 24.995 mmt.

Data Source: USDA/FAS, November 2004.

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Testimony of Auggie Tantillo
Executive Director
American Manufacturing Trade Action Coalition

U.S. Senate Committee on Agriculture, Nutrition, and Forestry
June 7, 2005

Mr. Chairman, my name is Auggie Tantillo and I am the Executive Director of the American Manufacturing Trade Action Coalition (AMTAC). AMTAC is a trade association founded by domestic manufacturers who are committed to manufacturing here in the United States. Our objective is to seek the establishment of trade policy and other measures designed to stabilize the U.S. industrial base and thus preserve and create American manufacturing jobs. AMTAC represents a wide range of industrial sectors including, tool and die, chemical, furniture, mold makers, metal products, packaging products, corrugated containers, lumber and luggage producers. Additionally, a significant component of AMTAC's membership consists of producers from the textile and apparel sectors.

CAFTA IS A CONTINUATION OF FLAWED U.S. TRADE POLICY

AMTAC strongly opposes the Central American Free Trade Agreement (CAFTA). We base our opposition on the view that CAFTA replicates the flawed trade policy model of the North American Free Trade Agreement (NAFTA) and Singapore, Chile and Morocco free trade agreements (FTAs). This model involves granting free access to the U.S. market for producers that use pennies-an-hour wages, low labor standards, and low environmental standards to undercut U.S. domestic manufacturers. In return, U.S. domestic manufacturers gain access to markets that are only a fraction of the value of the U.S. market. CAFTA consumers, for example, only represent 1.8 percent of the U.S. economy and have virtually no ability to purchase finished goods made in countries that pay reasonable wages and have strong environmental, labor, safety, and health standards.

The results of this failed model are clearly predictable. CAFTA will exacerbate the already astronomical $617 billion U.S. trade deficit. One need only study the impact of NAFTA, which is virtually identical to CAFTA, to determine the outcome. It should be noted that 85 percent of the text of CAFTA is identical to the NAFTA. The other 15 percent is even worse, granting greater loopholes that will displace current exports of U.S. yarns and fabrics to the region.

In the early 1990's, NAFTA was sold to the American public as a vehicle to substantially increase the modest U.S. trade surplus with Mexico which would in turn help to sustain and create millions of high-paying and high-valued added manufacturing jobs in our country. Assertions like the bold claim made below by the Institute for International Economics in October 1993 were common:

"... with NAFTA, U.S. exports will continue to outstrip Mexican exports to the United States, leading to a U.S. trade surplus with Mexico of about $7 billion annually by 1995 ... rising to $9 billion to $12 billion between the years 2000 and 2010."

Eleven years after adopting NAFTA, the facts demonstrate that nothing could be further from the truth. The U.S. has gone from a $1.6 billion surplus with Mexico in 1993 to a stunning $45 billion deficit last year. From surpluses before NAFTA, we have gone to continuous deficits since. Over this period, hundreds of U.S. factories have closed and relocated south of the border to take advantage of the low production costs in Mexico, while still enjoying free access to the valuable U.S. market. Even more troubling, the U.S. Department of Labor reports that 1.8 million workers have filed for Trade Adjustment Assistance as result of NAFTA because their jobs were eliminated in the U.S. and sent to Mexico.

Five Year Trend For FTA Partners

US Deficits for Trade In Goods (in Millions)

	2000	2001	2002	2003	2004
Canada	-51,897	-52,844	-48,165	-51,671	-65,764
Mexico	-24,577	-30,041	-37,146	-40,648	-45,068
Israel	-5,219	-4,484	-5,389	-5,877	-5,329
Jordan	244	110	-8	-181	-541

Today, proponents of CAFTA are purveying the same NAFTA-like exaggerations to the alleged benefits of the agreement. For instance, the U.S. Chamber of Commerce claims substantial economic gains from CAFTA. But in the fine print of the study, the U.S. Chamber admits that it bases it conclusions on the assumption that exports from CAFTA countries will not increase to the United States! This assumption is preposterous, as U.S. imports have increased from all countries with which we have free trade agreements.

It is easy to see why our trade deficit with the CAFTA countries will grow rather than shrink. The combined GDP of the CAFTA countries is just $217 billion dollars, and the per capita GDP for the region is only $4,632. These 6 countries are roughly 16% the size of the U.S. in terms of population and less than 2 percent in terms of economy.

CAFTA Countries	Population	% Below Poverty Line	Labor Force	GDP	Per Capita GDP
Costa Rica	4,016,173	18%	1,810,000	$37.97 bil	$9,600
Dominican Rep.	8,950,034	25%	2,450,000	$55.68 bil	$6,300
El Salvador	6,704,932	36%	2,750,000	$32.35 bil	$4,900
Gautemala	14,655,189	75%	3,680,000	$59.47 bil	$4,200
Honduras	6,975,204	53%	2,470,000	$18.79 bil	$2,800
Nicaragua	5,465,100	50%	1,930,000	$12.34 bil	$2,300
Total	*46,766,632*	*49%*	*15,090,000*	*$216.60 bil*	*$4,632*
United States	295,734,134	12%	147,400,000	$11.75 tril	$40,100

Clearly, while these countries do not possess the ability to buy substantial amounts of finished U.S. made goods, they do possess the ability to take advantage of pennies per hour labor and minimal labor, safety and environmental standards and export massive quantities of manufactured products, especially those in the textile and apparel sector, quota and duty free to the U.S. market. As we will demonstrate below, this potentially could have a negative impact on overall consumption of U.S. cotton.

U.S. TEXTILE INDUSTRY MAJOR CUSTOMER FOR U.S. COTTON

The United States is the largest market for cotton products in the world. In 2000, the United States consumed 24 percent of the world's production of cotton products. The U.S. Department of Agriculture (USDA) reports that between farming and textiles, the U.S. cotton industry accounts for $25 billion in goods and services annually.

Nevertheless, while U.S. demand for cotton products has remained high, the USDA reports that U.S. textile industry consumption as a share of U.S. upland cotton production has fallen from more than 60 percent in 1997-98 to only approximately 33 percent as of 2004-05. USDA predicts that the U.S textile industry share will drop even further to 25 percent by 2014-15. In terms of volume, annual U.S. textile industry consumption of U.S. cotton has decreased from in excess of 10 million bales to 6 million bales during the same time period.

The drop in cotton consumption by the U.S. textile industry is matched by a corresponding fall in U.S. textile and apparel output. Despite an increase in exports from $11.5 billion to $16.2 billion, U.S. output of textiles and apparel has plunged by 26 and 57 percent, respectively, while the value of annual U.S. textile and apparel shipments has plummeted by $41 billion, dropping from $155 billion to $114 billion, since the enactment of North American Free Trade Agreement (NAFTA) in 1994.

As U.S. textile and apparel production freefalls, U.S. imports of cotton textile and apparel products has skyrocketed, jumping from $19.2 billion in 1994 to $44.1 billion in 2004. This accounted for 53 percent of all U.S. textile and clothing imports under the now expired Multi-Fiber Agreement (MFA). The volume of U.S. imports is rising rapidly as well, exploding from less than 8 billion square meters in 1994 to nearly 19 billion square meters in 2004.

One of the premises of NAFTA and the Caribbean Basin Initiative (CBI) was that the NAFTA and CBI markets essentially would be captive markets for U.S. textile producers. As the facts above show, clearly this has not been the case. The bottom line for the U.S. textile industry is that after more than ten years of NAFTA, the Caribbean Basin Initiative (CBI), the African Growth and Opportunity Act (AGOA), and other free trade agreements, we have not been able to replicate the same volume and value of business we had prior to passage of these agreements by the Congress.

Replicating lost domestic business with exports abroad is a challenge that faces the U.S. cotton industry too. USDA reports that the U.S. share of global consumption of world cotton production has dropped to 18 percent, down from a high of 25 percent in 1994-95, and is expected to fall further in the next decade. But a more important unanswered long-term question is whether other large, low-wage, developing countries will attempt to emulate China's extreme subsidization of textiles, apparel and other products in the manufacturing sector in agricultural sectors like cotton as U.S. farmers possibly see their subsidies cut or eliminated? Imagine what farmers in Pakistan, India, China, Brazil and Sub-Saharan Africa could do if they were trained to use similar farming techniques and able to afford the most advanced farm machinery. If this happens, the U.S. share of the world's cotton market could fall even more.

For U.S. textile manufacturers, the aforementioned nightmare scenario already is reality. China has invested more than $20 billion in its textile and apparel sector in the past three years and now controls more than 20 percent of the $90 billion U.S. textile and apparel import market and more than 25 percent of the $400 billion global market.

Current U.S. law makes it impractical for U.S. textile manufacturers to import foreign cotton, effectively giving the U.S. cotton industry a captive market. With U.S. yarn spinners expected to move existing U.S. production to Central America after the passage of CAFTA, what is to prevent them from buying foreign rather than U.S. cotton over the long run? Why trade a captive market for a non-captive one – especially when your new market is chalk full of loopholes designed to exclude U.S. textile components from the supply chain?

CAFTA TEXTILE AND APPAREL LOOPHOLES

CAFTA destroys the existing incentives that have driven the system where large amounts of American yarn, fabric and components are used in the production of apparel in CAFTA countries. CBTPA requires, with one exception, the use of U.S. yarn, fabric and components in order for apparel from CBTPA countries to be imported into the U.S. tax-free. This requirement is why $4.2 billion in trade has developed between American textile firms and CAFTA apparel makers. However, **CAFTA eliminates the U.S.-only requirement** and allows for American **or Central American** yarn, fabric and components to be used in garments accorded tax-free importation into the U.S.

In addition to changing the rule of origin, CAFTA also contains numerous loopholes that will benefit countries that were not party to the negotiation, such as China.

Loopholes	Amount
Cumulation- Mexican and Canadian fabrics may be used for woven trousers (essentially a Mexican & Canadian TPL). - also contains a growth factor that is NOT dependent on growth of U.S. exports - also allows other FTA countries to latch on	**100 million square meters** (could go up to 200 million square meters; plus Free Trade Commission is scheduled to discuss an increase after passage of CAFTA)
Single Transformation- Unlimited amount of fabric and yarn from any country (such as China) allowed for brassieres, woven boxers and woven nightwear	**Unlimited amount of duty-free imports** of brassieres, underwear, and nightwear without U.S. or CAFTA components can enter under CAFTA. **50+ million square meters**
Nicaraguan TPL- Non-U.S. or CAFTA yarn and fabric allowed for Nicaragua apparel.	**100 million square meters**
De Minimus Level Raised- Increased from 7 to 10 percent	**25 million square meters**
Costa Rican Wool TPL- Non-U.S. or CAFTA yarn and fabric allowed for Costa Rican wool apparel	**500,000 square meters** to be shipped to the U.S. at one-half the normal tariff regardless of origin of yarns and fabrics
Non-essential Fabric Exemption- Certain fabrics (pocketings, waistbands, interlinings and trim) can be sourced form any country	**175 million square meters** of these components were U.S.-made under CBTPA in 2004
Total damaged caused by loopholes/side deals	**550 - 750 million square meters**

When CAFTA was being negotiated, the entire U.S. textile industry adopted a unified platform urging the administration to negotiate a CAFTA with NO loopholes that would allow for non-regional yarn and fabric.

The industry sent a letter to the President on July 7, 2003 urging him to reject any loopholes that would permit foreign suppliers to benefit at the expense of domestic manufacturers. Furthermore, 141 members of Congress echoed this message in a letter to the President dated September 17, 2003. However, the U.S. government agreed to a large number of loopholes in the yarn-forward rule of origin. These loopholes will benefit Mexican, Canadian, and Asian (likely Chinese) textile businesses and their workers at the expense of workers in the United States. The amount of loss business to U.S. textile firms as a result of these various loopholes is estimated to be well in excess of $1 billion. There is no reason why countries, that are not signatories of CAFTA, should benefit from this agreement to our detriment.

CAFTA IS NOT THE ANSWER TO CHINA

CAFTA supporters argue that the only way to protect the U.S. textile industry from the onslaught of Chinese textile imports is to create a "regional bulwark" with Central America. But even if the loopholes in CAFTA were closed, it is still nonsensical to purport that some formulation of a U.S./Central American production platform will be the magic combination of technology and low-wages to compete with the Chinese juggernaut.

Obviously, China possesses numerous advantages such as low labor costs, a large workforce, natural resources, etc. However, combining these inherent advantages with its rampant use of predatory trade practices is what really makes China unstoppable.

In its 2004 Report to Congress, the U.S.-China Economic and Security Review Commission stated:

> **China is continuing to attract massive levels of foreign direct investment (FDI), including $57 billion in 2003. Its policies to attract FDI have been supplemented by industrial policies aimed at developing national productive capacity in selected "pillar" industries. These policies support Chinese corporations through a wide range of measures that include tariffs, limitations on access to domestic marketing channels, requirements for technology transfer, government selection of partners for major international joint ventures, preferential loans from state banks, subsidized credit, privileged access to listings on national and international stock markets, discriminatory tax relief, privileged access to land, and direct support for R&D from the government budget. Such policies give Chinese industry an unfair**

competitive advantage, thereby contributing to erosion of the U.S. manufacturing base. Many of these policies are not permitted under World Trade Organization (WTO) and U.S. trade rules.[1]

To demonstrate how overwhelming Chinese subsidies are, we need only examine Mexico's experience when quotas were removed for certain textile and apparel categories in 2002. Chinese exports in those categories surged dramatically while exports from Mexico and the CBI countries fell sharply.

For categories released from quota in 2002, exports from Mexico dropped from 85 million square meters to 40 million square meters. **Mexican market share declined from 8 percent in 2001 to 2 percent in Nov. 2004.** Caribbean and Central American countries exports dropped from 113 million to 68 million square meters, and **CBI market share declined from 10 percent to 3 percent.** And the Chinese gained the market share lost by all other countries.

Despite the fact that Mexico enjoys duty free access to the U.S. under NAFTA and sits directly on our southern border they were not able to compete with China in the U.S. market. This is because China employs a pervasive system of subsidies that allows them to be the undeniable price leader in the global market as demonstrated by the following chart:

Categories	Chinese Export Price	Rest of World Price	U.S. Price	Chinese Advantage over World (Including U.S.)	Chinese Advantage over U.S.
Cotton Trousers	$2.87	$7.73	$12.79	63%	78%
MMF Trousers	$2.16	$4.90	$11.39	56%	81%
M/B Woven Shirts	$2.83	$4.16	$12.05	32%	77%
Cotton Knit Shirts	$1.29	$4.29	$4.55	70%	72%
MMF Knit Shirts	$1.50	$4.37	$4.09	66%	66%

Moreover, CAFTA will actually exacerbate the China problem. The loopholes previously discussed allow for massive quantities of Chinese yarn, fabric and other components to displace U.S. yarn, fabric and components.

Through loopholes such as the Nicaraguan TPL and the Single Transformation provisions, millions of square meters of Chinese components can and will be sent to CAFTA countries for assembly and then exported duty free to the United States. In fact, there are already well-established trading relationships between China and the CAFTA countries. In 2004, the six CAFTA countries imported $566 million worth of textiles and apparel from China. Although China is not a signatory to the CAFTA agreement, they will be one of the biggest beneficiaries at the expense of U.S. companies and workers.

SOLUTIONS TO THE TRADE POLICY CRISIS

In conclusion, it is clear that CAFTA replicates the flawed policy model that has lead to millions of job losses, crippled key manufacturing sectors such as the U.S. textile industry, and badly damaged the U.S. economy.

Instead of perpetuating this flawed model, Congress should insist on policies that prevent the outsourcing of high-paying jobs, the destruction of America's industrial base and the exporting of America's strongest long-term wealth creating assets.

In that regard, I would propose the following steps:

[1] 2004 Report to Congress of the U.S.-China Economic and Security Review Commission, June 2004. The report is available online at http://www.uscc.gov/researchreports/2004/04annual.report.pdf.

In order to get our exploding trade deficit under control, we should only focus on trade agreements with countries that can actually purchase finished U.S. goods, such as Great Britain or Italy. Accordingly, Congress should defeat CAFTA and any other proposed free trade agreements with countries that will simply serve as low cost export platforms to the U.S. market.

Second, the U.S. must insist that all future trade agreements share the benefits only between the contracting parties. This means precluding the inclusion of loopholes like TPLs, single transformation, and exemptions for so called "non-essential" fabrics or components. China's manufacturing sector already has enough advantages with the backing of its government's massive illegal subsidy schemes. Congress does not need to give China any more back-door avenues to the U.S. market through sieve-like trade deals such as CAFTA.

Third, the U.S. must tackle the China problem head on. Pass legislation making it easier to file anti-dumping and countervailing duty lawsuits against non-market economies. Halt any efforts to kill the Byrd Amendment. Pass legislation that directs the U.S. government to hire more officials to monitor and litigate violations of trade agreements and intellectual property agreements. Stop the exportation of critical military industrial sectors like electronics, soft ware production, textiles and machine tooling. Put pressure on the Administration to impose safeguards on Chinese imports of textile and apparel products.

Fourth, Congress must reassert its authority over trade policy. The Founding Fathers gave Congress the sole authority to regulate foreign trade for a reason. Congress is the branch of government designed to be closest, and therefore most responsive, to the people. Instead of embracing this responsibility, Congress has severely diluted it by passing Trade Promotion Authority (TPA), Permanent Normal Trade Relations (PNTR) status for China and other laws designed to consolidate authority to place trade policy in the hands of the Executive Branch. As a result, on critical issues such as CAFTA, implementing legislation cannot be amended and must be considered under an expedited timeframe that no other legislative policy initiatives enjoy. This leverage must be reversed. Congress should withdraw both TPA and PNTR for China and reassert its rightful authority over the Executive Branch in trade policy matters.

Finally, Congress should require an independent trade impact study prior to the consideration of all proposed trade agreements and major trade bills. Do we expect the Executive Branch, which authored the concept and the text of CAFTA to give an objective view of its projected benefits? Congress must have an independent source of information to determine basic issues such as whether a proposed agreement is going to benefit U.S. producers or whether it will increase or diminish the trade deficit.

While these are not all of the changes needed to rectify the flawed trade policies responsible for America's nearly $4 trillion trade deficit since 1990, they do represent a good start.

CONCLUSION

In conclusion, the CAFTA agreement that will be debated by Congress is a failed arrangement that is part of a larger failed trade policy. The agreement opens no new significant markets for U.S. exporters while giving six low-wage and low-cost-of-production countries completely free access to the lucrative U.S. market. The agreement undermines the more logical existing arrangement under the CBTPA, which grants duty free access to the U.S. market for these countries when they use U.S. yarns and fabrics. Finally, the agreement actually provides enormous backdoor access to the U.S. market for countries like China that are not even signatories to the deal. Consequently, CAFTA will displace production and employment in the U.S. textile and apparel sector by encouraging U.S. firms to move operations to Central America and the Dominican Republic.

When U.S. textile producers are damaged by CAFTA, U.S. cotton producers will not be immune from the fallout, as they will be trading their captive U.S. market for an open Central American market. Only time will tell whether cotton producers will be able to replicate their U.S. business abroad over the long run.

For these reasons, Congress should reject CAFTA and demand that the U.S. government change its trade policy to encourage domestic production instead of outsourcing, thereby reducing the U.S. trade deficit and trade-related high-wage job losses.

DOCUMENTS SUBMITTED FOR THE RECORD

JUNE 7, 2005

United States Senate Agriculture Committee

Statement by Senator Thad Cochran

June 7, 2005

Mr. Chairman, thank you for holding this hearing regarding the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR). I want to welcome the panelists to the committee. I am pleased that Secretary Johanns and Ambassador Johnson are able to join us today. I thank them for their continued work on behalf of the nation's agricultural producers, and for negotiating a trade agreement that will help increase our exports to the Central America.

Approval of the Dominican Republic-Central America Free Trade Agreement will be very helpful to my state of Mississippi. It will increase substantially the volume of our exports to this region. The Central American region is Mississippi's fourth largest export market and accounted for $224 million in export

sales in 2004. This includes both raw materials as well as manufactured goods.

Approval of the trade agreement would benefit several manufacturing and agricultural sectors in Mississippi. For example, the Central American region imports roughly 2.7 million bales of U.S. cotton, which is a very important Mississippi crop. Central America is a major market for pulp, paper, and paperboard products that are produced in Mississippi. In addition, the beef and poultry industries will be able to enjoy the continued expansion of their exports that has occurred in recent years. I hope that Congress will approve this important trade agreement in the near future.

I thank the panelists for their participation today and look forward to the testimony. Thank you Mr. Chairman.

Statement of Senator Byron Dorgan to the Senate Committee on Agriculture, Nutrition, and Forestry hearing on the proposed U.S.-Central America Free Trade Agreement's Impact on American Agriculture

Mr. Chairman, thank you for the opportunity to submit for the record my concerns about the U.S.-Central America Free Trade Agreement (CAFTA).

I am deeply concerned that—despite all the rosy promises of expanded exports and new markets for our farm goods—CAFTA will simply add yet another chapter in the rapidly growing book of our country's failed trade agreements.

We were promised NAFTA would create jobs. But it has cost us nearly 900,000 jobs.

We were promised NAFTA would create new trade markets. But under NAFTA, our trade deficit with Mexico and Canada has increased twelve-fold, to $110.8 billion in 2004; and our agricultural trade surplus has all but vanished.

Under CAFTA, we'll continue importing food, importing cheap goods, and exporting jobs. The U.S. International Trade Commission's own report on CAFTA says it will increase our trade deficit at a time when each month brings new record deficits.

CAFTA's impact on sugar

Mr. Chairman, I am concerned that CAFTA will devastate America's sugar industry.

Sugar beets are an important crop in my home state of North Dakota. North Dakota produces nearly one-fifth of America's sugar beets. In the Red River Valley, the sugar beet industry generates $2.6 billion in economic activity and supports 32,000 full-time jobs. This industry generates $19 million in tax revenue that communities depend on to fund their schools, roads, and public services.

The CAFTA nations have 2 million tons of sugar available for export, and this agreement would increase the sugar quotas for these six countries by 35%. Simply put, every pound of foreign sugar we are forced to import under this agreement is a pound that an efficient American farmer can't produce and won't get paid for.

When Congress passed the Farm Bill in 2002 and the President signed it, we made a commitment to the farmers and ranchers in this country. CAFTA would break those promises, because it will gut our sugar program.

I know there are those who believe that I am exaggerating CAFTA's impact on our sugar industry. Many people believe the industry can survive CAFTA. But I would say to them that we are currently negotiating Free Trade Agreements with more than 20 other sugar-exporting countries.

If CAFTA passes, each of those more than 20 sugar-exporting countries will expect to be treated as generously as we've treated Honduras and Nicaragua and the Dominican Republic.

Will we sentence our sugar industry to death by a thousand cuts?

Everyone knows CAFTA will be the template for future trade agreements. And each one of those more than 20 sugar-exporting countries will demand treatment equal to the generous treatment we've given these six CAFTA nations.

That is exactly why we must say no to CAFTA. Because, have no doubt, the next agreement's sugar provisions will be modeled on this one.

CAFTA and agriculture

I have heard supporters say CAFTA will be a great win for our farmers. But we were told the same thing about NAFTA, and somehow, those promises failed to materialize.

In many cases, our farm exports to the six CAFTA nations already face tariffs that are low or nonexistent. We are the largest trading partner with each of these countries. Our farm exports already dominate their markets.

According to our own International Trade Commission, "CAFTA is likely to provide little immediate additional market access for U.S. grains." And the ITC has also said that "U.S. wheat exports to the region face no tariffs…and thus are not likely to be affected by the Free Trade Agreement."

The truth is that CAFTA will not open new markets; it will only extend NAFTA's failed policies to another six countries.

Statement of Senator Chuck Grassley
Senate Agriculture Committee Hearing on
The CAFTA-DR: Potential Impacts on Agriculture and Food Sectors
June 7, 2005

I'm pleased to submit this statement for today's hearing on the potential impact of the United States-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) on the U.S. agricultural and food sectors. As a member of the Committee on Agriculture and as a senator from Iowa, I have a major interest in seeing that U.S. agricultural policies benefit American farmers. Moreover, as Chairman of the Committee on Finance, the Senate committee with jurisdiction over trade legislation, I pay particularly close attention to trade issues affecting agriculture.

I consulted frequently with the U.S. Trade Representative during negotiations of the CAFTA-DR as part of the trade promotion authority process. I know that U.S. negotiators went to great lengths to see that the CAFTA-DR would be a good agreement for American farmers. Their efforts were successful, and the negotiations resulted in an agreement that is particularly strong for U.S. agriculture. I'm fully convinced that implementation of the CAFTA-DR by the United States is in the best interests of U.S. agricultural producers, and I urge my colleagues to support it.

Agreement Will Level an Uneven Playing Field

U.S. farmers and ranchers are well aware that the international playing field for agricultural exports is far from level. Average tariffs of other countries on imports of U.S. agricultural products are, in the case of most commodities, significantly higher than those imposed by the United States.

This unequal situation is clearly demonstrated when examining the current trade relationship between the United States and the CAFTA-DR countries. Over 99 percent of agricultural imports from the CAFTA-DR countries currently enter the United States duty-free. In contrast, the average tariff applied to U.S. agricultural products by the CAFTA-DR countries exceeds 11 percent, and the average bound tariff of the CAFTA-DR countries is over 44 percent.

So the current trading relationship between the United States and the CAFTA-DR countries is not only an unlevel playing field, but also a one-way street: CAFTA-DR farm products don't pay tolls to enter the U.S. market, yet U.S. agricultural products are charged hefty tolls to enter the CAFTA-DR market.

The CAFTA-DR will change this. A downhill one-way street will become a level two-lane road.

Under the Agreement, the CAFTA-DR countries will eliminate tariffs on virtually all products. U.S. tariffs will remain largely unchanged – after all, the vast majority of agricultural products of the CAFTA-DR countries already enter the United States duty-free.

The treatment under the Agreement of the following four major U.S. commodities, which are of importance not only to Iowa but also to other states, demonstrates how the CAFTA-DR will remove disadvantages faced by U.S. agricultural producers.

- Pork: the CAFTA-DR countries currently apply tariffs of up to 47 percent on imports of U.S. pork, and their bound rates reach as high as 60 percent. Under the Agreement, these tariffs of the CAFTA-DR countries will be reduced to zero.

- Beef: the CAFTA-DR countries currently apply tariffs of up to 30 percent on imports of U.S. beef, and their bound rates reach as high as 79 percent. Under the Agreement, these tariffs of the CAFTA-DR countries will be reduced to zero.

- Yellow Corn: the CAFTA-DR countries currently apply tariffs of up to 45 percent on imports of U.S. corn, and their bound rates reach as high as 75 percent. Under the Agreement, tariffs of the CAFTA-DR countries on yellow corn – the predominant corn variety grown in the United States – will be reduced to zero with the exception of the Dominican Republic, in which case duty-free access will be locked-in.

- Soybeans: the CAFTA-DR countries currently apply tariffs of up to 5 percent on imports of U.S. soybeans and meal and up to 20 percent on U.S. soybean oil, and their bound rates reach as high as 91 percent for soybeans, 60 percent for soybean meal, and 232 percent for soybean oil. Under the Agreement, tariffs of the CAFTA-DR countries on U.S. soybeans, soybean meal, and soybean oil will be reduced to zero.

Increased Access Means Increased Sales of U.S. Commodities

The leveling of the playing field with regard to the CAFTA-DR countries will result in real gains for U.S. agriculture. According to the American Farm Bureau Federation, the CAFTA-DR could increase U.S. agricultural exports by $1.5 billion in the year following the end of the Agreement's full implementation.[1]

Following is a breakdown by the American Farm Bureau Federation of gains for several U.S. commodities in the first year following the CAFTA-DR's full implementation:

[1] The American Farm Bureau Federation provides this year as 2024.

Beef	$47,074,500
Butter	$1,297,800
Cheese	$16,998,400
Corn	$58,374,100
Cotton	$27,602,100
Pork	$107,950,800
Poultry	$178,042,900
Rice	$91,510,700
Soybean meal	$56,572,000
Soybean oil	$28,389,600
Wheat	$62,186,900

So the CAFTA-DR will result in dollars in the pockets of U.S. farmers and ranchers.

Wide Support for CAFTA-DR in U.S. Agricultural Community

Recognizing that the CAFTA-DR will profit their members, numerous agriculture and food organizations have expressed their support for the Agreement. I have attached a list of almost 80 such groups that back the Agreement. These organizations represent producers of diverse commodities produced in various regions of the country. The listed organizations include the American Farm Bureau Federation, the American Soybean Association, the National Association of Wheat Growers, the National Chicken Council, the National Corn Growers Association, the National Cotton Council, the National Milk Producers Federation, the National Pork Producers Council, the National Potato Council, the National Turkey Federation, the U.S. Apple Association, and the USA Rice Federation. As the attached list demonstrates, even though some agricultural groups oppose the CAFTA-DR, it's a stretch to claim that U.S. agriculture is divided over the Agreement: there's clearly strong support behind it.

Moreover, six former U.S. Secretaries of Agriculture – Republicans and Democrats – have announced their support for the CAFTA-DR. Former Secretaries Ann Veneman, Dan Glickman, Mike Espy, Clayton Yeutter, John Block, and Bob Bergland noted in a recent letter to Members of Congress that they back the CAFTA-DR "because the benefits are very significant and the costs are minimal." I've attached this letter to my statement.

Treatment of Sugar in the CAFTA-DR

While most sectors of U.S. agriculture support the CAFTA-DR, I realize that one – sugar – doesn't. Yet U.S. negotiators went to great lengths to see that the final agreement addressed concerns of the U.S. sugar industry, and they were successful in their efforts.

For example, U.S. tariffs will not go to zero on just one product, sugar.

While tariff rate quotas will expand for sugar imports from the CAFTA-DR countries, these increases will be small. In the first year of the Agreement, increased additional access will amount to little more than one day's U.S. sugar production or 1.2 percent of current U.S. consumption, which will grow after 15 years to 1.7 percent of current U.S. consumption. Prohibitive tariffs – of over 100 percent – on over-quota imports will remain intact under the DR-CAFTA.

Under the CAFTA-DR, only net surplus exporting countries will obtain increased access to the U.S. market. Accordingly, the Dominican Republic, currently the largest of the CAFTA-DR country sugar exporters to the United States, would not even initially qualify to ship additional sugar to the United States upon implementation of the CAFTA-DR.

It is contended by some that the CAFTA-DR will lead to the suspension of marketing allotments for sugar, and thus to disruption in the U.S. sugar market. But the U.S. International Trade Commission (ITC) states that it's unlikely that increased CAFTA-DR imports will trigger the suspension of marketing allotments.

In the unlikely event that the U.S. sugar program is threatened by imports from the CAFTA-DR countries, the Agreement includes a compensation mechanism that will permit the United States, at its option, to restrict sugar imports from those countries while providing an alternative type of compensation. This arrangement is unprecedented in U.S. trade agreements.

Moreover, some have claimed that the CAFTA-DR might result in U.S. sugar growers shifting production to different commodities, and thus depressing prices of other commodities. But the American Farm Bureau Federation has determined that "the DR-CAFTA would not be devastating to the United States sugar industry, nor would there be any noticeable effects of sugar producers shifting to other crops."[2] The Farm Bureau further states that the potential impact of sugar farmers switching to other principal crops would be "imperceptible."[3]

CAFTA-DR Countries Sought Numerous Exclusions from Agreement

I realize that the U.S. sugar industry sought to exclude sugar from the Agreement. At the same time, the CAFTA-DR countries requested exclusions from tariff reductions for several commodities -- beef, pork, corn, poultry, rice, dairy, vegetable oil, beans, and onions -- all of which are major U.S. products. If, in the end, the United States had insisted on a sugar exclusion for the benefit of the 0.3 percent of U.S. farms that grow sugar crops, the CAFTA-DR countries would've undoubtedly insisted on the same for their products. Such an outcome would likely have resulted in less access in the CAFTA-DR markets for U.S. agricultural products such as beef, pork, corn, poultry, rice, dairy, vegetable oil, beans, and onions.

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[2] American Farm Bureau Federation, *The DR-CAFTA and Sugar*, at 3.
[3] *Id.*

While the United States, correctly, did not seek an exclusion for sugar, it's worth pointing out once again that the United States did obtain provisions in the CAFTA-DR that address concerns of the U.S. sugar industry. These provisions will result in very limited increased access for CAFTA-DR sugar in the U.S. market. At the same time, by not excluding sugar, the Agreement resulted in gains for the bulk of U.S. agriculture.

This raises a question. If the United States, while going short of seeking a sugar exclusion, had negotiated for even *more* provisions designed to limit the amount of additional access for CAFTA-DR sugar, would the U.S. sugar industry have supported the Agreement? It appears to me that the answer would be no, and that short of an exclusion, U.S. sugar producers would oppose the Agreement. So what should we do in the future? Should we penalize agricultural exporters in future trade agreements by excluding sugar, or should we obtain even better access for them by significantly expanding tariff rate quotas for sugar, by accelerating sugar tariff phase-outs, and by agreeing to go to zero duties on sugar, and further, by not including sugar compensation mechanisms in agreements? The opposition of U.S. sugar producers to the CAFTA-DR, despite significant efforts of U.S. negotiators to accommodate their concerns, raises these and other questions.

CAFTA-DR and the WTO Doha Round

While the CAFTA-DR is important in itself for U.S. agriculture, the failure to implement this agreement could deal a setback to U.S. efforts to liberalize agricultural trade around the world. If the CAFTA-DR fails, and other countries note that the United States is unwilling to implement a trade agreement that clearly benefits the vast majority of its agricultural producers, our trading partners will question whether any new trade agreement will be acceptable to the United States. This situation could jeopardize the completion of agricultural negotiations in the Doha Round of the World Trade Organization, negotiations in which the United States is seeking to cut tariffs, harmonize levels of domestic support, and eliminate export subsidies.

Conclusion

The CAFTA-DR is a straightforward win for the bulk of U.S. agricultural producers. A current one-way trading relationship will end. The CAFTA-DR countries will dismantle their tariffs to U.S. agricultural products while the United States will provide little additional access for CAFTA-DR commodities. This will result in increased sales for U.S. agricultural exporters, sales of up to $1.5 billion a year by the end of the Agreement's full implementation. Not surprisingly, the CAFTA-DR is widely supported in the U.S. agricultural community.

The CAFTA-DR is good agricultural policy and good trade policy. I urge my colleagues to support it.

Statement of Senator Mary Landrieu
U.S. Senate Committee on Agriculture, Nutrition and Forestry
Hearing on the Central America Free Trade Agreement
June 7, 2005

Thank you, Mr. Chairman. I appreciate the opportunity to testify before the Committee today about the Central America Free Trade Agreement (CAFTA). As it is currently written, this trade agreement would have a serious and harmful affect on sugar producers in my state. The sugar industry of Louisiana is not only the economic life blood of many communities, it is a way of life and a part of who we are.

Mr. Chairman, many of my concerns over this proposed trade agreement were summed up in a recent letter from Louisiana Governor Kathleen Blanco to President Bush. Governor Blanco urged the President to withdraw the trade deal for one simple reason: CAFTA will equal job loss and financial despair for 27,000 Louisiana sugar workers and farmers.

Let me read just one passage from that letter, the full text of which I will submit for the record.

"The economic impact of CAFTA and other bi-lateral trade agreements on the state will be disastrous. Louisiana stands to lose $750 million in direct sugar sales, as well as $2 billion in industry-related revenue each year."

In this letter, Governor Blanco very eloquently laid out the economic hardships that would befall our state if CAFTA passes. But the damage to Louisiana goes well beyond dollars and cents. The damage is much bigger than longer unemployment lines in sugar country.

CAFTA threatens a proud heritage and a way of life in Louisiana that dates back more than 250 years. Our great-great-great grandfathers were raising cane long before our country was even born. Since 1751, Louisiana sugar cane farmers have been farming the fertile soil of our great state. Before the marble walls of Congress were ever erected, Louisianans built an industry that would whether hurricanes, the Great Depression and even the Civil War.

But today, we're talking about dealing this proud industry a death blow. We're talking about undoing centuries of tradition and stripping

away jobs from efficient Louisiana farmers. These farmers have good reason to be proud. American sugar producers are among the most efficient in the world. Two-thirds of the world's more than 100 sugar-producing countries produce at a higher cost than the U.S. And in my state of Louisiana, farmers produces about 20% of the sugar grown in the United States and currently ranks fourth in the nation in production of sugar, producing an average revenue of $750 million per year. CAFTA is a relatively small trade deal with a group of countries whose combined economies are smaller than that of New Haven, Connecticut. This seems like a bad deal for an efficient and highly productive industry; another bad deal for Louisiana sugar.

Nearly half of all Central Americans earn less than $2 a day, and they simply cannot afford the meats or crops we have to sell.

That's why the Louisiana Farm Bureau has joined other state Farm Bureaus, the National Association of State Departments of Agriculture, and numerous national farm groups in opposing CAFTA.

Even the government's own economic estimates say that CAFTA will mean little to agriculture or to our country as a whole; and these are

known to be quite optimistic estimates. That's because—as the administration points out time and time again—we already dominate the import market of this poor region.

According to estimates by the U.S. International Trade Commission, CAFTA would actually *increase* our trade deficit with Central America while benefiting our economy by less than *one-hundredth of one percent*. That's worth repeating again. The administration's economists say that CAFTA will increase our trade deficit with the region while boosting our own economy by less than 0.01 percent.

This same study concluded that for other farmers, CAFTA would have "a negligible impact on total U.S. production and employment." Specifically for wheat—a supposed winner—the ITC says: "U.S. wheat exports to the region face no tariffs…and thus are not likely to be affected by the [CAFTA]."

Why then are we talking about dismantling my state's sugar industry? U.S. farmers and ranchers get little in return for sending thousands to the ranks of the unemployed.

As a Committee, I urge you to take a long, hard look at our country's current agricultural trade agenda. This year, the USDA says America will import as much food as we export. The agricultural trade surplus that stood at $27 billion less than 10 years ago is now gone.

The promises made to farmers during the NAFTA debates have come up flat. And the promises that will be made today about CAFTA are contradicted by the administration's own estimates.

In closing, let me say that to sacrifice even one job for a trade deal that will deepen our agricultural trade deficit is a travesty. And, having to tell thousands of hard-working farmers in Louisiana that they must look for work because sugar was used as a bargaining chip is unbearable.

I urge you all to join me in voting no on CAFTA if it is ever sent to Congress.

Mr. Chairman, thank you for the opportunity to testify before your Committee today.

Statement of U.S. Senator Debbie Stabenow
Senate Agriculture Committee Hearing on CAFTA-DR
June 7, 2005 9:30am

Mr. Chairman, thank you for holding this hearing today on the Free Trade Agreement with Central America and the Dominican Republic (CAFTA-DR). I ask that my full statement be included in the record.

CAFTA is one of the most important issues facing American farmers today. It is important to some because CAFTA could potentially open new markets for their crops. It is equally important to other farmers because CAFTA has the potential to devastate their livelihoods.

Mr. Chairman, I have grave concerns about the impacts of CAFTA on American farmers and manufacturers. So that I am not misunderstood, let me say that I support free trade on a level playing field. In other words, we need to be smart about trade. I supported trade agreements with Chile, Australia, Jordan, Singapore, and Morocco. I firmly believe that American workers can compete internationally. But we can't compete when other countries consistently violate trade agreements. We can't compete when we are under constant pressure to lower our environmental and labor standards in what's known as the "race to the bottom" rather than raising the standards in developing countries.

If we use NAFTA as a comparison we see that over the past 11 years U.S. workers have lost nearly 1 million jobs due to growing trade deficits with our NAFTA partners, according to the nonprofit Economic Policy Institute. During the same time, real wages in Mexico have fallen while the number of people living in poverty there has grown, according to the Carnegie Endowment for International Peace.

Since NAFTA took effect in 1994, the U.S. trade deficit with Canada and Mexico has ballooned to 12 times its pre-NAFTA size, reaching $111 billion in 2004. Imports from our NAFTA partners outpaced exports to them by more than $100 billion, displacing workers in industries as diverse as aircraft, autos, apparel and consumer electronics.

I believe we can expect more of the same under CAFTA.

In addition, I am concerned about our ability to enforce CAFTA should it be adopted. It is an understatement to say that our enforcement of existing trade agreements is poor. Unfair trade practices like currency manipulation, illegal direct government subsidies, and illegal export tax rebates hurt our farmers and manufacturers. For this reason Senator Graham and I have introduced a bill to establish a Chief Trade Prosecutor at USTR to stand up for our farmers and manufacturers and stop these trade violations. And yet we are considering a new trade agreement when we are not even enforcing our current ones.

Finally, Mr. Chairman, I am concerned about CAFTA because I do not believe in making agriculture policy through a trade agreement that cannot be amended by Congress. We are essentially opening up the farm bill and interfering with American agriculture in a

way that is unfair to our farmers. The nature of the business means farmers must make long-term investments, which means farmers need stability so that they can plan accordingly. We gave our farmers a game plan with the 2002 Farm bill and now we are considering making major changes to the game in the middle of the season. This is more than we can ask of our farmers.

Thank you again for holding this hearing, Mr. Chairman. I look forward to hearing from the witnesses this morning.

Testimony from Senator David Vitter
Senate Committee on Agriculture
Hearing on "CAFTA-DR: Potential Impacts on Agriculture and Food Sectors"
June 7, 2005

Mr. Chairman, I want to thank you for having this important hearing. I appreciate this opportunity to provide testimony from the Louisiana perspective.

CAFTA-DR has potential problems for my state, particularly for Louisiana's sugarcane industry. Because of the great disruption in our domestic sugar market that CAFTA-DR would have, I have been actively opposing this agreement since it was signed.

When Jesuit priests introduced sugarcane to Louisiana in the 1750s, they could not have imagined that sugar would eventually be a $2 billion industry and a vital part of Louisiana's history and way of life for the next 250 years. It's this economic and cultural impact – and the thousands of families who rely on sugarcane for their livelihood– that lie behind my decision to oppose CAFTA-DR.

Sugarcane constitutes one of the foundations of the agricultural sector of Louisiana's economy. Louisiana is home to 27,000 sugar industry jobs, 15 sugar mills, two sugar refineries, and more than 580,000 acres of sugar cane throughout 24 parishes. Louisiana produces 20 percent of our domestic sugar. Nationally, the sugar industry employs more than 146,000 people and generates more than $9.5 billion in positive economic activity.

I have supported and voted for a variety of trade agreements in the past because increased trade, when achieved through a fair and level playing field, helps grow the economy and create jobs here in America. I remain committed to the principles of free and fair trade. Other regional and bilateral trade agreements have routinely moved

forward without sugar provisions because of the broad understanding that global problems require multilateral solutions. One example is the recently approved US-Australia free trade agreement. Unfortunately, this was not the case with CAFTA-DR.

CAFTA-DR would allow an additional 122,000 tons of imported sugar in its first year alone, with increases annually following. These increases in imports threaten to flood the U.S. market and devastate the Louisiana sugarcane industry as domestic sugar is displaced by highly-subsidized foreign imports. Our sugar program is designed to limit imports to help counter unfair trade actions. These limits help mitigate the ill effects of dumping by other nations. Unlike programs for many other farm commodities, the U.S. sugar program provides no cash payments and operates at no cost to the U.S. taxpayer, as mandated by the Farm Bill.

Even with our existing program of import controls, the United States still stands as the fourth largest net sugar importer in the world, importing from 15 percent of our sugar every year. Allowing more imports from select CAFTA trading partners would flood the market and displace even more domestic sugar. CAFTA could set the stage for future bilateral agreements focused on the largest sugar-producing nations. And, these impacts are compunded with other pending changes, like the NAFTA-mandated change that will allow Mexico complete, open access to send sugar into the U.S. market after 2008.

The solution to this untenable prospect is not protectionism. America's sugar farmers oppose CAFTA because they know that the distortions affecting the global market for this commodity can only be resolved at the WTO, with all sugar-producing nations at the table. So let's be clear. They do not propose protectionist tariffs as far as the eye can see. Rather, they propose fixing the complex system of programs, subsidies, and tariffs in all the sugar producing countries rather than piecemeal in bilateral or regional FTAs. Addressing sugar comprehensively at the WTO level would allow all sugar-producing nations to continue to compete fairly at a global level.

Despite disastrous production during the Civil War, a disease epidemic during the 1920s, and freezing temperatures in the 1990s, the Louisiana sugar industry has continued to increase in productivity. But even with the resilience the industry has shown, it may not be able to withstand CAFTA.

Our sugar farmers and processors work hard and deserve a level playing field to do their jobs and support their families. A CAFTA-DR without sugar—and a concerted effort to address sugar at the WTO—would provide a truly global forum that could alleviate the trade distortions in the world sugar market. And, dealing with sugar trade globally and fairly would help ensure a strong sugar industry in Louisiana and across the nation for years to come.

Agriculture and Food Organizations Expressing Support for the CAFTA-DR

Altria Group, Inc.
American Bakers Association
American Farm Bureau Federation
American Feed Industry Association
American Frozen Food Institute
American Meat Institute
American Peanut Product Manufacturers, Inc.
American Potato Trade Alliance
American Seed Trade Association
American Soybean Association
Animal Health Institute
Archer Daniels Midland
Biotechnology Industry Organization
Blue Diamond Growers
Bunge North America
California Canning Peach Commission
California Fig Advisory Board
California Strawberry Commission
California Table Grape Commission
California Walnut Commission
Cargill, Inc.
Corn Refiners Association
CropLife America
Diamond of California
Distilled Spirits Council
Elanco
Fertilizer Institute
Florida Citrus Mutual
Food Marketing Institute
Food Products Association
Georgia Poultry Federation
Grocery Manufacturers Association of America
Imperial Sugar Company
Institute of Shortening and Edible Oils
International Dairy Foods Association
Louis Dreyfus Corporation
National Association of Wheat Growers
National Black Farmers Association
National Cattlemen's Beef Association
National Chicken Council
National Confectioners Association
National Corn Growers Association

National Cotton Council
National Grain and Feed Association
National Grain Sorghum Producers
National Grain Trade Council
National Grange
National Milk Producers Federation
National Oilseed Processors Association
National Pork Producers Council
National Potato Council
National Renderers Association
National Turkey Federation
North American Export Grain Association
North American Millers' Association
Northwest Horticultural Council
Pet Food Institute
Produce Marketing Association
Sunkist Growers
Sunmaid Growers of California
Sunsweet Growers, Inc.
Sweeteners Users Association
United Egg Producers
United States Dry Bean Council
USA Poultry and Egg Export Council
USA Rice Federation
U.S. Apple Association
U.S. Dairy Export Council
US Hide, Skin and Leather Association
U.S. Livestock Genetics Export, Inc.
U.S. Meat Export Federation
U.S. Wheat Associates
Valley Fig Growers
Washington State Potato Commission
Western Growers Association
Wheat Export Trade Education Committee
WineAmerica

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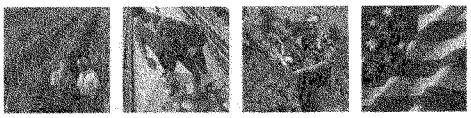

Government's Own Estimates Contradict Its CAFTA Spin

As required by law, the federal government conducted an economic analysis of CAFTA -- a pending trade deal with Central America. These estimates were released with no fanfare in the middle of August 2004 and have been buried ever since. No doubt that's because the estimates in that report directly contradict the Administration's rhetoric and spin about CAFTA benefits to America's economy.

Here are some of the highlights from the U.S. International Trade Commission's CAFTA report, which can be found at http://prototype.usitc.gov/WAIS/pub3717.PDF:

• America's trade deficit with Central America will actually *increase* to $2.4 billion a year under CAFTA. (page 75, page xii)

• CAFTA would benefit the U.S. economy by less than 0.01 percent. (page xvii)

• A "relatively small impact on the U.S. economy is expected because of the relatively small market size and low income levels in [Central America/Dominican Republic]." This phrase, or slight variations of it, appears 13 times in the report's Executive Summary. (pages xi to xxxi)

• Job loss in the U.S. sugar industry is projected to be 38 times greater than in the next closest sector-- textiles -- and thousands of sugar producers will be left unemployed in CAFTA's wake. (page 79)

• CAFTA's effect on farm exports would be much lower than the promises currently being made to America's farmers and ranchers. Agricultural exports *may* increase by $328 million under CAFTA, far lower than the lofty $1.5 billion being promised by the Administration and other CAFTA supporters. (page 75)

• Wheat farmers are told of potential gains under CAFTA, yet the government's own economic study contradicts this wild assertion: "U.S. wheat exports to the CA/DR region face no tariffs...and thus are not likely to be affected by the [CAFTA]." (page 55)

• Rice farmers are told they will be winners under CAFTA, but CAFTA actually grants them *less* immediate market access than they currently enjoy. (pages 54-55)

• The ITC finds that CAFTA will have "a negligible impact on total U.S. [corn] production and employment." (page xxi)

• Farmers of U.S. grains are told of new Central American markets, but the United States already supplies 94 percent of all grain imports to the region. (page 48)

Source: U.S. International Trade Commission "U.S.–Central American-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects" August 2004

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FOR IMMEDIATE RELEASE
Tuesday, June 7, 2005

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U.S. Sugar Prices Low by World Standards

Efficient U.S. Sugar Farmers Are Being Sold Out in CAFTA

WASHINGTON—Grocery shoppers in other developed countries paid 30 percent more for sugar last year than U.S. consumers. And, candy companies in America paid prices that were nearly identical to the world's average wholesale sugar price, despite their claims to the contrary.

Jack Roney, the director of economics and policy analysis for the American Sugar Alliance, unveiled these findings today in testimony before the Senate Committee on Agriculture, Nutrition, and Forestry.

Roney said these findings—part of a study of 2004 world sugar prices by the economic analysis firm LMC International—will help dispel the common misperception that sugar prices in the United States are high.

"Eighty percent of the world's sugar is never traded on an open market because that market is so distorted with foreign subsidies, dumping, and other predatory practices," explained Roney. "Because there is no legitimate world market for sugar, the only way to gauge U.S. prices is to compare them to what consumers in other countries pay. And on average, Americans pay less."

According to the study, retail sugar prices in America were 43 cents per pound, while the average in other developed countries was 56 cents per pound. Prices paid by U.S. candy companies were 23 cents per pound, compared to a 22-cent-per-pound world average and a 38-cent-per-pound developed country average.

Sugar prices in Mexico, the country where some American candy companies have relocated, were actually five cents per pound *higher* than U.S. sugar prices.

Roney attributes the low prices here to the efficiency of U.S. sugar farmers. It's that efficiency, he said, that makes the Central America Free Trade Agreement (CAFTA) so objectionable.

"CAFTA and similar agreements send efficient U.S. producers to the back of the line for access to their own market," Roney said. "We provide low prices for consumers, we operate at no cost to taxpayers, and we're more efficient than other countries, yet our market is being sliced up and traded away to less efficient foreign producers."

For more information about U.S. sugar policy, or for a copy of the LMC International study and Roney's testimony, visit www.sugaralliance.org

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National Chicken Council Supports Congressional Approval of CAFTA-DR

- The CAFTA-DR nations (Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua) have a total population of 44 million people, and with expanding economics and rising consumer incomes this market will significantly grow in importance.

- CAFTA-DR nations already have access to the U.S. market. About 99 percent of their products enter the United States duty free under other agreements. However, the United States does not have the same reciprocal access to their markets.

- It is time to level the playing field for American agricultural producers and processors. Creating free and fair trade is the primary purpose of the agreement.

- CAFTA will make more than 80 percent of U.S. exports of consumer and industrial products to Central America and the Dominican Republic duty-free.

- Agricultural exports to CAFTA nations totaled $1.8 billion in 2004. Under CAFTA-DR, USDA estimates that agricultural exports will more than double.

- During 2002 through 2004, U.S. poultry companies had combined exports to these markets that averaged over 66,800 metric tons valued at more than $45 million. With the agreement, the level of exports will increase at least 50 percent over the next few years. Without the agreement, there will continue to be high import duties and further mis-use of sanitary/veterinary requirements that hamper and even prohibit U.S. poultry to these markets.

- Expanding exports is critical to U.S. chicken companies. Marketing of the front half and back half of the bird can be better balanced when exports are robust. With more than 44 million consumers covered by CAFTA-DR, the marketing opportunities for leg quarters and other chicken products are greatly enhanced.

- It is vital that every export market for U.S. poultry be maintained and expanded. To do otherwise will mean lost opportunities for improved incomes and more jobs throughout the chicken production-processing-marketing chain.

- The National Chicken Council is pleased to support U.S./CAFTA-DR and looks forward to the agreement being approved by Congress and signed by the President.

National Milk Producers Federation

WRITTEN SUBMISSION BY THE NATIONAL MILK PRODUCERS FEDERATION TO THE SENATE AGRICULTURE COMMITTEE JUNE 7, 2005 HEARING ON THE CENTRAL AMERICA AND DOMINICAN REPUBLIC FREE TRADE AGREEMENT

The National Milk Producers Federation (NMPF) is the national policy voice for dairy farmers and their cooperatives. NMPF strongly supports the Free Trade Agreement with Central America and the Dominican Republic (CAFTA-DR) because of the enhanced export prospects it will open up for U.S. dairy products in that region.

For America's 60,000 dairy farmers to take advantage of opportunities to grow our industry, we need to take into consideration not only our important domestic market, but also devote efforts to developing new export possibilities. Ask dairy producers what they think of international trade, and you'll usually get a mixed response, including both apathy and ambivalence. Some agreements have exposed us to stiff competition from abroad without granting us equivalent opportunities. That was the case with last year's Free Trade Agreement with Australia. The contrast between that FTA and CAFTA-DR could not be clearer. CAFTA-DR allows us a means to work towards countering the constant flow of imports we face.

Because of this, the decision to support CAFTA-DR was clear cut for U.S. dairy producers. It will open the six nations involved (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic) to more U.S. dairy exports, primarily milk powder, along with cheese, whey and butter.

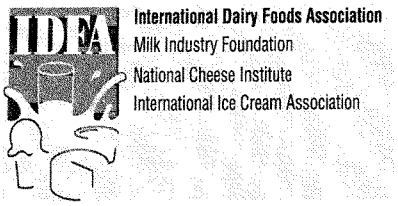
As an industry that has its own import concerns, we can see why some sectors believe CAFTA-DR isn't best for them. But it is best for us. Our dairy producers need to have a shot at balancing new dairy imports with new exports. In addition to the benefits to our industry, the vast majority of American agriculture also supports CAFTA-DR, strongly believing that this FTA is in their best interest. These wide-spread benefits for almost all of American agriculture stand in stark contrast to the situation posed by the Australia FTA or a potential FTA with New Zealand.

The American Farm Bureau Federation is forecasting increases in agricultural exports of approximately $1.5 billion annually under a fully implemented CAFTA-DR. In the case of trade with Oceania, those agreements would provide absolutely no potential for mutual

benefits and two-way trade for our industry, and offer little if anything to the rest of U.S. agriculture. That's why it was so crucial that dairy producers' Congressional supporters succeeded in making sure that imports from Australia would be kept under a tight cap. NMPF has consistently supported agreements that provide mutual benefits to the dairy industries of the countries involved. In the case of Australia, no such opportunities were ever available for U.S. dairy producers, as well as most other sectors of American agriculture. We would be facing the same situation in a trade agreement with New Zealand. That's why we will fight an FTA with New Zealand every step of the way.

Clearly the World Trade Organization (WTO) is the best arena for us to work on improving the decidedly inequitable status quo in global dairy trade. It's through worldwide talks that we have the best hope of changing the global dairy market that currently tilts heavily against our products and our producers.

While our government works through the lengthy process of reaching the next WTO deal, however, it's decided to pursue bilateral FTAs with both individual countries, and regions. NMPF looks at each FTA on its own merits to decide our position and Congress should do the same. It's because of this approach of carefully evaluating each agreement that NMPF asks Congress to support CAFTA-DR for the sake of America's dairy producers, and American agriculture as a whole.



WRITTEN SUBMISSION OF THE
U.S. DAIRY EXPORT COUNCIL & THE
INTERNATIONAL DAIRY FOODS ASSOCIATION
TO THE SENATE AGRICULTURE COMMITTEE
JUNE 7, 2005 HEARING ON THE
CENTRAL AMERICA AND DOMINICAN REPUBLIC
FREE TRADE AGREEMENT

The U.S. Dairy Export Council (USDEC) represents producers, processors and traders who are working to expand export opportunities for our quality dairy products. The International Dairy Foods Association (IDFA) represents dairy processors and acts as their collective voice in Washington, D.C., throughout the country and in the international arena. Both IDFA and USDEC are strong supporters of the Free Trade Agreement with Central America and the Dominican Republic (CAFTA-DR).

CAFTA-DR provides valuable new export opportunities for our dairy products in this nearby region. Upon implementation of the FTA, the U.S. dairy industry will gain immediate open access for whey and lactose, as well as tariff-free access for sizable amounts of cheese and skim milk powder, among other important dairy products. U.S. exporters will achieve additional market access in the region as tariffs are ultimately phased out completely.

Total exports to this dairy-importing region totaled $80 million in 2004. The expected approximate benefit to the U.S. dairy industry, resulting from increased exports of cheese, whey and skim milk powder, among other dairy products, is an additional $100 million in the first few years of the agreement.

Some have characterized the market in Central America and the Dominican Republic as "too small." While it's certainly true that our domestic dairy industry is much larger than the potential exports we forecast will result from CAFTA-DR, those sales are not insignificant to the health of our industry. Taking advantage of all worthwhile opportunities to enhance our exports is vital to the growth and health of the U.S. dairy industry. CAFTA-DR provides a path towards that market development. Making the most of our prospects in several "small" markets around the world can result in significant export gains for U.S. dairy products.

Mexico provides an excellent example of why it is important not to underestimate the benefit of well-negotiated trade agreements, particularly with nations whose dairy sectors

cannot satisfy their own domestic demand. The U.S.-Mexico portion of the North American Free Trade Agreement (NAFTA) was instrumental in expanding our commercial exports to what is now the largest export market for American dairy products.

Thanks to NAFTA and the investment the U.S. dairy industry subsequently made in Mexico, over the past decade commercial sales now dominate our dairy exports to Mexico. Prior to NAFTA the vast majority of U.S. dairy exports to Mexico were surplus disposal sales of butter, butteroil and milk powder by the U.S. Commodity Credit Corporation. Now, about 85% of U.S. dairy exports to Mexico are commercial sales consisting of products including cheese, ice cream, whey and lactose. Last year, Mexico was our number one export market for dairy products with record export sales to that country of $387 million, boosted substantially by the unassisted export of non-fat dry milk. NAFTA has allowed U.S. exporters to compete on price with Europe and Oceania with minimal support from the U.S. government.

While Central America and the Dominican Republic are smaller markets, we expect to see export opportunities grow equally well in these countries, as U.S. dairy exporters are able to take advantage of a more favorable trading environment with CAFTA-DR in place. For that reason, the U.S. dairy industry urges Congress to ratify the Central American-Dominican Republic Free Trade Agreement.

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U.S. Wheat Industry Supports the Central America–DR Free Trade Agreement

Under the Central American – Dominica Republic Free Trade Agreement all duties on U.S. wheat will be removed immediately upon implementation. Binding all tariffs at zero will help secure and protect the U.S. wheat industry's lead in Central America.

The U.S. wheat industry has a great relationship with the Central American countries. By signing this agreement, the industry is ensured the opportunity to maintain leadership in this growing market.

CAFTA strengthens the prospects of the Free Trade Area of the Americas, which holds the promise of substantial benefits for U.S. wheat exports.

WTO tariff bindings generally range from 35 percent to 60 percent, but can exceed 100 percent. Costa Rica currently applies a 1 percent duty while the other countries have zero tariffs on wheat. Under this agreement, duty-free access for the U.S. wheat exports to Central America will be locked in for all countries.

The applied rate for wheat flour is generally 10 percent. Tariffs on wheat flour will be eliminated in 15 years.

CAFTA Countries Bound Tariff Rates for Wheat will go to Zero

Costa Rica	45 Percent	→	0 Percent
Dominican Republic	40 Percent	→	0 Percent
El Salvador	30 Percent	→	0 Percent
Guatemala	109 Percent	→	0 Percent
Honduras	35 Percent	→	0 Percent
Nicaragua	60 Percent	→	0 Percent

U.S.-Central America-Dominican Republic Free Trade Agreement

Testimony of

the

USA Rice Federation

and the

U.S. Rice Producers Association

Submitted to

Committee on Agriculture, Nutrition, & Forestry

U.S. Senate

June 7, 2005

INTRODUCTION

Thank you, Mr. Chairman. The USA Rice Federation and the U.S. Rice Producers Association appreciate this opportunity to submit testimony to the Committee about the importance of the U.S.-Central America and Dominican Republic Free Trade Agreement to the U.S. rice industry.

The USA Rice Federation and the US Rice Producers Association represent U.S. rice growers, millers, exporters and allied industries, such as brokers and transportation firms.

Rice is grown in seven states including Arkansas, California, Louisiana, Texas, Mississippi, Missouri, and Florida. Nearly one-half of the crop is grown in eastern Arkansas along the Mississippi River. The industry markets rice in all 50 states and to 75 countries.

We appreciate you holding this timely hearing to review the U.S.-CAFTA-DR trade agreement.

CAFTA-DR BENEFITS THE U.S. RICE INDUSTRY

The CAFTA countries – Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua – plus the Dominican Republic represent one of the top-5 regional markets for U.S. rice exports. U.S. rice exports to these countries in 2004 were just over 714,000 tons, or about 17 percent of total U.S. rice exports for the year. The value of this market in 2004 was $184 million.

This market has grown dramatically in the last five years. U.S. exports were just under 400,000 tons in 2000. Sales in 2001-2003 averaged 554,000 tons and exceeded 700,000 tons last year.

Despite the large demand for U.S. rice, negotiations over rice were long and difficult with each of the countries. Rice was one of the most sensitive agricultural commodities for the Central American and Dominican Republic negotiators, and this sensitivity is reflected in the transition period to free trade in rice – 18 to 20 years.

We believe the administration negotiators got the best deal possible. Our negotiators did not give into demands that rice be excluded, and the comprehensive agreement they negotiated was central to achieving market access gains for U.S. rice producers, millers, and exporters.

The U.S. rice industry is one of the most open segments of U.S. agriculture. Each year 40 percent to 50 percent of the U.S. crop is exported, and imports make up from 10 percent to 12 percent of domestic consumption. Import duties are nearly non-existent. Exports are critical to the economic health of the rice industry and the rural communities that our producers and millers serve. We must continue to insist that other countries

provide similar access in their markets. The CAFTA-DR agreement helps us achieve this goal.

The CAFTA-DR agreement improves our existing access in this large market, reduces, high import duties, remedies tariff discrimination against certain forms of rice, and provides preferential duty treatment not available to any other supplier.

Currently, the CAFTA-DR countries have duties between 35 percent and 90 percent on U.S. rice under WTO bindings. More significantly, countries in the region frequently apply these import duties in a discriminatory fashion that denies consistent and meaningful access for U.S. milled rice.

The CAFTA-DR agreement preserves existing access for rough, or unmilled, rice and provides for immediate guaranteed market access for brown and fully milled U.S. rice.

Tariff rate quotas will be established in all countries for rough and milled rice (except for the Dominican Republic which will have TRQs for brown and fully milled rice). Duties within the TRQs will be zero. Out of quota duties are set at the applied rates in place on January 1, 2003. In effect, U.S. rice exports will face duties significantly below what the CAFTA-DR countries could charge under their WTO bindings. This benefit begins when the agreement is implemented, and continues through the transition to free trade.

TRQs for milled rice will increase 5 percent a year, except in the Dominican Republic, where growth will range from 3 percent to 6.5 percent annually. TRQs for rough rice will increase 2 percent annually in Costa Rica, El Salvador and Honduras; 3 percent in Nicaragua; and 5 percent in Guatemala. Additionally, the U.S. negotiated "performance requirements" that are designed to ensure that the TRQs are managed so that they fill.

The total TRQ access amounts to over 400,000 metric tons (mt) immediately and grows through the tariff phase-out period. The details on TRQs by country are as follows:

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 exports 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 exports 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.

The American Farm Bureau Federation concluded last year following an economic analysis of the CAFTA-DR that upon full implementation the agreement would boost the value of rice exports to the region by over $90 million.

TRADE AGREEMENTS BENEFIT THE U.S. RICE INDUSTRY

U.S. rice exports for the current marketing year are projected by the U.S. Department of Agriculture to be 3.3 million metric tons on a milled basis. On a value basis, U.S. rice exports in 2004/2005 will likely once again exceed $1 billion.

Sales to the two largest foreign markets for U.S. rice– Mexico and Japan –should account for one- third of the value of exports this year. Without the North American Free Trade Agreement and the Uruguay Round's Agreement on Agriculture our sales to Mexico would be substantially below current levels and the Japanese market would remain closed, locking out U.S. rice.

Our export success in three other key markets – the EU, Korea, and Taiwan – is also directly correlated to the market access disciplines of the Uruguay Round. Sales to these three markets are expected to account for about 10 percent of total U.S. exports in 2004/2005.

In two separate negotiations, for example, U.S. negotiators recently used the trade laws included in the Uruguay Round Agreements to push back an attempt by the EU to shut off our access for brown rice, while negotiating substantially increased access in Korea.

We are confident that U.S. rice sales to the CAFTA-DR countries will be likewise strengthened by this new agreement.

We know that neither CAFTA-DR nor any other trade agreement will solve all our problems. Non-tariff trade barriers continue to be a problem facing U.S. rice in many foreign markets, including the Central American region and the Dominican Republic. However, trade agreements, in conjunction with consistent enforcement by our trade officials, have immensely improved our competitive position in foreign markets.

The CAFTA-DR addresses the most prevalent type of non-tariff trade barriers – those dealing with sanitary and phytosanitary measures. The parties affirm the intent to apply the science-based disciplines of the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures. An SPS Committee is established to expedite resolution of technical issues. Additionally, actions to resolve specific SPS measures restricting trade among the parties have also been agreed to.

It is critically important, therefore, that U.S. rice continue to be a part of future U.S. trade agreements. As noted at the beginning of this testimony, every government requested that rice be excluded from the CAFTA-DR. A firm stand by the administration allowed our industry to participate and help our negotiators get a good deal for the U.S. rice industry rather than standing on the outside looking in.

While we understand other sectors of agriculture believe otherwise, the benefits of this trade agreement to the rice industry as well as to many, many other sectors of U.S. agriculture are critically important. We believe that the administration has negotiated an agreement that strengthens U.S. agriculture. The U.S. rice industry urges this Committee and Congress to support the benefits of expanded trade to U.S. agriculture and the consumers of Central America and the Dominican Republic.

CAFTA-DR MEANS OPPORTUNITY, GROWTH AND CHOICE

In conclusion, Mr. Chairman, CAFTA-DR means opportunity, growth, and choice for U.S. rice producers, millers and exporters, and for consumers in Central America and the Dominican Republic.

The CAFTA-DR agreement locks in access to a huge and growing market for U.S. rice. The CAFTA-DR sets minimum access guarantees for U.S. rice.

Discrimination against milled rice imports by the CAFTA-DR governments will eventually end. The market and consumers will determine U.S. rice exports to the region.

The agreement strengthens the ability of end users to choose between rough and milled rice while establishing minimum access guarantees for all U.S. rice.

CAFTA-DR provides advantages for U.S. rice only; no other international supplier will benefit.

In addition to rice, the record is clear that the CAFTA-DR provides real benefits to almost every segment of U.S. agriculture. The U.S. rice industry urges the full support of the Committee and Congress for this important agreement.

The USA Rice Federation and the U.S. Rice Producers Association support this trade agreement and urge members of this Committee and Congress to vote for CAFTA-DR.

Thank you.

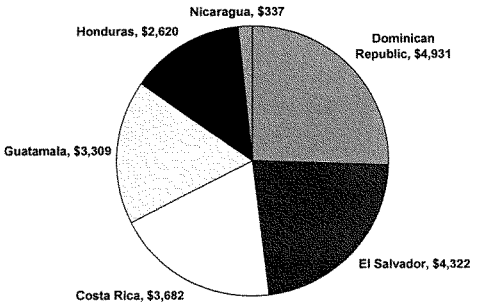
STATEMENT
OF THE
CORN REFINERS ASSOCIATION
IN SUPPORT OF THE
CENTRAL AMERICAN FREE TRADE AGREEMENT

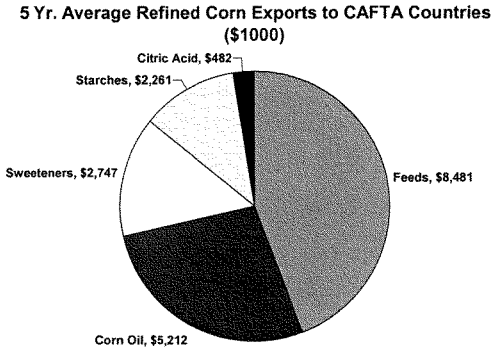
June 7, 2005

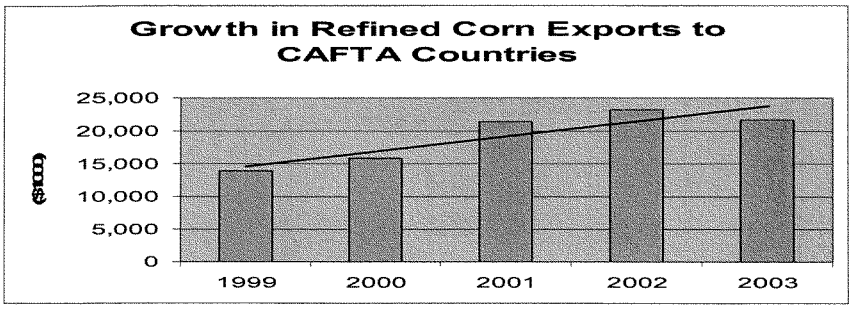
The Corn Refiners Association strongly supports the Central American-Dominican Republic Free Trade Agreement. This agreement offers excellent prospects to increase exports of value-added products from the U.S. corn refining industry. These exports will boost corn utilization, add well-paying jobs in the corn refining and associated industries throughout the United States and will provide Central American consumers access to products not produced within their countries.

Our industry's exports of corn oil, corn starch, corn sweeteners and animal feed ingredients to the CAFTA countries have averaged $19 million over the past five years. However, further increases in our exports are stymied by high tariffs, including the ability of the CAFTA countries to impose tariffs of 40% for corn starch, 50% for corn sweeteners and up to 90% for un-refined corn oil.

5 Yr. Avg. Refined Corn Exports to CAFTA Countries
($1000)







The U.S. corn industry and corn refiners in particular will benefit from the DR-CAFTA agreement. Tariffs on corn starch, corn oil, glucose and dextrose, and corn gluten feed and meal will be reduced to zero when CAFTA becomes effective. Duties on other corn products, including high fructose corn syrup, will be phased out over the life of the agreement.

CAFTA is a comprehensive and balanced agreement. The provisions concerning trade in our products export potential to the CAFTA countries are unambiguous and will result in meaningful increases to the region. Importantly, passage of this agreement will further strengthen our industry's ability to provide well-paying jobs in the United States.

Statement
Of the
National Pork Producers Council

Before the
Senate Agriculture Committee

On

CAFTA-DR: Potential Impacts on Agriculture and Food Sectors

June 7, 2005

Mr. Chairman and Members of the Committee:

The National Pork Producers Council is a national association representing pork producers in 44 affiliated states that annually generate approximately $11 billion in farm gate sales. The U.S. pork industry supports an estimated 565,780 domestic jobs and generates more than $83.6 billion annually in total economic activity. With 11,492,000 litters being fed out annually, U.S. pork producers consume 1.093 billion bushels of corn valued at $2.404 billion. Feed supplements and additives represent another $2.393 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

Pork is the world's meat of choice. Pork represents 44 percent of daily meat protein intake in the world. (Beef and poultry each represent less than 30 percent of daily global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade – and the lower consumer prices in importing nations and the higher quality products associated with such trade - will depend substantially on continued agricultural trade liberalization.

PORK PRODUCERS ARE BENEFITING FROM PAST TRADE AGREEMENTS

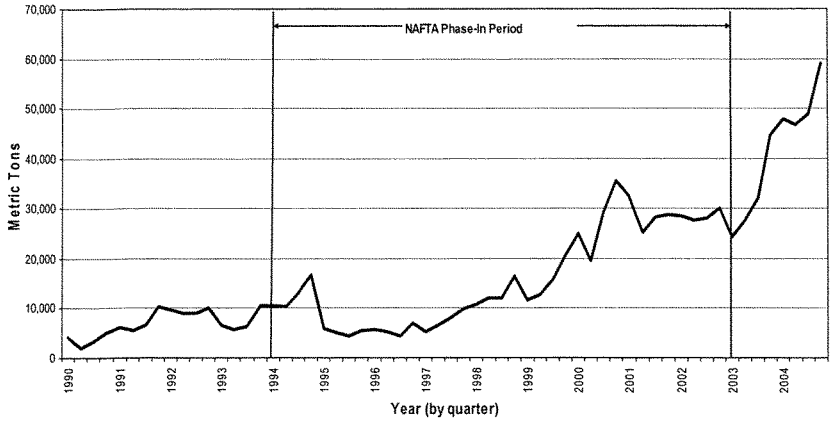
In 2004 U.S. pork exports set another record. Pork exports totaled 1,023,413 metric tons (MT) valued at $2.2 billion, an increase of 35% by volume and 41% by value over 2003 exports. Much of the growth in U.S. pork exports is directly attributable to new and expanded market access. U.S. exports of pork and pork products have increased by more than 332% in volume terms and more than 289% in value terms since the implementation of the NAFTA in 1994 and the Uruguay Round Agreement in 1995.

The top 7 export markets in 2004 are all markets in which pork exports have soared because of recent trade agreements.

Mexico

In 2004 U.S. pork exports to Mexico totaled 361,587 metric tons valued at $566 million. Without the NAFTA, there is no way that U.S. exports of pork and pork products to Mexico could have reached such heights. Mexico is now the number one volume market for U.S. pork exports and the number two value market. U.S. pork exports have increased by 279% in volume terms and 406% in value terms since the implementation of the NAFTA growing from 1993 (the last year before the NAFTA was implemented), when exports to Mexico totaled 95,345 metric tons valued at $112 million.

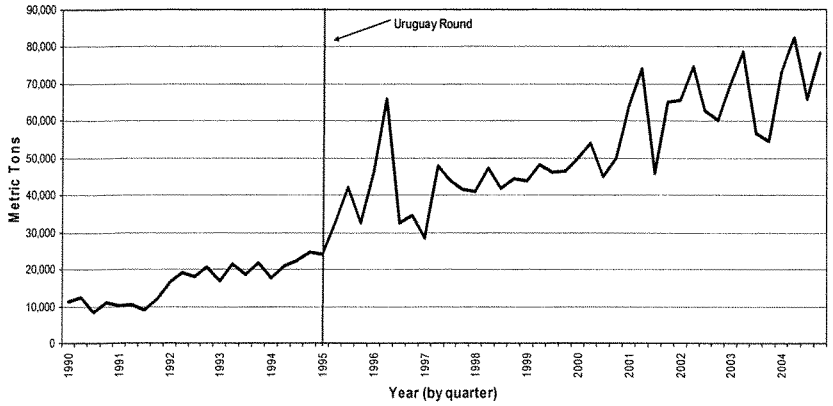
U.S. Pork Exports to Mexico



Japan

Thanks to a bilateral agreement with Japan on pork that became part of the Uruguay Round, U.S. pork exports to Japan have soared. In 2004, U.S. pork exports to Japan reached 313,574 metric tons valued at $979 million. Japan remains the top value foreign market for U.S. pork. U.S. pork exports to Japan have increased by 274% in volume terms and by 182% in value terms since the implementation of the Uruguay Round.

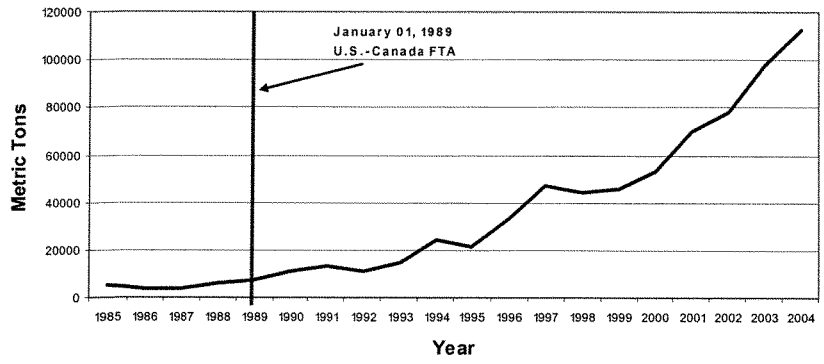
U.S. Pork Exports to Japan



Canada

U.S. pork exports to Canada have increased by 1,773% in volume terms and by 2,429% in value terms since the implementation of the U.S. – Canada Free Trade Agreement. In 2004 U.S. pork exports to Canada increased to 112,360 metric tons valued at $301 million.

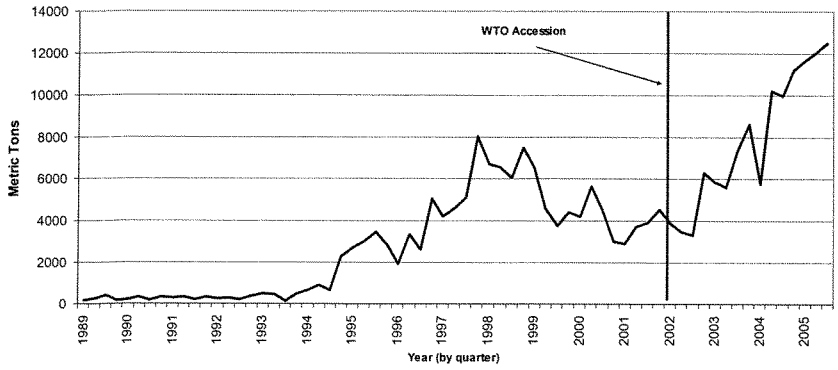
U.S. Pork Exports to Canada



China

U.S. exports of pork and pork products to China increased 51% in value terms and 41% in volume terms in 2004 versus 2003, totaling $91 million and 79,701 metric tons. U.S. pork exports have exploded because of the increased access resulting from China's accession to the World Trade Organization. Since China implemented its WTO commitments on pork, U.S. pork exports have increased 38% in volume terms and 38% in value terms.

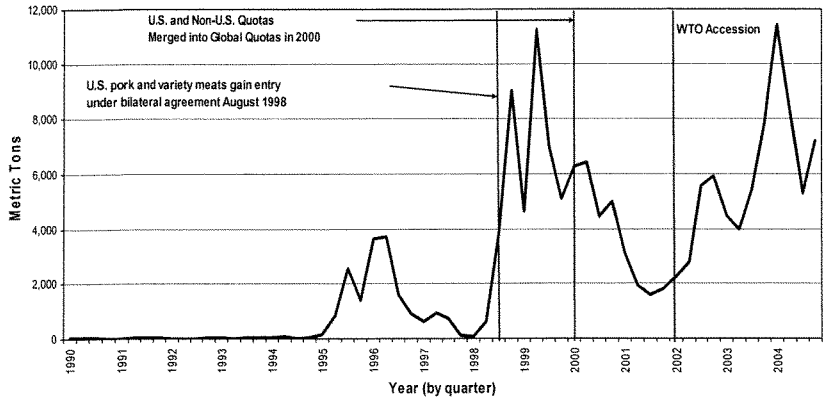
U.S. Pork Exports to China



Taiwan

U.S. exports of pork and pork products to Taiwan increased to 38,806MT valued at $56 million. U.S. pork exports to Taiwan have grown sharply because of the increased access resulting from Taiwan's accession to the World Trade Organization. Since Taiwan implemented its WTO commitments on pork, U.S. pork exports have increased 207% in volume terms and 197% in value terms.

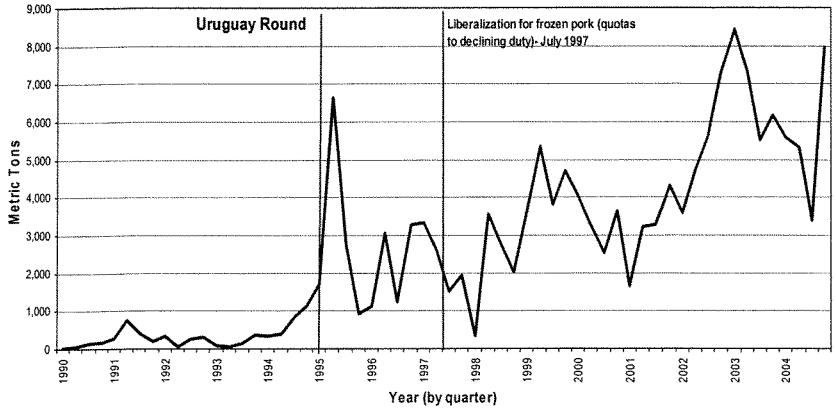
U.S. Pork Exports to Taiwan



Republic of Korea

U.S. pork exports to Korea have increased as a result of concessions made by Korea in the Uruguay Round. In 2004 exports climbed to 27,876MT valued at $56 million, an increase of 724% by volume and 558% by value since implementation of the Uruguay Round.

U.S. Pork Exports to the Republic of Korea

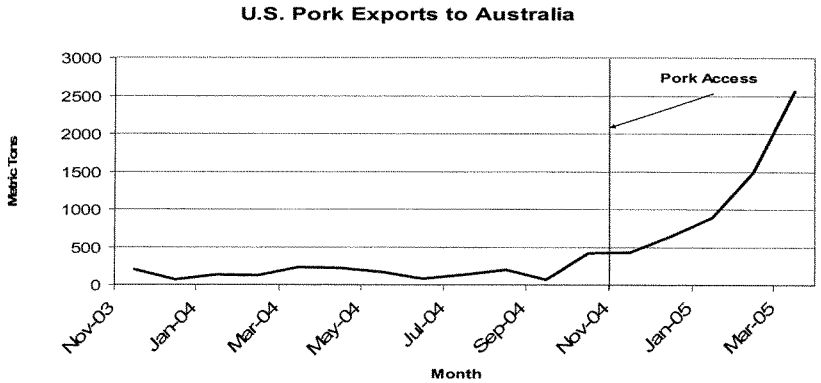


Russia

U.S. exports of pork and pork products to Russia increased 491% in value terms and 285% in volume terms in 2004 versus 2003, totaling 27,152MT valued at $42 million. The increase in exports is due largely to the establishment of U.S.-only pork quotas which were established by Russia as part of its preparation to join the World Trade Organization. The spike in U.S. pork export to Russia in the late 1990's was due to pork shipped as food aid.

Australia

The U.S. pork industry did not gain access to Australia until recently, thanks to the U.S. – Australia FTA. U.S. pork exports to Australia have exploded in 2005 making Australia one of the top export destinations for U.S. pork. Pork exports to Australia on a value basis during the first quarter of 2005 were just under $13 million which on an annualized basis amounts to over $50 million in sales.



Impact of Pork Exports on Prices
The Center for Agriculture and Rural Development (CARD) at Iowa State University has calculated that in 2004, U.S. pork prices were $33.60 per hog higher than they would have been in the absence of exports.

Impact of Pork Exports on Jobs
The USDA has reported that U.S. meat exports have generated 200,000 additional jobs and that this number has increased by 20,000 to 30,000 jobs per year as exports have grown.

Impact of Pork Exports on Economy
The U.S. Bureau of Economic Analysis (BEA) has calculated that for every $1 of income or output in the U.S. pork industry, an additional $3.113 is generated in the rest of the economy. The USDA has reported that the income multiplier from meat exports is 54% greater than the income multiplier from bulk grain exports.

Impact of Pork Exports on Feed Grain and Soybean Industries
Each hog that is marketed in the United States consumes 12.82 bushels of corn and 183 pounds of soybean meal. With an annual commercial slaughter of 100 million animals, this corresponds to 1,282 million bushels of corn and 9.15 million tons of soybean meal. At least 11% of this production is exported, and these exports account for approximately 141 million bushels of corn and 1 million tons of soybean meal.

CONGRESS NEEDS TO PASS CAFTA-DR

The Free Trade Agreement negotiated between the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua, if implemented, will create important new opportunities for U.S. pork producers.

The United States will receive sizeable quotas through which pork can be exported duty-free. These quotas will increase each year until year 15 when all quotas will be eliminated. A duty on out-of-quota pork, which will be phased down over time, will be eliminated at year 15.

In addition to the favorable tariff treatment, significant sanitary and technical issues are being resolved. As a result of separate Sanitary and Phytosanitary (SPS) discussions, all 6 countries have agreed to recognize the U.S. meat inspection system and to accept pork from any USDA-inspected facility. U.S. officials and their counterparts in these six countries continue to work through implementation of these SPS measures.
Live hog prices are positively impacted by the introduction of new export markets. Recent price strength in U.S. pork markets is directly related to increased U.S. pork exports. For example, Mexico is a strong and growing export market for U.S. pork. The same competitive advantage that has resulted in expanded U.S. pork exports to Mexico will also facilitate an expansion of U.S. pork exports to more than 45 million new consumers in these six countries.

Demand for pork in these nations will be positively impacted through the income growth that accompanies free trade. Most consumers in the CAFTA-DR nations currently are at an income level that does not allow them to consume meat on a regular basis. Prosperity created by a free trade agreement will create millions of new customers for U.S. meat and other agricultural products.

A recent economic analysis conducted by Iowa State University economist Dermot Hayes shows that, as a direct result of CAFTA-DR, U.S. pork exports to the region will grow by 20,000 tons on an annual basis, increasing U.S. live hog prices by thirty-six cents per head. The average historical return to U.S. pork producers from 1974 to 2003 was $8.00 per hog. Thirty-six cents is 4.5% of this average profit. Thus, the CAFTA-DR is expected to be a significant contributor to the long-term financial prospects of U.S. pork producers.

Much of the growth in U.S. pork exports is directly attributable to new and expanded market access through recent trade agreements. However, as the benefits from past trade agreements begin to diminish, the negotiation of new trade agreements becomes paramount to the continued growth and profitability of U.S. pork producers. The CAFTA-DR is an important part of this process and will bring real benefits to U.S. pork producers.

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Statement of

The Grocery Manufacturers of America

On the Benefits of the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) for the Food Sector

Before the

Senate Committee on Agriculture, Nutrition, and Forestry

June 7, 2005

The Grocery Manufacturers of America (GMA) appreciates the opportunity to provide information to the Senate Committee on Agriculture, Nutrition, and Forestry on the impact on the Food Sector of the U.S. - Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). GMA is the world's largest association of food, beverage and consumer product companies. With U.S. sales of more than 500 billion dollars, GMA member companies employ more than 2.5 million workers in all 50 states.

GMA strongly supports the CAFTA-DR and urges swift approval of the agreement by Congress. The Central American region is a strong and growing market for U.S. processed food and consumer products. U.S. exports of processed food products already capture roughly one quarter of total food imports in these economies and U.S. brands are well known throughout the region. Additionally, exports of processed food products are already growing faster than any other U.S. agricultural exports in many of the CAFTA countries. We are, therefore, extremely excited about the opportunities that the CAFTA-DR will afford our companies through enhanced access to this dynamic region.

Export Opportunities

Food, beverage and consumer products currently face an average *ad valorum* duty of 15% into the CAFTA countries and 20% into the Dominican Republic. Some products like cheese and yogurt face prohibitive tariffs well in excess of 60% in many CAFTA countries. Under the agreement, many of these duties will be eliminated immediately, most within fifteen years, and dairy products will receive duty free treatment in twenty years. We are also pleased that all products are covered by the agreement, albeit some to a lesser extent than we might have hoped.

These market access commitments will yield meaningful benefits to GMA companies. A recent GMA-sponsored study by the International Trade Services Corporation estimates that the potential savings from the tariff reductions and quota expansions alone will be nearly $8.8 million on day one of the agreement. This figure grows to nearly $28 million annually upon full implementation of the agreement.

The study also measures the potential aggregated increase in GMA member company exports to the five Central American countries and the Dominican Republic one year after the elimination of tariffs on priority products identified by GMA. Our trade flow analysis suggests that upon elimination of tariffs, GMA member company exports could increase from $359 million to $662 million – an 84% increase over current exports to the region. Specific country projections are as follows:

- In Costa Rica, exports could increase from $48.7 million to more than $99.9 million
- In El Salvador, exports could increase from $35.6 million to more than $89.8 million
- In Guatemala, exports could increase from $45.9 million to more than $96.7 million
- In Honduras, exports could increase from $43.8 million to more than $77.4 million

- In Nicaragua, exports could increase from $13.2 million to more than $30 million
- In the Dominican Republic, exports could increase from $178.3 million to more than $273 million

GMA also expects to see strong growth in particular sectors as a result of the agreement. For example, we predict that exports of snack foods, confectionary products, and soups could each nearly double to around $30 million annually as a result of the CAFTA-DR. A complete copy of the report, "GMA's Processed Foods Demand Model," can be found on the GMA website at http://www.gmabrands.com/publicpolicy/trade.cfm#free. For your convenience, a copy is enclosed as well.

Import Opportunities
GMA also supports the CAFTA-DR because it will provide new avenues for imports of key ingredients for food processors. For example, under the agreement the U.S. peanut tariff will be phased out over a 15-year period, with an initial TRQ of 10,000 metric tons (mt) for Nicaragua and 500 mt for El Salvador. U.S. manufacturers will also have access to an additional 153,140 tons of sugar in year fifteen of the agreement. GMA regrets that the over-quota tariff on sugar will never be reduced or eliminated. In fact, it is the only tariff under this agreement that will be preserved. We are pleased, however, that the quota will continue to grow at 2 percent annually. The additional access to peanuts and sugar, although modest, will help to increase the competitiveness of U.S. companies vis-à-vis other manufacturers who already have access to lower cost raw materials.

Putting the CAFTA-DR Sugar Commitments Into Perspective
On the day the agreement was completed, the U.S. sugar industry issued a statement in opposition to the agreement, which stated among other things that "every pound of foreign sugar we are forced to import under these agreements means another pound an efficient American farmer can't produce." According to the growers, one pound of sugar imports is too much, and the CAFTA commitments will be the "straw that breaks the back" of the sugar program.

These often repeated assertions are clearly not supported by a straightforward analysis of the exact commitments in the agreement. Consider the facts:

- The CAFTA countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) have small sugar quotas that have actually declined since the 1990s.

- The increased quotas will account for just 1.1 percent of U.S. sugar consumption, or about one and a half teaspoons of sugar a week per American. If imports of around one percent of U.S. consumption are enough to "break the back" of the sugar program, then it is indeed a very frail program.

- Importantly for U.S. sugar producers, under CAFTA-DR the above-quota tariff on imports from CAFTA-DR nations remains unchanged at well over 100 percent.

- Unlike virtually all other products, sugar will never be completely liberalized under CAFTA-DR.

- As a result of a new "sugar compensation mechanism" in the CAFTA-DR, no sugar actually ever has to come into the country. Provisions in the CAFTA-DR could allow the U.S. government to pay Central American producers **NOT** to ship their sugar to the U.S.

- Despite claims to the opposite by sugar producers, the U.S. International Trade Commission found that the modest sugar imports under the CAFTA (should they come at all) would **NOT** trigger a suspension of marketing allotments and, therefore, would have no effect on the operation of the current U.S. sugar program.

Interestingly enough, these doomsday assertions are not even supported by the growers' own studies. During the negotiations of the CAFTA-DR, U.S. sugar growers touted a study by Louisiana State University that analyzed the impact of proposed free trade agreements on sugar prices in the United States. In the study, the authors posited that the breakeven price for raw sugar for sugarcane growers in Louisiana would be 20.7 cents a pound. Any reduction in market prices below this level would force growers out of business. Further on in the study, the authors calculate that the net impact of the actual CAFTA commitments would only lower the U.S. raw price to 21.85 cents a pound. According to their own studies, even after implementation of the CAFTA, U.S. sugar growers would still be operating at a comfortable margin.

In truth, the additional sugar imports will not lead to the ruin of the U.S. sugar industry. Sugar growers are simply used to getting returns that are two to three times the world market price and are fighting only to maintain this anachronistic program and the resulting inflated prices. As much as growers would like to blame trade agreements for their ills, the real blame lies with the program itself. Any program that operates primarily by shorting the market to keep prices high will automatically be out of step with a global economy. This is why no other U.S. farm program operates in a similar fashion. It is a shame for an industry that simply does not want to compete internationally to hold hostage the export benefits for the vast majority of the food and agriculture sector.

Additional Benefits of the FTA

As important as the market access provisions of the CAFTA-DR are to the U.S. food and consumer products industry, the real, long-term benefits of the FTA will come from the adoption of new rules that will lead to a stronger, more predictable business climate in the region. For example, new rules on dealer protections will afford manufacturers increased flexibility and more efficient product distribution throughout Central America. Enhanced intellectual property and investor protections will lead to better protections for trademarks and a more secure business environment that are essential to increased sales of branded products. Finally, the integration of the CAFTA market should lead to economies of scale for production and distribution within the CAFTA region and increased demand for U.S. food and consumer products.

Conclusion

GMA strongly supports the free trade agreement with Central America and the Dominican Republic. We expect that U.S. food and consumer product companies will realize significant gains from the export and import opportunities provided by the agreement. We are hopeful that, over time, we will have a fully integrated market that will allow for economies of scale and rationalization of production throughout North and Central America.

GMA thanks the Committee for the opportunity to present our views at this hearing.

GMA's Processed Food Demand Model

Assessing the Potential Value of The Central American FTA on US Exports of Branded Food & Beverage Products

A Resource and Tool for
The Grocery Manufacturers of America and
GMA Member Companies

Prepared by ***International Trade Services Corporation***
11 March 2004

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BACKGROUND ON THE ANALYSIS & SUMMARY OF FINDINGS

(Tab 1)

Central America is considered the fastest growing market for the export of US-manufactured branded processed food products. Because of the importance of this expanding market for US exporters, the Grocery Manufacturers of America (GMA) sought trade-flow projections to help communicate increased opportunities in the region to member companies, US trade negotiators and Members of Congress.

In previous years, GMA relied on the Foreign Agricultural Service's report of on Bulk, Intermediate, and Consumer-Oriented (BICO) import and export data to track trade flows. BICO reports have not provided the specificity that GMA requires to identify potential export growth opportunities for its members. In response to theses shortcomings, the *CAFTA processed food demand model* was designed based on specific HS codes rather than general BICO commodity groupings.

The analysis provides GMA with product-specific and sector-wide data to support duty-free access for US processed food and beverage products in Free Trade Agreements. This tool is yet another trade resource for the association, and complements data and anecdotal information provided by member companies. In addition, the model can be used as a catalyst to address not only tariff and quotas, but SPS issues, TBT issues and other non-tariff barriers that limit maximum potential of US imports into markets. The result is a more focused articulation of the potential benefits of FTAs and the removal of trade barriers for GMA members.

For individual GMA member companies, the information provides data to assist marketing activities by simulating the potential increase in market share of products from the US based on the potential pricing advantage achieved through elimination of tariffs.

In developing the *CAFTA processed food demand model* six export markets were targeted: the five countries of the Central American Free Trade Agreement (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) as well as the Dominican Republic which is scheduled to complete negotiations with the US in mid 2004. More than 80 processed food and beverage products are included along with corresponding 8-digit tariff codes and tariff descriptions.

Findings are summarized below, with details on sectors, individual products and each of the 6 countries following in separate sections.

Findings by Region

The trade-flow model provides a projection for the potential aggregated increase in US share of imports into the five Central American countries and the Dominican Republic one year after elimination of tariffs on GMA members' priority products.

- Upon elimination of tariffs, imports from the US into the 6 countries have the potential to ***increase from $359 million to $662 million – an 84% increase over current imports into the region.***
- The US share of imports of processed foods into the region has the potential to ***increase from 26% to more than 41% of the total value of imports.***

Findings by Country

The projections for specific countries are outlined below. Marketing strategies by US exporters could increase market shares even more.

- In **Costa Rica,** US imports could increase from **$48.7million to more than $99.9 million,** an increase of more than 100%. Imports from the US would represent almost half (50%) of the import market.
- In **El Salvador**, US imports could increase from **$35.6 million to more than $89.8 million,** an increase of more than 150%. Imports from the US would represent one-third (33%) of the import market.
- In **Guatemala**, US imports could increase from **$45.8 million to more than $96.7 million,** an increase of more than 110%. Imports from the US would represent more than one-quarter (28%) of the import market.
- In **Honduras,** US imports could increase from **$43.8 million to more than $77.4 million**, an increase of 77%. Imports from the US would represent more than one-third (35%) of the import market.
- In **Nicaragua**, US imports could increase from **$13.2 million to more than $30 million**, an increase of more than 125%. Imports from the US would represent more than one-quarter (26%) of the import market.
- In the **Dominican Republic**, US imports could increase from **$178.3 million to more than $273 million**, an increase of more than 50%. Imports from the US would represent almost 61% of the import market.

Findings by Sector and Product

Each of the Sector Analysis Summary sheets provide details on opportunities within each sector. The projections target, quantify and document potential impact on those products with continued growth prospects in the market, products with tariffs greater than 20%, and tariff lines where new opportunities may exist for US exporters. Below is a snapshot of those products from the US that could exceed 200% growth in one year if tariffs and quotas were eliminated in the region.

Products Imported into the CAFTA Region from the US with Potential Growth (in Value) >= 200%

1.	Ice Cream whether or not containing cocoa	**880%**
2.	Cheddar Cheese	**549%**
3.	Butter	**543%**
4.	Wine of fresh grapes, including fortified wines < 2 liters	**349%**
5.	Whiskey strength by volume < 60%	**328%**
6.	Processed Cheese packaged for release	**306%**
7.	Cream Cheese not for retail sale	**305%**
8.	Sausages and other wieners of bovine animals	**286%**
9.	Yogurt	**250%**
10.	Unsweetened WMP (>26% fat) in containers of a net wt <5kg	**246%**
11.	Wine of fresh grapes, including fortified wines > 2 l	**228%**
12.	Unsweetened WMP (<=26% fat) in containers of a net wt <3kg	**223%**
13.	Pasta, such as Boxed Macaroni and Cheese	**219%**
14.	Whiskey strength by volume > 60%	**216%**
15.	Beer	**203%**
16.	Tomato Ketchup and other tomato sauces	**198%**
17.	Chewing Gum	**198%**

Reading the Import Data Tables in Excel

The projected increases in imports has been presented in many different ways in several Excel Spreadsheets in order to provide an overview of US processed foods into the CAFTA region, as well details for individual products into each country. This provides flexibility for GMA and its member companies to delve into specific products, look at specific countries, focus on sectors, or summarize opportunities within the region. Import data tables found in this report include:

Aggregate Sector Summary by Region which is a compilation of all the sectors by region and country in one spread sheet for easy reference.

Sector Analyses which break down information for each of the 16 sectors. Excerpts from the information above is included in the sector analyses in order to easily compare projections for the sector with potential opportunities for individual products within that sector.

- Sector aggregated for the entire region with notations beside each country where products have 1.) experienced continuous growth [CG], 2.) face high tariffs [HT], or 3.) are potential new opportunities for US exporters [O].
- Products by tariff lines aggregated for the region.
- Products by tariff lines for each of the 6 countries.

Country Data Tables listing all products by tariff code into each of the six countries. There is no aggregation of sector information in these tables. Rather it provides details specific to each market.

In 2002, some products were not imported, or were not reported as imported, into the CAFTA countries from the United States. In order for the trade flow model to project potential increases resulting from an FTA, the import value and volume must indicate a base number other than zero. Therefore, where imports from the US accounted for zero percent of total imports (and when there were imports from other countries), US imports were modified to represent one percent (1%) of total imports in each of the country Excel Spreadsheets. A list of those products modified is included under Tab 20: Aggregate All Products Table.

A full explanation of the trade-flow model, methodology used, and description of columns can be found under Tab 27: *Methodology of CAFTA Processed Food Demand Model.*

HOW TO READ THE SECTOR ANALYSIS SUMMARIES

(Tab 2)

I. Products Included in the Sector-Specific Trade Flow Analysis

A list of GMA member-company products and 6-digit tariff classification were provided to ITSC as representative of imports of US processed food and beverage products into the region. See *Annex A*. For each Sector Summary Sheet, a list of those products and relevant tariff codes are provided for reference.

Products are grouped in sectors and sub-sectors to provide a comprehensive overview of like-products into the region.

- **Dairy**
  - Cheese
  - Milk
  - Other Dairy
- **Meat**
  - Sausages and Wieners
  - Deli Meats
- **Finished Confectionery**
- **Pasta**
- **Breakfast Cereals**
- **Snack Foods**
- **Processed Tomatoes**
- **Jams and Jellies**
- **Juices**
- **Sauces**
- **Soups**
- **Alcoholic Beverages** including Beer, Wine, Brandy and Whiskey
- **Pet Food**

II. Snapshot of Sector

The CAFTA trade flow economic model provides an analysis of the potential increase in US imports into the CAFTA region above current US imports when tariffs in the six countries are eliminated. Analyses were done on each sector and include information on:

- Current Price / Unit of imports from US compared to imports from the rest of the world.
- Potential Increase in **Value** of imports from the US when tariffs are fully eliminated.
- Potential Increase in **Volume** of imports from the US when tariffs are fully eliminated.

Immediately following each Sector Analysis Summary cover sheet are import data tables which provide details on potential increases in imports from the US of:

- All products aggregated within a sector into the region *(i.e. Sauces of 2103.20/90 into Central America)*
- All products aggregated within a sector into each of the six countries *(i.e. Sauces of 2103.20/90 into each of the 6 countries)*
- Individual products by tariff line into the region (i.e. Mayonnaise of 2103.90.10 into Central America)
- Individual products by tariff line into each of the six countries (i.e. Mayonnaise of 2103.90.10 into each of the 6 countries)

III. Prospects for Continued Growth in Central America

These are products that have been noted as products with best prospects for continued growth in each of the six countries. The information is based on research compiled by the Foreign Agriculture Service of the US Department of Agriculture in each of the 6 countries as reported in the "Retail Sector Reports"

IV. Products within the Sector Currently with High Tariffs (> 20%)

Any product with an applied MFN tariff higher than 20% is noted in this section. The threshold of greater than 20% was designated because the Dominican Republic's base rate for most processed food products is 20%. Products subject to quota are also noted in this section.

V. New Opportunities in Central America (Potential Increase >= 200%)

In the analysis, any product with potential increases in value or volume of imports from the US greater than 200% that is not already included as a growth prospect and / or a product with high tariffs is noted here.

VI. Tariff Elimination Schedules

USTR has released the CAFTA tariff elimination schedules. For easy reference, we have compiled a list of products included in the sector analyses and the number of years until tariffs are eliminated. The list can be found on the next page.

Annex A *(Tab 2)*

List of Products Included in the CAFTA Trade Flow Analysis and 6-Digit Tariff Code

0402.10	Skim Milk Powder
0402.2x	Whole Milk Powder
0402.9x	Other milk and cream
0403.10	Yogurt
0405.10/90	Butters
0406.10	Cream cheese
0406.20	Parmesan cheese
0406.30	Processed cheese packaged for release
0406.90	Mozzarella
0406.90	Cheddar cheese
0406.90	Cream cheese not for retail sale
0802.1x	Almonds
0802.3x	Walnuts
0811.90	Frozen cranberries
0901.11	Green coffee
1005.90	Popcorn used for pre-popping and packing to microwave popcorn
1006.30	Husked and milled rice
1202.20	Peanuts, shelled, raw
1211.90	Psyllium seed husks
1302.12	Licorice extract
1513.11	Coconut oil
1601.00	Sausages and other wieners
1602.3x/4x/5x	Prepared or preserved meat, cold cuts, bologna
1602.90	Meal sets or combinations, e.g. "Lunchables"
1701.1x/9x	Sugar
1704.10.00	Chewing gum
1704.90.00	Candy
1803	Cocoa paste
1804.00.00	Cocoa butter
1805.00.00	Cocoa powder
1806.20	Bulk chocolate
1806.3x/90	Chocolate candy
1901.10	Baby food, infant formula
1902.1	Boxed macaroni and cheese
1904.10	Breakfast cereals
1904.90	Precooked rice; Seasoning and coating mixtures
1905.31	Cookies
1905.90	Crackers, frozen pizza (pre-cooked or cooked), corn chips, bakers' wares
2001.10	Pickles
2002.10	Whole or pieces of tomato prepared or preserved
2002.90	Tomato concentrates and tomato paste
2005.20	Potato chips/processed potatoes - fries
2007	Jams, jellies, marmalades
2008.11.10	Peanut butter
2008.99.00	Sweetened dried cranberries
2009.1x	Orange juice
2009.50	Tomato juice
2009.69	Grape juice
2009.80	Cranberry concentrate
2009.90	V8
2101.11	Soluble coffee
2103.20	Tomato catsup, pasta sauce, salsa and picantes

2103.90	Mayonnaise and salad dressings, taco seasoning mix
2104.10	Soups (canned and dried)
2105.00	Ice cream
2106.90	Powdered soft drinks (industrial use)
2106.90	Powdered soft drinks (retail)
2202.10	Juice drinks
2202.90	Dietetic foods and mineral waters
2202.90	Blended fruit juices, cocktails, nonalcoholic beers
2203.00	Beer
2204.1x/2x	Wine of fresh grapes, including fortified wines
2208.20	Brandy
2208.30	Whiskey
2309.10	Pet Food

Annex B: **(Tab 2)**

CAFTA Tariff Elimination Schedule

Number of years after implementation of CAFTA until duties eliminated on US-origin products.

Tariff code	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
0402.10.00	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0402.21.11	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0402.21.12	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0402.21.21	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0402.21.22	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0402.29.00	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0402.91.10	TRQ: 20	15	15	15	Immediate
0402.91.20	15	15	15	15	TRQ: 20
0402.91.90	15	15	15	15	15
0402.99.10	TRQ: 20	15	15	15	Immediate
0402.99.90	TRQ: 20	15	15	15	15
0403.10.00	20	TRQ: 20	20	20	20
0405.10.00	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0405.90.10	TRQ: 20	15	15	15	Immediate
0405.90.90	15	TRQ: 20	TRQ: 20	TRQ: 20	15
0406.10.00	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0406.20.90	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0406.30.00	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0406.90.10	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0406.90.20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
0406.90.90	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
1601.00.10	15	12	15	15	15
1601.00.20	12	5	5	5	5
1601.00.30	15	15	15	15	15
1601.00.80	12	12	12	15	15
1601.00.90	12	12	12	15	15
1602.31.00	Immediate	Immediate	Immediate	Immediate	Immediate
1602.32.00	10	See Below	See Below	See Below	See Below
1602.39.00	Immediate	Immediate	Immediate	Immediate	Immediate
1602.41.00	15	10	15	15	Immediate
1602.42.00	15	10	15	15	12
1602.49.90	15	15	15	15	12
1602.50.00	10	12	15	15	15
1602.90.00	15	15	15	15	15
1704.10.00	15	15	5	15	5
1704.90.00	15	15	5	15	15
1806.31.00	15	10	5	12	5
1806.32.00	15	10	5	12	5
1806.90.00	15	10	5	12	5
1902.19.00	12	10	10	10	10

Tariff code	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1904.10.10	Immediate	Remains duty free	Remains duty free	Immediate	Remains duty free
1904.10.90	12	10	10	5	Immediate
1905.31	See Below	See Below	See Below	See Below	See Below
1905.90.00	15	10	5	10	10
2002.10.00	15	10	10	10	10
2002.90.10	Immediate	Immediate	10	Immediate	Immediate
2002.90.90	15	10	10	10	10
2005.20.00	15	10	10	5	Immediate
2007.10.00	15	5	5	10	10
2007.91.00	15	10	10	10	10
2007.99.90	15	5	5	10	10
2009.11.00	Immediate	Immediate	Immediate	Immediate	Immediate
2009.12.00	10	10	Immediate	10	10
2009.19.90	10	10	Immediate	10	10
2009.19.10	Immediate	G	G	10	G
2009.50.00	15	10	10	10	10
2009.69.10	Immediate	G	G	G	G
2009.69.90	12	10	5	5	10
2009.61.00	12	5	10	5	10
2009.80.90	See Below	See Below	See Below	See Below	See Below
2009.90.00	5	5	10	Immediate	Immediate
2103.20.00	15	10	10	10	10
2103.90.00	10	10	10	Immediate	5
2104.10.00	5	5	5	Immediate	5
2105.00.00	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20	TRQ: 20
2202.10.00	12	12	15	10	12
2202.90.10	15	15	10	15	15
2202.90.90	See Below	10	TRQ: 10	TRQ: 20	TRQ: 20
2203.00.00	15	15	Immediate	15	15
2204.10.00	5	5	5	5	5
2204.21.00	Immediate	Immediate	Immediate	Immediate	Immediate
2204.29.00	15	5	10	10	15
2208.20.10	5	5	5	10	10
2208.20.90	5	5	5	10	10
2208.30.10	Immediate	Immediate	Immediate	Immediate	Immediate
2208.30.90	Immediate	Immediate	Immediate	Immediate	Immediate
2309.10.00	12	Immediate	Immediate	12	5

NOTES

TRQ: 10 Quota in place until year 10.
TRQ: 18 Quota in place until year 18.
TRQ: 20 Quota in place until year 20.

1602.32.00
ES Leg quarters = TRQ: 18, Wings = 5 years, Others = 10 years
G, H, N 1602.32.00A, Leg quarters= TRQ: 18
1602.32.00B, Others = Immediate

1905.31

CR	1905.31.10, Chocolate sweet biscuits for ice cream sandwiches = Immediate
	1905.31.90, Other sweet biscuits = 12 years
ES, G, H, N	1905.31.10, Chocolate sweet biscuits for ice cream sandwiches = Immediate
	1905.31.90, Other sweet biscuits = 10 years

2009.80.90

CR	Cranberry Juice = Immediate; All others = 12 years
ES, G, N	Cranberry Juice = Immediate; All others = 10 years
H	This code is split into two sections; one will face immediate elimination; the other will be eliminated over 5 years.
	The information published does not indicate which products within this code are in each category.

2202.90.90

CR	Non-milk based drinks = 15 years Milk based drinks = 20 years

Sector: ***MILK***

(Tab 3)

I. Milk Sector Includes Products

0402.10	Skim milk powder
0402.21	Whole milk powder
0402.91	Other milk and cream

II. Snapshot of Milk Sector

Current Price / Unit of Imports of Milk from US:

- **$1.60 / kg** (compared to $1.03 / kg from rest of the world)

Potential Increase in Value of Imports of Milk from US:

- Upon elimination of duties, CAFTA imports of Milk from the US have the potential to increase from almost **$7.6 million to almost $16.5 million**, representing **13% of the value of imports** into the region.
- This is a 118% increase over current value in imports of Milk from the US.

Potential Increase in Volume of Imports of Milk from US:

- CAFTA imports of Other Dairy from the US have the potential to increase from **more than 4.7 million kg to almost 11 million kg**, representing **11% of all imports** into the region.
- This is nearly a 170% increase over the current quantity of Milk imports from the US.

III. Prospects for Continued Growth in Central America

- **Unsweetened Whole Milk and Cream, concentrated, in containers >= 5kg** into Nicaragua

IV. Milk Products Currently with High Tariffs (> 20%)

- **Milk** (not including Evaporated Milk) into Costa Rica: ***34 – 65% with TRQs***
- **SMP** & **Unsweetened WMP** *(but not including > 26% in containers < 5kg)* into Nicaragua ***40%***

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Unsweetened WMP (<= 26%) in containers < 3kg** into El Salvador and Guatemala
- **Unsweetened WMP (> 26%) in containers < 5kg** into Guatemala and Nicaragua
- **Unsweetened WMP (> 26%) in containers >=5kg** into El Salvador and Guatemala
- **Evaporated Milk** into El Salvador
- **Cream Milk** into El Salvador

Vi. Additional Comments

It is important to note that the **Dominican Republic** received over $1.9 million and **Honduras** over $99,000 worth of milk as food aid from the United States in FY 2002.

Sector: CHEESE

(Tab 4)

I. Cheese Sector Includes Products

0406.10	Cream cheese
0406.20	Parmesan cheese
0406.30	Processed cheese packaged for release
0406.90	Mozzarella, Cheddar cheese, Cream cheese not for retail sale

II. Snapshot of Cheese Sector

Current Price / Unit of Imports of Cheese from US:

- **$2.49 / kg** (compared to $1.78 / kg from rest of the world)

Potential Increase in Value of Imports of Cheese from US:

- Upon elimination of duties, CAFTA imports of Cheese from the US have the potential to increase from **almost $6.7 million to over $24 million**, representing **45% of the value of imports** into the region.
- This is a 264% increase over current value in imports of Cheese from the US.

Potential Increase in Volume of Imports of Cheese from US:

- CAFTA imports of Cheese from the US have the potential to increase from **almost 2.7 million kg to 9.4 million kg**, representing **36% of all imports** into the region.
- This is nearly a 251% increase over the current quantity of Cheese imports from the US.

III. Prospects for Continued Growth in Central America

- **Mozzarella Cheese** into El Salvador
- **Cheeses** into Guatemala
- **Mozzarella Cheese, Cheddar Cheese,** and **Other Cheeses** into Nicaragua

V. Cheeses Currently with High Tariffs (> 20%)

- **All Cheeses** into Costa Rica: ***Ranging from 34% - 65%, plus TRQs***
- **All Cheeses** into El Salvador: ***40% average, plus TRQs***

Vi. New Opportunities in Central America (Potential Increase >= 200%)

- **Cheddar Cheese** into Guatemala
- **Processed Cheese packaged for retail, not grated or powdered** into Nicaragua

Sector: *OTHER DAIRY*

(Tab 5)

I. Other Dairy Includes Products

0403.10	Yogurt
0405.10	Butter
0405.90	Butter oil, other butter
2105.00	Ice Cream

II. Snapshot of Sector

Current Price / Unit of Imports of Other Dairy Products from US:

- **$2.13 / kg** (compared to $1.47 / kg from rest of the world)

Potential Increase in Value of Imports of Other Dairy Products from US:

- Upon elimination of duties, CAFTA imports of Other Dairy from the US have the potential to increase from **over $1 million to almost $7.7 million**, representing **30% of the value of imports** into the region.
- This is a 632% increase over current value in imports of Other Dairy from the US.

Potential Increase in Volume of Imports of Other Dairy Products from US:

- CAFTA imports of Other Dairy from the US have the potential to increase from **almost 493,000 kg to almost 2.6 million kg**, representing **17% of all imports** into the region.
- This is more than a 420% increase over the current quantity of Other Dairy imports from the US.

III. Prospects for Continued Growth in Central America

- None

VI. Other Dairy Products Currently with High Tariffs (>20%)

- **All Other Dairy products** (with exception of Butter Oil) into Costa Rica: ***34 – 65% with TRQs***
- **Yogurt** into El Salvador ***40%***
- **Butter** into El Salvador ***30%***

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Yogurt** into Guatemala and Nicaragua
- **Other Butter** into El Salvador and Guatemala
- **Ice Cream** into Honduras and Nicaragua

Sector: *SAUSAGES*

(Tab 6)

I. Sausage Sector Includes Products

Sausages and other wieners

1601.00 Sausages and similar products, of meat, meat offal or blood; food preparations based on these products

II. Snapshot of Sausage Sector

Current Price / Unit of Imports of Sausage from US:

- **$2.08 / kg** (compared to $1.71/ kg from rest of the world)

Potential Increase in Value of Imports of Sausage from US:

- Upon elimination of duties, CAFTA imports of Sausages from the US have the potential to increase from **$3.75 million to almost $11 million**, representing **56% of the value of imports** into the region.
- This is a 192% increase over current value in imports of Sausages from the US.

Potential Increase in Volume of Imports of Sausage from US:

- CAFTA imports of Sausages from the US have the potential to increase from **more than 1.8 million kg to more than 5.2 million kg**, representing **51% of all imports** into the region.
- This is nearly a 189% increase over the current quantity of Sausages imports from the US.

III. Prospects for Continued Growth in Central America

- **Turkey and Chicken Franks** into El Salvador
- **Sausages of Poultry** and **Sausages of Pork** into Nicaragua
- **All Sausages of Red Meat** into Honduras

VI. Sausage Products Currently with High Tariffs (> 20%)

• **Sausages of Poultry** into Costa Rica	***29 – 150% with TRQs***
• **Sausages of Pork** and **Sausages of Mixtures** into Costa Rica	***35%***
• **All Sausages** into El Salvador	***40%***
• **All Sausages** (not including Blood Sausages) into Dominican Republic	***40%***

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Sausages of Poultry** into Guatemala

Sector: *DELI MEAT*

(Tab 7)

I. Deli Meat Sector Includes Products

Prepared or preserved meat, cold cuts, bologna

1602.3x	Of poultry of heading 0105
1602.4x	Of swine
1602.50	Of bovine animals

Meal sets or combinations (e.g. "Lunchables")

1602.90	Other, including mixtures with nuts, sugar, confectionery, infant food, sauce, pet food)

II. Snapshot of Deli Meat Sector

Current Price / Unit of Imports of Deli Meat from US:

- **$2.54 / kg** (compared to $2.78 / kg from rest of the world)

Potential Increase in Value of Imports of Deli Meat from US:

- Upon elimination of duties, CAFTA imports of Deli Meat from the US have the potential to increase from **almost $6 million to more than $9 million**, representing **79% of the value of imports** into the region.
- This is a 53% increase over current value in imports of Deli Meat from the US.

Potential Increase in Volume of Imports of Deli Meat from US:

- CAFTA imports of Deli Meat from the US have the potential to increase from **almost 2.4 million kg to more than 3.4 million kg**, representing **80% of all imports** into the region.
- This is nearly a 46% increase over the current quantity of Deli Meat imports from the US.

III. Prospects for Continued Growth in Central America

- **All Deli Meats** into Guatemala
- **All Red Deli Meats** into Honduras

VI. Deli Meats Currently with High Tariffs (> 20%)

• **Deli Meats of Poultry** into Costa Rica	***40% with some TRQs***
• **Deli Meats of Swine** into Costa Rica & Dominican Republic	***35%***
• **All Deli Meats** into El Salvador	***40%***
• **All Sausages** (not including Blood Sausages) into Dominican Republic	***40%***

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Deli Meats of Bovine Animals** into Nicaragua

Sector: *FINISHED CONFECTIONERY*

(Tab 8)

I. Finished Confectionery Sector Includes Products

1704.10	Chewing Gum
1704.90	Sugar Confectionery
1806.31	Filled Chocolate Confectionery in blocks, slabs or bars
1806.32	Unfilled Chocolate Confectionery in blocks, slabs or bars
1806.90	Other Chocolate Confectionery

II. Snapshot of Finished Confectionery Sector

Current Price / Unit of Imports of Finished Confectionery from US:

- **$2.38 / kg** (compared to $1.71/kg from rest of the world)

Potential Increase in Value of Imports of Finished Confectionery from US:

- Upon elimination of duties, CAFTA imports of Finished Confectionery from the US have the potential to increase from **$14 million to more than $ 32.4 million**, representing almost **32% of the value of imports** into the region.

- This is a 132% increase over the current value of Finished Confectionery imports from the US.

Potential Increase in Volume of Imports of Finished Confectionery from US:

- CAFTA imports of Finished Confectionery from the US have the potential to increase from **5.9 million kg to more than 14.4 million kg**, representing **26% of all imports** into the region.

- This is a 145% increase over the current quantity of Finished Confectionery imports from the US.

III. Prospects for Continued Growth in Central America

- **All types of Finished Confectionery** into Costa Rica, El Salvador, Guatemala and Dominican Republic
- **Chewing Gum** and **Sugar Confectionery** into Honduras
- **Filled Chocolate Confectionery in blocks, slabs and bars** into Nicaragua

IV. Finished Confectionery Products Currently with High Tariffs (> 20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Chewing Gum** into El Salvador, Guatemala and Honduras
- **Sugar Confectionery** into Honduras and Nicaragua
- **Unfilled Chocolate Confectionery in blocks/slabs/bars** into Nicaragua
- **Other Finished Chocolate Confectionery** into Costa Rica

Sector: PASTA

(Tab 9)

I. Pasta Sector Includes Products

1902.19 Uncooked Pasta not containing eggs *(such as boxed macaroni and cheese)*

II. Snapshot of Pasta Sector

Current Price / Unit of Imports of Pasta from US:

- **93 cents kg** (compared to 68 cents/kg from rest of the world)

Potential Increase in Value of Imports of Pasta from US:

- Upon elimination of duties, CAFTA imports of Uncooked Pasta from the US have the potential to increase from **$200,000 to more than $637,000**, representing **7% of the value of imports** into the region.
- This is a 219% increase over current value in imports of Uncooked Pasta from the US.

Potential Increase in Volume of Imports of Pasta from US:

- CAFTA imports of Uncooked Pasta from the US have the potential to increase from **almost 215,000 kg to almost 701,000 kg**, representing **5% of all imports** into the region.
- This is nearly a 226% increase over the current quantity of Uncooked Pasta imports from the US.

III. Prospects for Continued Growth in Central America

- **Uncooked Pasta** into Costa Rica

IV. Pasta Products Currently with High Tariffs (> 20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Uncooked Pasta** into all countries of the region

Sector: *BREAKFAST CEREALS*

(Tab 10)

I. Breakfast Cereals Sector Includes Products

1904.10 Prepared foods obtained by the swelling or roasting of cereals or cereal products

II. Snapshot of Breakfast Cereals Sector

Current Price / Unit of Imports of Breakfast Cereals from US:

- **$1.56 / kg** (compared to $1.64/kg from rest of the world)

Potential Increase in Value of Imports of Breakfast Cereals from US:

- Upon elimination of duties, CAFTA imports of Breakfast Cereals from the US have the potential to increase from **$6.5 million to more than $17.6 million**, representing **28% of the value of imports** into the region.
- This is a 172% increase over the current value of Breakfast Cereal imports from the US.

Potential Increase in Volume of Imports of Breakfast Cereals from US:

- CAFTA imports of Breakfast Cereals from the US have the potential to increase from **4.1 million kg to more than 11.1 million kg**, representing **29% of all imports** into the region.
- This is a 170% increase over the current quantity of Breakfast Cereal imports from the US.

III. Prospects for Continued Growth in Central America

- **Breakfast Cereals** into Costa Rica, El Salvador, and Dominican Republic

IV. Breakfast Cereal Products Currently with High Tariffs (>20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Breakfast Cereals** into Nicaragua

Sector: *SNACK FOODS*

(Tab 11)

I. Snack Food Sector Includes Products

1005.90	Popcorn, used for pre-popping or packed for microwave popping
1905.31	Sweet Biscuits, Cookies
1905.90	Crackers, Frozen Pizzas, Corn Chips
2005.20	Potato Chips

II. Snapshot of Snack Foods Sector

Current Price / Unit of Imports of Snack Foods from US:

- **$1.78 / kg** (compared to $1.26/kg from rest of the world)

Potential Increase in Value of Imports of Snack Foods from US:

- Upon elimination of duties, CAFTA imports of Snack Food from the US have the potential to increase from **$14.7 million to more than $32.1 million**, representing **37% of the value of imports** into the region.
- This is a 118% increase over the current value of Snack Food imports from the US.

Potential Increase in Volume of Imports of Snack Foods from US:

- CAFTA imports of Snack Food from the US have the potential to increase from **8.3 million kg to more than 15.9 million kg**, representing **26% of all imports** into the region.
- This is a 92% increase over the current quantity of Snack Food imports from the US.

III. Prospects for Continued Growth in Central America

- **Cookies and Sweet Biscuits,** and **Pop Corn** into Costa Rica
- **Cookies and Sweet Biscuits,** and **Potato Chips** into Nicaragua
- **Baked Snacks (Cookies, Crackers, Baked Chips)** into Guatemala
- **All Snack Foods** into El Salvador and Dominican Republic

IV. Snack Foods Currently with High Tariffs (>20%)

- **Potato Chips** into Costa Rica: ***40%***

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Cookies and Sweet Biscuits** into Honduras

Sector: *PROCESSED TOMATOES*

(Tab 12)

I. Processed Tomato Sector Includes Products

2002.10	Whole or pieces of tomato
2002.90	Tomato concentrates and tomato paste

II. Snapshot of Processed Tomato Sector

Current Price / Unit of Imports of Processed Tomatoes from US:

- **77 cents/kg** (compared to 64 cents/kg from rest of the world)

Potential Increase in Value of Imports of Processed Tomatoes from US:

- Upon elimination of duties, CAFTA imports of Processed Tomatoes from the US have the potential to increase from **$2.5 million to almost $3.8 million**, representing **23% of the value of imports** into the region.

- This is a 49% increase over current value in imports of Processed Tomatoes from the US.

Potential Increase in Volume of Imports of Processed Tomatoes from US:

- CAFTA imports of Processed Tomatoes from the US have the potential to increase from **almost 3.3 million kg to almost 4.9 million kg**, representing **20% of all imports** into the region.

- This is nearly a 48% increase over the current quantity of Processed Tomato imports from the US.

III. Prospects for Continued Growth in Central America

- **Tomatoes, whole or in pieces and Tomatoes, concentrate** into Nicaragua

IV. Processed Tomato Products Currently with High Tariffs (> 20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Tomato paste** into Nicaragua
- **Tomatoes, whole or in pieces; Tomatoes concentrate and Tomato paste** into Dominican Republic

Sector: *JAMS, JELLIES & MARMALADES*

(Tab 13)

I. Jams Sector Includes Products

Jams, Jellies & Marmalades:

2007.10	Homogenized preparations
2007.91	Citrus fruit
2007.99	Others

II. Snapshot of Jams Sector

Current Price / Unit of Imports of Jams, Jellies and Marmalades from US:

- **$1.84 / kg** (compared to $1.43 / kg from rest of the world)

Potential Increase in Value of Imports of Jams, Jellies and Marmalades from US:

- Upon elimination of duties, CAFTA imports of Jams, Jellies & Marmalades from the US have the potential to increase from **$2.2 million to more than $6.2 million**, representing **34% of the value of imports** into the region.

- This is a 182% increase over current value in imports of Jams, Jellies & Marmalades from the US.

Potential Increase in Volume of Imports of Jams, Jellies and Marmalades from US:

- CAFTA imports of Jams, Jellies & Marmalades from the US have the potential to increase from **1.2 million kg to almost 3.5 million kg**, representing **29% of all imports** into the region.

- This is nearly a 185% increase over the current quantity of Jams, Jellies & Marmalades imports from the US.

III. Prospects for Continued Growth in Central America

- **Jellies** into Costa Rica

IV. Jams, Jellies and Marmalades Currently with High Tariffs (> 20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- **All Jams, Jellies and Marmalades** into Guatemala
- **Homogenized Preparations** into El Salvador and Honduras
- **Other Fruit Jams, Jellies and Marmalades** into Costa Rica and Honduras

Sector: *JUICES*

(Tab 14)

I. Juice Sector Includes Products

2009.1X	Orange juice
2009.50	Tomato juice
2009.6X	Grape juice
2009.80	Juice of any other single fruit or vegetable *(including Cranberry concentrate)*
2009.90	Mixture of juices *(including V8)*

II. Snapshot of Juice Sector

Current Price / Unit of Imports of Juice from US:

- **$1.51 / liter** (compared to .44 cents / liter from rest of the world)

Potential Increase in Value of Imports of Juice from US:

- Upon elimination of duties, CAFTA imports of Juices from the US have the potential to increase from **almost $12.6 million to almost $21 million**, representing **23% of the value of imports** into the region.
- This is a 66% increase over current value in imports of Juices from the US.

Potential Increase in Volume of Imports of Juice from US:

- CAFTA imports of Juices from the US have the potential to increase from **more than 8.3 million liters to almost 16 million liters**, representing **9% of all imports** into the region.
- This is nearly a 91% increase over the current quantity of Juices imports from the US.

III. Prospects for Continued Growth in Central America

- **Apple Juice** into Nicaragua
- **Canned, Plastic- and Glass-bottled Juices** into Costa Rica
- **Fruit and Vegetable Juices** into Honduras and Dominican Republic

IV. Juices Currently with High Tariffs (>20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Frozen Orange Juice** into Costa Rica and Nicaragua
- **Other juices of any other single fruit or vegetable, such as Cranberry Concentrate** into Guatemala and Honduras
- **Tomato Juice** into Costa Rica and Honduras

Sector: *SAUCES*

(Tab 15)

I. Sauces Sector Includes Products

2103.20	Ketchup and other tomato sauces *(including pasta sauces, salsa and picantes)*
2103.90	Sauces other than soy, tomato or mustard *(such as mayonnaise, salad dressings, taco seasoning mix)*

II. Snapshot of Sauces Sector

Current Price / Unit of Imports of Sauces from US:

- **$1.39 / kg** (compared to $1.33/kg from rest of the world)

Potential Increase in Value of Imports of Sauces from US:

- Upon elimination of duties, CAFTA imports of Sauces from the US have the potential to increase from **$15.3 million to more than $36.3 million**, representing almost **50% of the value of imports** into the region.
- This is a 137% increase over the current value of Sauce imports from the US.

Potential Increase in Volume of Imports of Sauces from US:

- CAFTA imports of Sauces from the US have the potential to increase from **11 million kg to more than 26.4 million kg**, representing **47% of all imports** into the region.
- This is a 140% increase over the current quantity of Sauce imports from the US.

III. Prospects for Continued Growth in Central America

- **Ketchup and other tomato sauces, Salad Dressings** and **Mayonnaise** into Costa Rica
- **Ketchup and other tomato sauces** and **Salad Dressings** into El Salvador

VI. Sauces Currently with High Tariffs (>20%)

- None

VII. New Opportunities in Central America (Potential Increase >= 200%)

- **Ketchup and other tomato sauces** into Guatemala and Nicaragua

Sector: **SOUPS**

(Tab 16)

I. Soup Sector Includes Products

2104.10 Soups

II. Snapshot of Soups Sector

Current Price / Unit of Imports of Soups from US:

- **$1.72 / kg** (compared to $1.45/kg from rest of the world)

Potential Increase in Value of Imports of Soups from US:

- Upon elimination of duties, CAFTA imports of Soups from the US have the potential to increase from **$17.3 million to more than $29.9 million**, representing almost **66% of the value of imports** into the region.
- This is nearly a 73% increase over the current value of Soup imports from the US.

Potential Increase in Volume of Imports of Soups from US:

- CAFTA imports of Soups from the US have the potential to increase from **10 million kg to more than 17.7 million kg**, representing **62% of all imports** into the region.
- This is a 76% increase over the current quantity of Soup imports from the US.

III. Prospects for Continued Growth in Central America

- **Ramen Noodle-style (Dried) Soups** into El Salvador
- **All Soups** into Nicaragua

IV. Soups Currently with High Tariffs (> 20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Soups** into Costa Rica
- **Preparations for Soups** into Dominican Republic

Sector: *ALCOHOLIC BEVERAGES*

(Tab 17)

I. Alcoholic Beverages Sector Includes Products

2203.00	Beer
2204.10	Sparkling Wine
2204.21	Still Wine
2204.29	Still Wine (Bulk)
2208.20	Brandy
2208.30	Whiskey

II. Snapshot of Alcoholic Beverages Sector

Current Price / Unit of Imports of Alcoholic Beverages from US:

- **89 cents / liter** (compared to $1.37/kg from rest of the world)

Potential Increase in Value of Imports of Alcoholic Beverages from US:

- Upon elimination of duties, CAFTA imports of Alcohol from the US have the potential to increase from **$8.5 million to more than $29.6 million**, representing **47% of the value of imports** into the region.
- This is almost a 250% increase over current value in imports of Alcohol from the US.

Potential Increase in Volume of Imports of Alcoholic Beverages from US:

- CAFTA imports of Alcohol from the US have the potential to increase from **9.5 million liters to more than 28 million liters**, representing **55% of all imports** into the region.
- This is nearly a 200% increase over the current quantity of Alcohol imports from the US.

III. Prospects for Continued Growth in Central America

- **Beer** into Costa Rica and Honduras
- **Wine** into Costa Rica, El Salvador and Honduras
- **Wine** into Dominican Republic

IV. Alcoholic Beverages Currently with High Tariffs (>= 20%)

- **Brandy and Whiskey** into El Salvador: ***30% average***
- **Beer** and **Wine** into Guatemala: ***37% average***
- **Brandy and Whiskey** into Guatemala: ***40% average***

V. New Opportunities in Central America (Potential Increase >= 200%)

- **Beer** into El Salvador if local monopoly removed
- **Brandy and Whiskey** into Costa Rica

Sector: *PET FOOD*

(Tab 18)

I. Pet Food Sector Includes Products

2309.10 Dog and Cat Food

II. Snapshot of Pet Food Sector

Current Price / Unit of Imports of Pet Food from US:

- **72 cents / kg** (compared to 56 cents/kg from rest of the world)

Potential Increase in Value of Imports of Pet Food from US:

- Upon elimination of duties, CAFTA imports of Pet Food from the US have the potential to increase from **$15 million to more than $26 million**, representing **83% of the value of imports** into the region.
- This is a 72% increase over current value in imports of Pet Food from the US.

Potential Increase in Volume of Imports of Pet Food from US:

- CAFTA imports of Pet Food from the US have the potential to increase from **21 million kg to more than 35 million kg**, representing **80% of all imports** into the region.
- This is a 72% increase over the current quantity of Pet Food imports from the US.

III. Prospects for Continued Growth in Central America

- **Dog and Cat Food** into El Salvador, Honduras, Nicaragua and Dominican Republic

IV. Pet Food Products Currently with High Tariffs (> 20%)

- None

V. New Opportunities in Central America (Potential Increase >= 200%)

- None

EXCEL SPREADSHEETS Found in TABS 3 - 26

Detailed Sector Analysis Summaries and Related Data Tables (Tabs 3 – 18)
Each Sector Analysis includes:

- *Summary Sheet (As included in previous pages)*
- *Aggregate Data Table (Imports by sector)*
- *Detailed Data Table (Imports by tariff line)*

Aggregate Sector Summary Data Tables (Tab 19)
All Sectors into the region and into each of the 6 countries

Aggregate All Products Table (Tab 20)
All Products by tariff line into the region

Country Data Tables
All products by tariff line into each of the 6 countries

Costa Rica	Tab 21
El Salvador	Tab 22
Guatemala	Tab 23
Honduras	Tab 24
Nicaragua	Tab 25
Dominican Republic	Tab 26

List of Products Modified from Zero-Reported Imports to 1% of Total Imports

(Tab 20)

In 2002, some products were not imported, or not reported as imported, into the CAFTA countries from the United States. In order for the Armington demand equation to project potential increases resulting from an FTA, the import value and volume must indicate a base number other than zero. Therefore, where imports from the US initially accounted for zero percent of total imports (and when there were reported imports from other countries), US imports were modified to represent one percent (1%) of total imports in each of the country Excel Spreadsheets. The US import volume and value appear shaded in light blue within the Excel Spreadsheets on-screen when this adjustment was made. The following products fall into this category:

Costa Rica

Tariff Code	*Description*
0402.10.00	Milk and cream, in powder, of a fat content, by weight, not exceeding 1.5%
0402.21.12	Whole milk powder, of a fat content less than 26%, in containers of net wt >= 3 kg
0402.21.21	Whole milk powder, of a fat content greater than 26%, in containers of net wt < 5 kg
0402.21.22	Whole milk powder, of a fat content greater than 26%, in containers of net wt >= 5kg
0402.29.00	Other whole milk powder
0405.90.10	Butter oil
0405.90.90	Other butter
1602.90.00	Other prepared or preserved meat, including mixtures
1701.11.00	Cane sugar
1804.00.00	Cocoa butter
1901.10.90	Other infant preparations
1904.10.10	Pellets of wheat, corn
2208.20.10	Brandy, of an alcoholic strength by volume of at least 60% vol.
2208.30.10	Whiskey, of an alcoholic strength by volume of at least 60% vol.

El Salvador

Tariff Code	*Description*
0402.21.11	Whole milk powder, of a fat content less than 26%, in containers of a net weight of < 3 kg
0402.91.20	Cream of milk
0405.90.10	Butter oil
0405.90.90	Other butter
1513.11.00	Crude oil
1803.10.00	Cocoa paste, not defatted
1803.20.00	Cocoa paste, wholly or partially defatted
1904.10.10	Pellets of wheat, corn
2208.30.10	Of an alcoholic strength by volume of at least 60% vol.

Guatemala

Tariff Code	*Description*
0402.21.11	Whole milk powder, of a fat content less than 26%, in containers of net wt < 3 kg
0402.21.21	Whole milk powder, of a fat content greater than 26%, in containers of net wt < 5 kg
0405.90.10	Butter oil
0405.90.90	Other butter

Honduras

Tariff Code	*Description*
1803.20.00	Cocoa paste, wholly or partially defatted
2208.20.10	Brandy, of an alcoholic strength by volume of at least 60% vol.
2208.20.90	Other brandy
2208.30.10	Whiskey, of an alcoholic strength by volume of at least 60% vol.

Nicaragua

Tariff Code	*Description*
0402.21.21	Whole milk powder, of a fat content greater than 26%, in containers of net wt < 5 kg
0402.21.22	Whole milk powder, of a fat content greater than 26%, in containers of net wt >= 5kg
0403.10.00	Yogurt
1513.11.00	Crude oil
1602.50.00	Prepared or preserved meat, of bovine animals
1701.11.00	Cane sugar
1803.20.00	Wholly or partially defatted
2009.11.00	Orange juice, frozen
2208.30.10	Whiskey, of an alcoholic strength by volume of at least 60% vol.

Dominican Republic

Tariff Code	*Description*
1701.12.00	Beet sugar
2002.90.19	Other tomato concentrates
2208.20.92	Spirits obtained from grape marc (for example, grappa)

Trade Flow Analysis of Potential Increases in Imports of Processed Foods and Beverages from the US into Central America Countries under CAFTA[1]

(Tab 27)

International Trade Services Corporation partnered with VORSIM/Potomac Associates to develop a trade-flow analysis to project the potential for expanded markets for US exports of processed foods and beverages under the recently completed Central American Free Trade Agreement (CAFTA) between the United States and five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic which is expected to conclude its FTA with the US later this year.

ITSC provided detailed trade and tariff data for 111 products at the 8-digit Harmonized System (HS) level for the analysis. Tariff data consisted of the MFN rates currently being applied to US exports of these products to the CAFTA countries and the Dominican Republic. Trade data consisted of the volume and value of imports as reported by each CAFTA country from the US and from the world (for the Dominican Republic, only value data was available).

The trade-flow model:

- Calculates the potential increase in imports into the CAFTA countries and the Dominican Republic from the US resulting from duty free entry of US exports to each market. A simple "price elasticities" model of import demand and export supply underlies the analysis, and a sensitivity analysis was undertaken in regard to a key model assumption. Since in most cases, data available suggested large supply availabilities in the US, a demand analysis was utilized, specifically an Armington demand specification. This made use of the import demand elasticities provided as well as elasticities of substitution between US and other imports in CAFTA countries from several studies. The US and other export suppliers were assumed to provide the additional demand for imports without any changes in import prices.

- Employs Microsoft Excel throughout the analysis, and include tabulations of all detailed and summary results. The estimates of increased demand for US exports under CAFTA and their generating formulas were added to the spreadsheets provided by ITSC. The spreadsheet formulas enable ITSC/GMA to change key model parameters at will and obtain alternative calculations. Parameters such as import demand elasticities, elasticities of substitution, income elasticities, base data, the exchange rate, and market shares where US imports are zero or small values can be changed by ITSC/GMA in the country spreadsheets.

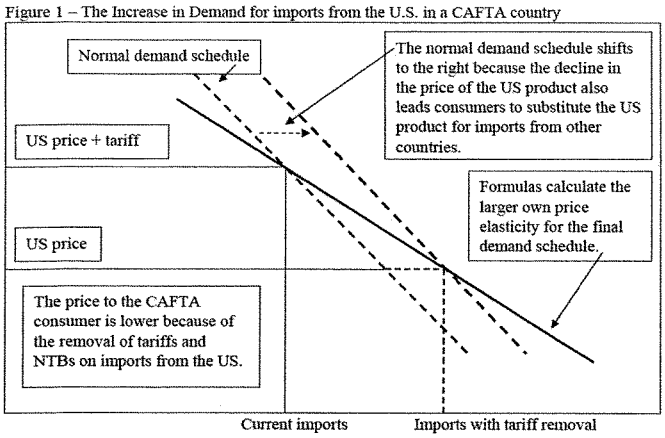
- Includes a brief report documenting the methodology and assumptions of the trade flow analysis, and summarizing the aggregate results.

The CAFTA agreement with a removal of the MFN tariff on imports from the US

The potential impact of CAFTA tariff removal on imports from the US is shown in Figure 1. The removal of the tariff lowers the price to consumers and increases the demand for the US products. The amount of increased imports depends a) upon the slope of the demand schedule (or the import demand elasticity) and b) the amount of the shift to the right of the demand curve due to consumer substitution of the US product for imports from other countries (depends upon the elasticity of substitution). This "Armington" methodology assumes that imports from the US and other countries are not perfect substitutes. Formulas calculate a final higher demand price elasticity (the solid schedule in Fig. 1) which includes the impact of a price change (overall demand elasticity) and the substitution effect (elasticity of substitution).

[1] Written by Vernon Roningen and Dean DeRosa of VORSIM/Potomac Associates. Edits to condensed version by International Trade Services Corporation

Figure 1 – The Increase in Demand for imports from the U.S. in a CAFTA country



Import demand specification
The simplest and most straightforward calculation with the available data was to create an "Armington" demand equation where the price elasticities for country demand are calculated from the total demand elasticity and an elasticity of substitution.

Variables for a country and product [source]:

Mus	quantity imported from the US [ITSC]
Mt	total quantity imported [ITSC]
Mrw	quantity imported from Rest of World = Mt – Mus
Tus	MFN tariff on US imports [ITSC]
E	elasticity of demand for product in country [ITSC]
Xrt	real exchange rate [set to 1.00]
$ed_{us, rw}$	Armington own price (price of US product) elasticity of demand [calculated]
$cd_{us, rw}$	Armington cross price (price of RW product) elasticity of demand [calculated]
Es	elasticity of substitution between US and other (RW) imported products [ITSC]
Pus	US export price [not changed by CAFTA, unit values from ITSC data used]
Pust	price of US product in country with MFN tariff = Pus * (1 + Tus) / Xrt
Prw	price of RW imported product (RW – imports from Rest of World) [assumed to be a composite of prices plus MFN tariffs on imports from outside of CAFTA and zero duty rates on imports from current CAFTA members –this price does not to change with US accession to CAFTA, unit values from ITSC data used]

Import demand for US and RW (Rest of World) product for a country:
Mus = constant * (Pust^ed us) * ((Prw / Xrt)^cd us)

where Armington own and cross price elasticities of demand are calculated:

ed_{us} = -{[(1 – (Mus/Mt)] * Es - (Mus/Mt) * E}
cd_{us} = [1 – (Mus/Mt)] * (Es + E) Mus/Mt is US market share

note that: $ed_{us} + cd_{us} = E = ed_{rw} + cd_{rw}$

ed_{rw} = -{[(1 – (Mrw/Mt)] * Es - (Mrw/Mt) * E}
cd_{rw} = [1 – (Mrw/Mt)] * (Es + E) Mrw/Mt is RW market share

Mus = constant * {[Pus *(1 + Tus) / Xrt]^ed_{us}} * {[Prw / Xrt]^cd_{us}}
Mrw = constant * {[Prw / Xrt]^ed_{rw}} * {[Pus * (1 + Tus) / Xrt]^cd_{rw}

Constant terms are calculated in the country spreadsheets so that the equations "fit" or reproduce the base data in 2002.

These simple import demand equations for the US and rest of world (RW) imports for each product for each country are constructed from the import demand elasticities, the elasticity of substitution between US and RW imports, and the share of US and RW imports in the data for 2002. The calculated formulas using ITSC data are placed on the country spreadsheets.

Variables for calculating US import demand growth for 'y' years [source]:

I	income in 2002 [ITSC]
Pop	population in 2002 [ITSC]
Ig	real income growth rate [ITSC]
Pg	population growth rate [ITSC]
M	2002 imports (values) [calculated from Armington demand equations]
My	import value in year y from growth of income and population [calculated]
Ie	income elasticity of demand applied to per capita income [ITSC]

Growth formulas for import demand equations for a product in a country for the year 'y':
My = M * {{I * [1 + (Ig * y)]} / {Pop * [1 + (Pg * y)] }}^Ie} * Pop * [1 + (Pg * y)] where linear growth is assumed each year. Factoring, this becomes:

My = M * {I^Ie} * {Pop^(1-Ie)} * {[1 + (Ig * y)]^Ie} * {[1 + (Pg * y)]^(1-Ie)}

The underlined items get absorbed into the equation constant term because they do not change, hence demand growth can be calculated by:

M * {[1 + (Ig * y)]^Ie} * {[1 + (Pg * y)]^(1-Ie)}

In the spreadsheets, y = 5 for the calculation of 5 years of growth of US imports that have been expanded by US accession to CAFTA (y can be changed by the ITSC for alternative growth periods). The interpretation is that demand in a target year reflects both a) MFN tariff reductions in place and b) normal demand growth driven by population and income growth.

Formulas for intermediate calculations, the final estimates of US export demand (demand for imports from the US, and some derived calculations are added to each of the spreadsheets. The constant term is calculated from the base conditions. Formulas are constructed in such a way that ITSC and/or GMA can change a) the demand elasticities, b) the elasticity of substitution, c) the base trade data, d) income and population growth rates, e) income elasticities, f) the time period for growth, g) the final CAFTA tariff rate on imports from the US and h) the exchange rate to reflect any appreciation or depreciation of the currency that might accompany the implementation of CAFTA. All of the formulas will recalculated themselves automatically when any of these inputs are changed. For example the MFN tariff rate can be cut in half (rather than be set to zero) and the corresponding change in US imports will be automatically calculated.

The formulas are applied at the most detailed tariff line level and the total results for values are added up automatically by aggregation formulas at the bottom of the sheet. In addition, aggregation formulas are entered in blue font for most aggregates laid out on the ITSC spreadsheets. Note that the spreadsheet for the Dominican Republic is small with different formulas since calculations had to be made based only on value data.

The elasticities of substitution between imports from the US and the rest of the world - RW are in the high range of 8-9 which is conventional for CGE (computable general equilibrium) models and are from a particular model cited in a paper provided by ITSC.

Other considerations stemming from the data and methodology
Keep in mind that import demand calculations always carry some uncertainty because of uncertainty about elasticity assumptions. Calculations are indicators or "what might happen" rather than forecasts of "what will happen". Also, "what will happen" depends upon the marketing strategy and skills of US exporters in meeting increased market opportunities.

Unit values: Calculated unit values (on all of the country spreadsheets except the Dominican Republic) differ significantly for some imports from the US and the rest of the world. Exporters and those knowledgeable about country markets probably know why these differences exist. For example, unit value differences might suggest quality differences which in turn, might mean that the US and RW imports are not very good substitutes. To account for this likelihood, the import demand formulas use a modified elasticity of substitution where the elasticity of substitution is lowered when there are great differences in unit values (the adjustment formulas can be seen in the cells). However if the US and RW unit values are very similar, the elasticity of substitution is not adjusted downward. US exporters should note products where the unit values differ substantially (giving a subsequent adjustment in the elasticity of substitution) and confirm or reject this adjustment in the model equations as a proxy for the reduced competitiveness of these US products in the country market.

Tariff Rate Quotas: Quotas are noted on country spreadsheets with a lower tariff applied for a specified quota of imports and a higher tariff applied to imports above the quota. A tariff equivalent has been selected to represent the protection offered by the tariff quota. The higher tariff was used if total imports were near the quota level; i.e. the higher tariff is really the measure of protection. If imports were well below the quota, then the lower tariff was used.

Zero or small amounts of US imports: One reservation with many methods of calculating import demand (including an Armington demand specification) is that if the base data contain zero or very small shares of imports from the US, the calculations will show zero or small increases in US imports even if US imports are highly substitutable with imports from other sources. Those knowledgeable about product markets may reason that US imports are totally locked out by current policies such as high tariffs or tariff quotas and may want to manually assess the potential in these markets. As a calculation aid in this situation, an option has been added with a switch that allows the ITSC to assume that rather than zero or less than 1% of imports, imports from the US are a minimum of 1% of total imports in 2002. This gives an alternative larger calculation of export increases for those sectors which had zero or small exports. This option is intended as a complement to US exporters' judgment on situations where there are essentially "no imports of US" products.

The exchange rate: The real exchange rate is set to 1.00 in the equations so unless it is changed, it has no impact on import prices. Often the formation of a free trade agreement can leads to an exchange rate change in a full model (to restore the balance of payments because of change in trade flows). The exchange rate is left in the formulas for the exploration of the impact of any devaluation that might be expected in a full model that includes all traded products. For example, if 5% devaluation were expected, set the exchange rate to 0.95 and the formulas will increase import prices and decrease import demand the proper amount.

Brand Premium: For this model, no factor was included to address premiums for US branded products versus US non-branded products. Average price was calculated as value / volume.

Duty Savings: The analysis presumes that all of the duty savings are applied to reducing the price of US exports. The model also presumes that no other FTAs will be put in place in the next 5 years

Calculations in the spreadsheets

All of the calculations have been added to the country spreadsheets. Calculations in value terms are shown below (US numbers in are in bold type).

El Salvador				*CAFTA Trade Value Results*								*Results with 5 year income and population growth*	
				Value (US$)				*Percent*				*Value (US$)*	*Percent*
SUB-GROUP	Product	Tariff Code	Description	*US import demand*	*Rw import demand*	*Total import demand*	*Change in US import demand*	*US share of import value*	*RW share of import value*	*Change in US import value*	*Change in total import value*	*Change in US value market share*	*US import demand*	*Change in US import value*
DAIRY	Dry milk powder	0402.10.00	Milk and cream, in powder, etc. of fat content, by weight, not exceeding 1.5%	**$2,197,254**	$2,313,133	$4,511,388	**$1,452,802**	48.9%	51.1%	211.3%	14.2%	27.2%	**$2,453,769**	240.5%
DAIRY	Whole milk powder	0402.21	Powdered milk, not containing added sugar or other sweetening matter											
		0402.21.1	Milk, semi-skimmed, of a fat content by weight not exceeding 20%											
		0402.21.11	In containers of a net weight not less than 2 kg	**$0**	$165,135	$165,135	**$0**	0.0%	100.0%	0.0%	0.0%	0.0%	**$0**	0.0%
		0402.21.12	In containers of a net weight not exceeding 2 kg	**$176,586**	$53,112	$229,698	**$104,035**	76.8%	23.1%	143.4%	28.7%	35.6%	**$133,023**	166.2%
		0402.21.2	Whole milk, containing by weight sugar or other sweetening matter 30%											
		0402.21.21	In containers of a net weight not less than 2 kg	**$1,259**	$16,555,034	$16,556,293	**$440**	0.0%	100.0%	54.1%	0.0%	0.0%	**$1,377**	69.6%
		0402.21.22	In containers of a net weight not exceeding 2 kg	**$1,454,725**	$5,954,963	$16,334,688	**$800,937**	14.2%	85.8%	208.2%	5.4%	9.4%	**$1,601,894**	238.1%
		0402.29.00	Other whole milk powder	**$408,744**	$338,334	$747,078	**$192,939**	54.7%	45.3%	89.0%	4.1%	24.6%	**$408,560**	106.5%
DAIRY	Other milk and cream	0402.9	Other milk and cream											
		0402.91	Other milk, not containing added sugar or other sweetening matter											
		0402.91.10	Evaporated milk	**$1,622**	$53,117	$54,739	**$1,267**	3.0%	96.7%	226.5%	1.7%	2.5%	**$1,591**	209.1%
		0402.91.20	Cream of milk	**$0**	$200,252	$200,252	**$0**	0.0%	100.0%	0.0%	0.0%	0.0%	**$0**	0.0%
		0402.91.90	Other	**$0**	$0	$0	**$0**	0.0%	100.0%	0.0%	0.0%	0.0%	**$0**	0.0%
		0402.99	Other											
		0402.99.10	Condensed milk	**$36**	$265,791	$265,830	**$27**	0.0%	100.0%	130.8%	0.0%	0.0%	**$63**	152.5%
		0402.99.90	Other	**$57**	$21,011	$21,067	**$37**	0.2%	99.8%	267.1%	0.0%	0.2%	**$96**	307.5%

All of the original data and intermediate calculations remain on the spreadsheets as well. Comments in selected column head cells give information about column calculations.

The tabulated results shown above are formatted for printing, including CAFTA trade values and some percentage measures. Columns include:

US, RW import values	Calculated by the above formulas and summed to Total import values
Change in US import values	The difference between CAFTA and pre-CAFTA import values
US, RW import value shares	Shares of country markets after CAFTA removal of US duties
% change in US and total import values	Calculations comparing US and total import values under CAFTA with pre-CAFTA import values; because prices denominated in US dollars are exogenous, the % change in trade values equal the % change in trade volumes
Change in US market share	The difference between the CAFTA and pre-CAFTA US market share

Summary results

Detailed results can be found on the country spreadsheets themselves. Changing parameters or options can generate alternative detailed results. To illustrate broad results for the sum of 111 products, two scenarios have been generated and are summarized in Tables 1 and 2 that follow for 6 countries. Here data are presented for all product values summed in US$. Original US (blue cells) and RW (rest of world – white cells) imports are presented for the year 2002. Next, import values are shown for complete duty elimination on imports from the US under CAFTA. Market shares are tabulated comparing shares for 2002 with shares that would exist with full CAFTA implementation.

Two charts are shown in each table; one gives the pre and post CAFTA market shares, the other gives the pre and post CAFTA imports from the US and RW.

Table 1 gives normal CAFTA calculations while Table 2 gives calculations with an assumption of a minimum base of imports from the US of 10 percent. Therefore US final market shares and imports are larger in Table 2 compared to Table 1. The comparison of the results for these two tables illustrates the sensitivity of the methodology to specification of products with little or no US trade in 2002.

Imports from the US into the 6 countries have the potential to increase from $359 million to $662 million an 84% increase over current imports into the region. (This includes the 1% calculation of import increases in locked-out US products.) **The US share of imports in the region has the potential to increase from 26% to more than 41% of the total value of imports.**

The projections for specific countries are outlined below. Marketing strategies by US exporters could increase market shares even more.

- In **Costa Rica,** US imports could increase from **$48.7 million to more than $99.9 million**, an increase of more than 100%. Imports from the US would represent almost half (50%) of the import market.
- In **El Salvador**, US imports could increase from **$35.6 million to more than $89.8 million**, an increase of more than 150%. Imports from the US would represent one-third (33%) of the import market.
- In **Guatemala**, US imports could increase from **$45.8 million to more than $96.7 million**, an increase of more than 110%. Imports from the US would represent more than one-quarter (28%) of the import market.
- In **Honduras,** US imports could increase from **$43.8 million to more than $77.4 million**, an increase of 77%. Imports from the US would represent more than one-third (35%) of the import market.
- In **Nicaragua**, US imports could increase from **$13.2 million to more than $30 million**, an increase of more than 125%. Imports from the US would represent more than one-quarter (26%) of the import market.
- In the **Dominican Republic**, US imports could increase from **$178.3 million to more than $273 million**, an increase of more than 50%. Imports from the US would represent almost 61% of the import market.

Appendix A gives an overview of free trade area and customs unions and suggests how the impacts of preferential trading arrangements might be modeled with a more fully developed partial equilibrium modeling framework.

Appendix A
The Economics of Regional Trade Agreements –Free Trade Areas (FTA) and Customs Unions (CU)

An FTA exists where a group of countries admit each other's products tariff free but maintain their own tariffs on products imported from non-members. A CU differs in that instead of each country applying its own tariffs, a Common External Tariff (CET) is applied along with a tariff revenue sharing arrangement. Other taxes that also apply to trade such as value added and excise taxes, remain in place as usual in both the FTA and CU although the basis of their valuation for imports from member countries may change. Negotiations of these types of agreements determine a) the timing of tariff reductions between members (FTA) or the adoption of the CET (CU), b) rules of origin that define a product "made" in the region, c) the product coverage (including exceptions) and d) in the case of a customs union, the level of the CET. Several economic impacts are expected from these types of agreements:

1. **An increase in exports** – An FTA or CU agreement can provide an incentive for members to increase exports to other members. This is because member exports can enter duty free into other member countries, capturing the external protection in other members as an export premium.
2. **Trade creation (increase in imports)** – An increase in imports can occur because an FTA or CU member can import products duty free from another member at a lower cost than from non-members.
3. **Trade diversion** – Because of zero tariffs on imports from members, an FTA or CU member encourages imports from members and diverts imports from non-members. Exporters in other members can capture some of the revenue that used to be collected on imports. However, the importing member forgoes tariff revenue on these diverted imports. When trade diversion exceeds trade creation for an FTA or CU, the regional agreement is generally considered to reduce national and global welfare because higher cost regional sources of goods (priced above world market prices) are substituted for lower cost sources available on the world market.
4. **Net trade creation (trade creation minus trade diversion)** – Negative net trade creation is a warning sign that for an FTA or CU member, less efficient production within the regional arrangement is replacing imports from more efficient producers outside the region.
5. **Change in export producer benefits (producer surplus)** – Export producers in a CU or FTA gain because they now can export more to other members duty free, selling their products in member countries markets at tariff-inclusive prices (with an export premium in the case of an FTA) side-by-side with imports from non-member countries. In effect, all or part of the pre-FTA or pre-CU tariff revenue for a member government is now transferred to producers that export within the FTA or CU. One measure of producer benefits is producer surplus (see Figure A1) which is interpreted as the excess of receipts over production costs. Producer surplus is positive (negative) if the export price increases (decreases); it also reflects changes in the quantity of exports.
6. **Change in import consumer** net benefits (net consumer surplus) – Consumers may pay less or more for their products under an FTA or CU. If import prices decline because of lower cost member sourcing, consumers pay less for products and they buy more. If the agreement results in increased import prices, their costs increase. Associated with a change in consumer costs is an absolute economic efficiency gain or loss that can be measured – consumer surplus (see Figure A2).
7. **Forgone tariff revenue** – FTA or CU member governments forgo tariff revenue because of zero duties on imports from other members. This loss becomes an export premium captured by regional exporters. This economic loss for the importing member is a transfer of government revenue to exporters in other member countries.
8. **Change in overall economic benefits (economic welfare)** – The change in economic welfare for a product sector is the sum of changes in producer and consumer benefits (surplus) minus forgone tariff revenues. This measure can be calculated for each product sector and when summed for all traded products, measures the economy-wide benefits from trade policy changes. The change in economic welfare is considered to accrue to the economy annually in perpetuity once the FTA or CU is fully in place.

9. **Change in tariff revenue** – Because of a) the zero duty on imports from within the FTA or CU, b) possible changes in dutiable imports from the outside world, and c) changes in duty rates under a CU; tariff revenues can change. Declining tariff revenues are of major concern to governments when countries join regional arrangements and may lead to changes in other taxes.
10. **Change in other tax revenues** – Value Added Tax (VAT), sales tax, or excise tax revenues collected on imports under an FTA or CU might change because a) imports can change, b) import prices and therefore valuations might change on imports from members, and c) tariff rates may have changed, e.g. a new tariff structure (CET) under a CU. The price of an import from other FTA or CU members can change because the export premium built into the price of imports from members could be anywhere from zero to the value of the highest member tariff in an FTA. For a CU, valuation can change because the common external tariff may be different than the country's pre-CU tariff. Changes in these other tax rates that are undertaken to restore revenues can themselves lead to more trade, price, and tax revenue changes.
11. **A change in real exchange rates** – Significant changes in trade prices because of an FTA or CU can change import quantities, leading to an imbalance in international payments for member countries. If the regional trade arrangements are to be maintained, a change in the real exchange rate is required to restore the balance of payments by further changing export and import prices. Some members of a regional agreement may require a currency devaluation, others a revaluation of their currency. For example, a currency devaluation can lead to export increases to members and non-members as well as import decreases from members and non-members members. This will restore the balance of payments to equilibrium.

Figure A1 shows the impact of an export price increase on the export supply of a product in a traditional supply diagram. Here the producer price in the local currency rises from the "base" to "solution" price, either because the world price rises, the currency devalues, or the exporter receives an export premium in an FTA or CU. The increased export price leads to an increased export quantity ("base" to "solution" quantity). The area below the supply schedule represents production costs while area above it represents sales income at the marginal solution price. The price increase leads to extra producer benefits (producer surplus) represented by the shaded area. If the export price fell instead, the surplus would be negative, i.e. a producer loss. This producer benefit or "surplus" is a simple convenient measurement of the impact of a trade policy change on producers.

Figure A1 – An export price increase and increased producer benefits (surplus)

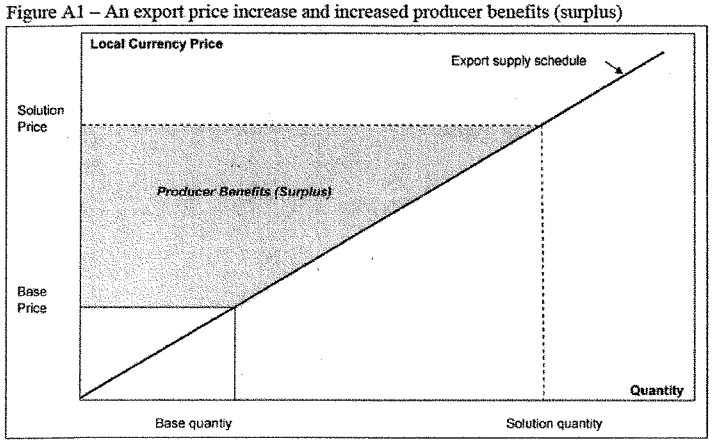
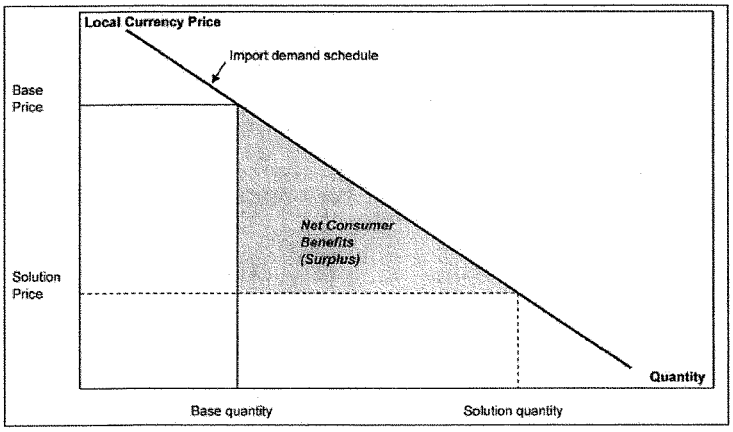


Figure A2 shows the impact of an import price decrease from the "base" to the "solution" price. This has led to an increase in import demand (trade creation – the "solution" quantity exceeds the "base" quantity) at a lower price. The triangle represents a real net consumer benefit that occurs (net consumer surplus) – an efficiency gain for the consumer and the economy as a whole. If the import price had risen instead, then imports would have declined and the consumer surplus triangle would be negative instead of positive as shown here. When net consumer surplus is added up across all products, it measures the impact of trade policy changes on all consumers in the economy. Total consumer surplus change is the triangle plus the rectangle to its left. However the rectangle is not usually counted as a benefit to the consumer if the price decrease was caused by the removal of a tariff. The rectangle represents the loss in tariff revenue to the government which was assumed to be spent for services to the consumer. The removal of the tariff paid by the consumer also means the removal of the services received by the consumer, leaving the net consumer surplus as the gain to the consumer. In this situation the use of tariff revenues for consumer benefits is considered an efficient transfer for each consumer, leaving the consumer no better or worse off with or without the transfer. In practice, this is not generally true since there are transfer costs and distribution of benefits may differ from that of tax payments.

Figure A2 – An import price decrease and increased net consumer benefits (surplus)

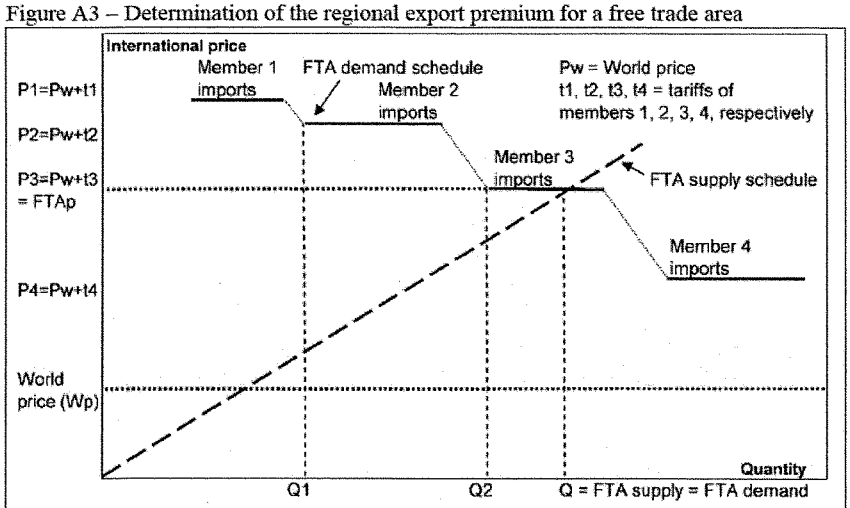


Within-region export prices in a customs union: In the case of a customs union (CU) the price for a product exported from one member to another is the world price plus the common external tariff (CET). Member exporters receive the CET as an export premium for within-region exports while member importers forgo tariff collection on within-region import. However under certain circumstances, the regional export premium may be reduced below the CET and may even disappear.

Within-region export prices in a free trade agreement: In the case of a free trade area (FTA), determination of the regional export price or the within-region export premium is more complex. The situation is further complicated because under certain circumstances, the regional premium may be reduced below the FTA level and may even disappear.

For a free trade agreement, the size of FTA exports relative to FTA imports at the margin will determine the regional export premium for a product that is added to the world price. Figure A3 on the next page shows an aggregate regional supply that satisfies demand in the FTA market members with the highest tariffs. Member 1 has the highest internal price caused by the highest tariff. FTA exporters satisfy that market first because they can receive the highest price for their exports in member 1's market. Once member 1's market is satisfied, they satisfy the market of member 2. Then they supply some of market 3, establishing the FTA supply price at the margin as FTA which is the tariff inclusive price in market 3. The tariff rate in the last market filled (member 3) sets the FTA supply price at the margin. Members 1, 2, and 3 import from within the FTA at this price while member 4 does not import from FTA members because its tariff inclusive price is less than the FTA price.

Figure A3 – Determination of the regional export premium for a free trade area



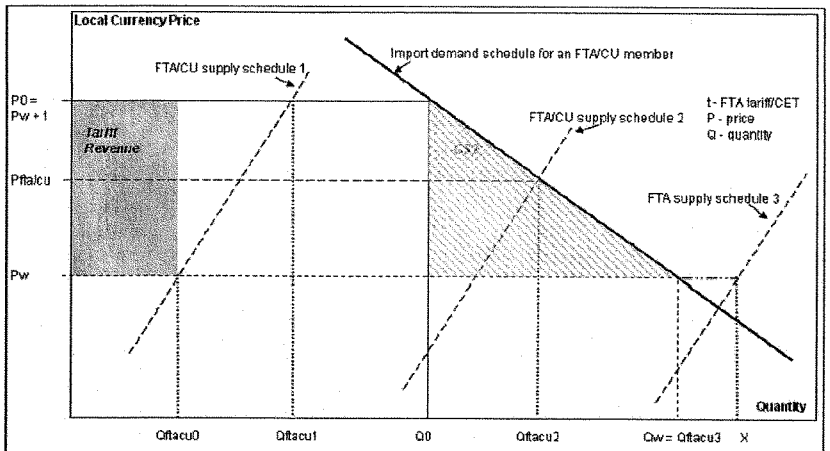
Upon formation of the FTA and the removal of import tariffs on imports from FTA members, FTA export producers satisfy the market with the highest tariff first (Member 1 with a price to consumers of P1=Wp+t1, t1 becomes the potential export premium in this market). Next they satisfy the market of member 2 with the second highest tariff (t2). Now t2 becomes the FTA premium. Finally, FTA exporters are able to satisfy part of member 3's market, giving the final FTA premium as t3 with an FTA price FTAp. Members 1 and 2 import quantities Q1 and Q2, respectively from FTA members at a price FTAp. Total FTA internal export supply and import demand equal Q. In members 1 and 2, all tariff revenue is forgone and all imports come from within the FTA. Trade diversion will be the difference between FTA (total) imports and pre-FTA imports from FTA members. Trade will be created because FTA prices are lower than world prices plus the tariff; imports for countries 1 and 2 have increased (expand down the schedule). In member 3 at the new equilibrium, member 3 will import partly from within the FTA and the rest from the world outside the FTA. There will be no trade creation but there will be some trade diversion. Member 4's situation is unchanged since its tariff is lower than the FTA premium; it will import the same amount from the world market with no trade diversion or trade creation occurring. The real world situation becomes more complicated because if real exchange rate changes occur along with FTA formation, this changes the amount of imports and exports for each country, changing both the FTA import demand and export supply shown above. In this example, the FTA premium is simply equal to the tariff of the last FTA market supplied by FTA exporters. Finally, if all FTA markets are satisfied by FTA exporters, then the FTA will be a net exporter to world markets and the FTA premium will be zero. Note that between each flat part of the FTA demand schedule, there is a slanted portion of the schedule. This represents the situation where the upper market capped by the tariff level is filled and further price declines expand demand (create trade) in the upper market. This can happen until the FTA premium drops to the lower market level and diverts trade from that market into the FTA. This analysis assumes a competitive supply and demand market within the FTA as individual member supply markets merge.

Once the FTA export price premium or the CU CET is established for a product, there are four possible outcomes for any FTA or CU member's exports within the region as shown in Figure A4: a) the member is member 3 in Figure A3 and the FTA or CU export premium is equal to its tariff. The situation in Figure A4 shown with FTA/CU supply schedule 1 applies. The member is a net importer and the country price is the world price plus the FTA premium or the CET. There is trade diversion but no trade creation, i.e. the region imports more from members at the expense of imports from non-members. b) The member is member 1 or 2 in Figure A3 and the FTA premium or CU CET is less that the member's tariff. The member's market is fully satisfied by imports from FTA or CU members as shown by FTA/CU supply schedule 2; there are no imports from outside the FTA/CU. There has been trade creation because the import price has decreased and there has been trade diversion because imports formerly from the outside have been replaced by imports from within the FTA/CU. c) FTA exporters have satisfied FTA/CU markets and are still net exporters to the world (supply schedule 3 in Figure A4); their marginal export price is now the world price. The FTA/CU premium is now zero and the product can be labeled "competitive" since FTA/CU members export internally and to the world at the same world price. There has been more trade creation because the world price now prevails in the member's market and but there has also been trade diversion since FTA/CU imports have been diverted to fill the member's market. In this situation we expect the maximum gain for consumers of the product. d) This final possibility for an FTA only (member 4 in Figure A3 but not shown in Figure A4) is when the FTA premium is higher than the member's tariff. Then the member imports from the outside world at the tariff inclusive price and there is no trade creation or trade diversion.

The final determination of the FTA export premium depends upon the collective supply capabilities of FTA members as well as the size and tariff levels of FTA members. The impact on a member's export sector depends upon the sector size and FTA premium. Given the FTA export premium, the impact of the FTA on imports depends upon the member's tariff level relative to the FTA premium. If the premium is larger than a member's tariff, there is no impact at all. If the FTA premium equals the member's tariff, then there is trade diversion but no trade creation while if the FTA premium is below the member's tariff rate, then there is both trade creation and trade diversion. For a CU, only three of the possible outcomes [a)-c) above] can prevail. In reality, the situation is even more complicated because real exchange rate changes resulting from payments imbalances may lead to further changes in FTA export premiums and world prices in domestic currency terms which shift the supply and demand schedules in figures A3 and A4.

The real exchange rate and balance of payments equilibrium: When a trade policy change is initiated, the balance of payments can change. For example, if tariffs are lowered in a country, import prices decline, imports increase, and the trade deficit increases. In the long run net trade flows must be offset by net capital flows, so if a long term trade imbalance occurs, something must adjust. In the modeling of regional trade agreements, one usually assumes that the real exchange rate adjusts rather than capital flows: so a trade balance of payments deficit generated by a trade policy change must be accompanied by a change in the real exchange rate.

Figure A4 – Price and trade possibilities for an FTA/CU member



Original base situation (no FTA/CU). Imports of Q0 at price of P0 = Pw + t where other potential FTA/CU suppliers provide Qftac0 imports and the rest (Q0 - Qftac0) comes from the outside world. The country collects the tariff revenue outlined in the shaded area.

Depending upon the size of the FTA/CU market and the size of total FTA/CU supply, given the FTA premium/CET, three outcomes are possible. Outcomes 1 and 2 (to the right) mean FTA/CU exporters can supply some or all of the FTA/CU market at a premium which is equal to or less than the country's CET/FTA premium. Outcome 3 occurs where FTA/CU exporters are strong competitors in world markets and will remain so. For an FTA, there is a fourth possible outcome where the FTA premium is above the member's tariff rate. Then within-FTA trade does not occur for the country.

FTA/CU solutions depending upon aggregate FTA/CU supply relative to member demand

1. Members supply only part of FTA market, the rest imported at world price + tariff. Price is still P0 = Pw + t but FTA exporters pay no duty so they receive the forgone tariff revenue. Now Qftacu1 comes from FTA/CU members and Q0 - Qftacu1 comes from the outside world. Consumers see the same price but the government loses tariff revenue (t*Qftacu1). The trade diversion (Qftacu1-Qftac0) of imports from FTA members replaces imports from outside the FTA/CU. For an FTA member, the exporter premium is equal to the member's tariff rate.

2. Members supply all of the FTA/CU market driving down prices below P0 to Pftacu (the FTA /CU export premium is now Pftacu-Pw). FTA/CU members now supply the entire FTA market quantity (Qftacu2) at the lower price Pftacu. Consumers benefit (CS2) from the lower price. FTA/CU producers have given up some of FTA/CET export premium in the regional market.

3. FTA/CU members are a net exporter to the world market even after exports have been diverted into the FTA/CU (exporting X-Qftacu3 while the country imports Qftacu3). In this case the product is competitive in world and FTA/CU markets. All tariff revenue is forgone. Trade creation is Qw - Q0 and trade diversion is Q0 - Qftacu0. Consumers benefit, the triangle 0.5*t*(Qftacu3-Q0) measures the net consumer surplus. Member exporters forgo the FTA/CU export premium.

4. The FTA premium is higher than the member's tariff (not shown). Then the member imports from the outside world and not from FTA members. No benefits derive from the FTA. This scenario does not apply to the CU.

An economy can be thought of as producing two kinds of goods, ones that are traded (exports and imported products or services) and ones that are non-traded (goods and services produced and consumed domestically). The real exchange rate is usually defined as the relative price of traded to non-traded products measured as a ratio of local currency to US dollars in real terms. "Real" means that the ratio of non-traded to traded goods price inflation is also taken into account. The real exchange rate must change in some way when a large trade imbalance occurs because such imbalances can not be sustained. How the exchange rate changes depends upon the exchange rate regime and macro-economic policies in place. Take a simple example: suppose a country unilaterally removes its tariffs. Imports become cheaper in local currency and people import more. But since imports must be paid for in dollars (or Euros or Yen etc.) and since the prices in foreign currencies do not change, the demand for dollars to pay for imports increases. Unless there is an increased capital inflow in dollars, the price of dollars in terms of the country's currency has to rise – i.e. the exchange rate has to depreciate. If it does

not, monetary reserves will be depleted. The monetary authorities may allow the exchange rate to change correct the trade imbalance. If the monetary authorities manage the exchange rate, they will adjust the official exchange rate to protect their foreign exchange reserves. If the monetary authorities do not take any action, then the government may be forced to undertake other policies such as the rationing of foreign exchange or the restricting of imports in such a way to protect reserves – in this case, the government is reversing the trade policy liberalization which caused the imbalance in the first place. Another scenario might be that the government fixes the nominal exchange rate but the excess demand for imports causes their prices to rise, triggering off general inflation in the economy. If the domestic inflation rate exceeds that of the imports priced in foreign currencies, this is taken into account by currency traders and results in a defacto devaluation of the real exchange rate. The real exchange rate reflects the price of traded goods relative to non-traded goods in terms of domestic resource use. If the real trade deficit increases, the real exchange rate must depreciate – this discourages imports, encourages exports, and makes the consumption of non-traded products ones more attractive than imports. The economic question is not that the real exchange rate will not adjust over time, rather it is the mechanism involved in its change.

Modeling choices for regional trade arrangements: If partial equilibrium modeling is done for competitive products, it is best to have both export and import data for regional members. This data can be used for the determination of the regional export premium. If all traded products are included, then the exchange rate that restores balance of payments equilibrium can be calculated and added as a determinant of the final economic impact. This type of modeling can make do with country export and import data and a set of bilateral trade flow data for the regional trade arrangement. If products are considered to be only partially competitive in the domestic verses the international market or by import source, then a more complicated model specification is needed, e.g. an "Armington" approach where the degree of substitution between products from different sources is specified. Armington trade flow modeling requires bilateral trade flow data for all countries being modeled. Extending this type of model to non-trade products can also be done for a more comprehensive analysis which includes production for the domestic market and associated consumption. This extension requires matching trade and domestic consumption and d production data. Finally, the inclusion of labor and other internal markets to capture the entire economy means the incorporation of regional trade arrangements into a Computable General Equilibrium (CGE) modeling framework. The data and computation requirements increase greatly with each modeling expansion.

Modeling choices involve answering several questions about the problem to be modeled. 1. What economic theory could be used to model the existing data? 2. What other data would be needed for a more satisfactory model? 3. What is the cost of assembling the data and preparing various models? 4. How much time is available to do the job?

Appendix B
Selected Bibliography on Regional Trade Arrangements

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Data Sources (Tab 28)

Costa Rica

Import Data and 2003 MFN Rates:	Central American Common Market website. www.sieca.org.gt
FAS Retail Sector Report#	GAIN Report CS 2010 of 28 Oct 2002. www.fas.usda.gov
Price Elasticity Information:	*Unconditional Own-Price Elasticity for Food Subgroups.* (Cited Chile via comparison of GDP real growth rate and GDP per capita.) Economic Research Service. www.ers.usda.gov
Population and Economic Growth:	CIA World Fact Book 2003. Costa Rica. www.cia.gov/cia/publications/factbook/index.html

El Salvador

Import Data and 2003 MFN Rates:	Central American Common Market website. www.sieca.org.gt
FAS Retail Sector Report#	GAIN Report ES 3013 of 19 Nov 2003. www.fas.usda.gov
Price Elasticity Information:	*Unconditional Own-Price Elasticity for Food Subgroups.* (Cited Grenada via comparison of GDP real growth rate and GDP per capita.) Economic Research Service. www.ers.usda.gov
Population and Economic Growth:	CIA World Fact Book 2003. El Salvador. www.cia.gov/cia/publications/factbook/index.html

Guatemala

Import Data and 2003 MFN Rates:	Central American Common Market website. www.sieca.org.gt
FAS Retail Sector Report#	GAIN Report GT 3021 of 12 Nov 2003. www.fas.usda.gov
Price Elasticity Information:	*Unconditional Own-Price Elasticity for Food Subgroups.* (Cited Ecuador via comparison of GDP real growth rate and GDP per capita.) Economic Research Service. www.ers.usda.gov
Population and Economic Growth:	CIA World Fact Book 2003. Guatemala. www.cia.gov/cia/publications/factbook/index.html

Honduras

Import Data and 2003 MFN Rates:	Central American Common Market website. www.sieca.org.gt
FAS Retail Sector Report#	GAIN Report HO 3006 of 16 Dec 2003. www.fas.usda.gov
Price Elasticity Information:	*Unconditional Own-Price Elasticity for Food Subgroups.* (Cited Ecuador via comparison of GDP real growth rate and GDP per capita.) Economic Research Service. www.ers.usda.gov
Population and Economic Growth:	CIA World Fact Book 2003. Honduras. www.cia.gov/cia/publications/factbook/index.html

Nicaragua

Import Data and 2003 MFN Rates:	Central American Common Market website. www.sieca.org.gt
FAS Retail Sector Report#	GAIN Report NU 4001 of 19 Feb 2004. www.fas.usda.gov
Price Elasticity Information:	*Unconditional Own-Price Elasticity for Food Subgroups.* (Cited Ecuador via comparison of GDP real growth rate and GDP per capita.) Economic Research Service. www.ers.usda.gov
Population and Economic Growth:	CIA World Fact Book 2003. Nicaragua. www.cia.gov/cia/publications/factbook/index.html

Dominican Republic

Import Data:	Dominican Republic Customs via US Foreign Agriculture Service (Value Only)
2003 MFN Rates:	NextLinx Trade Wizard. www.nextlinx.com
FAS Retail Sector Report#	GAIN Report DR 3025 of 14 Nov 2003. www.fas.usda.gov
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Population and Economic Growth:	CIA World Fact Book 2003. Dominican Republic. www.cia.gov/cia/publications/factbook/index.html

Statement
of the
National Oilseed Processors Association

Before the
Senate Agriculture, Nutrition and Forestry Committee

on

CAFTA-DR: Potential Impacts on
Agriculture and Food Sectors

June 7, 2005

Mr. Chairman and Members of the Committee:

The National Oilseed Processors Association (NOPA) strongly supports ratification of the Central America & Dominican Republic (CAFTA-DR) Free Trade Agreement.

NOPA is a member-driven organization representing the U.S. soybean, sunflower, canola, flaxseed and safflower seed-crushing industries. NOPA's mission is to assist these industries to be the most competitive and profitable oilseed processing industries in the world and is proactively engaged in issues such as international trade policy; environment and resource management; the domestic farm program; and health and safety issues. NOPA's focus is to help facilitate a united industry (e.g., grower, processor and customer) approach to meet the oilseed industry's goals and challenges.

Currently, the Central American countries and the Dominican Republic are allowed to charge very high tariffs, limited only by WTO commitments. The average allowed tariff on agricultural products is 42% in Costa Rica, 40% in the Dominican Republic, 41% in El Salvador, 49% in Guatemala, 35% in Honduras, and 60% in Nicaragua. Applied tariffs may be lower on specific products, but in many cases these tariffs restrict U.S. exports. A primary U.S. objective in the CAFTA-DR Free Trade Agreement (FTA) negotiations was to change the "one-way-street" of duty-free access currently enjoyed by CAFTA-DR countries on most of their exports into a "two-way-street" that provides U.S. exporters with access to these markets and levels the playing field with other competitors. This objective was achieved.

The CAFTA-DR Agreement will help solidify our industry's position as the preferred supplier of soybeans and soybean products to these Central American nations, and will open new opportunities for exports of U.S. livestock products.

Under the Agreement, duty-free access for U.S. soybeans will be set at zero immediately for all countries. Duties on soybean meal and flour will be eliminated immediately in most countries. Soybean oil duties will be phased out within 15 years, with duties on crude soybean oil locked in at zero immediately in El Salvador, Guatemala and the Dominican Republic. Safeguards are available on refined soybean oil imports in most countries, and some tariffs will be back-loaded.

Central America and the Dominican Republic are already a large and loyal market for U.S. soybean exports: The six countries are a growing region of 44 million people that imported $264 million in U.S. soy products in 2003.

Removing trade barriers between the United States, Central America and the Dominican Republic will create important new export opportunities for U.S. farmers, ranchers and processors. CAFTA-DR countries are important export markets for U.S. soybean farmers and the U.S. soy industry. Combined, CAFTA-DR countries account for 14% of U.S. soybean meal exports, and total U.S. soybean product exports amounted to over 1.0 million metric tons (58 million bushels of soybean equivalent).

The CAFTA-DR FTA is important to keep U.S. crushing plants open, since the CAFTA-DR countries account for 14% of U.S. soybean meal exports. Keeping U.S. plants open not only protects U.S. jobs and incomes, but also improves farm income by improving local basis levels.

The CAFTA-DR FTA not only is important to producers, processors and exporters of U.S. products, but also benefits the U.S. soybean industry through increased U.S. poultry and pork exports to the region.

Tariffs and quotas on imports of U.S. poultry products will be eliminated over the term of the Agreement. Tariffs on certain sensitive products will have a 15-year phase-out period with a growing in-tariff quota, while others will be eliminated immediately. The U.S. poultry industry currently does not sell chicken leg quarters to the Dominican Republic, but will receive an immediate quota of 500 metric tons per year. Quota and tariffs will be completely eliminated in 20 years.

The importance of comprehensive trade agreements that do not exclude sensitive products cannot be overstated. Excluding sensitive products set a precedent for other countries and will be very harmful to market access opportunities for U.S. agricultural exports. For many countries, pork, poultry, and other meat imports are their most sensitive products. If sensitive products are excluded from trade agreements, U.S. poultry and pork producers will be big losers, as will soybean, corn, and other farmers who depend on vibrant meat industries with strong exports.

Ratification of the CAFTA-DR Free Trade Agreement is of critical importance to the entire agriculture sector. The CAFTA-DR FTA not only is important to producers, processors and exporters of U.S. products, but also benefits the U.S. soybean industry through increased U.S. poultry and pork exports to the region. The fact that this agreement does not exclude any sector is a testimony to the U.S. commitment to trade liberalization and to the Doha Round of WTO trade negotiations. Therefore, it is essential that no exclusions or exceptions be allowed for any agricultural sector.

CAFTA-DR countries currently provide preferential access to other trading partners through various other free trade or preferential arrangements. The United States already provides preferential access for imports of CAFTA-DR food and agriculture products. It is time to give U.S. agriculture producers a level playing field with their counterparts in other countries.

There is no question that ratification of the CAFTA-DR will strengthen the U.S. agenda in all other trade agreements, especially the WTO, while a failure

NOPA strongly supports the CAFTA-DR Free Trade Agreement as negotiated because this Agreement is very good for U.S. agriculture.

STATEMENT OF THE U.S. APPLE ASSOCIATION

SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

June 13, 2005

The U.S. Apple Association (USApple) appreciates the opportunity to provide this testimony in strong support of ratification of the Central America and Dominican Republic Free Trade Agreement (CAFTA-DR).

USApple is the national trade association representing all segments of the apple industry. Members include 36 state and regional apple associations representing the 7,500 apple growers throughout the country as well about 300 individual firms involved in the apple business. Our mission is to provide the means for all segments of the U.S. apple industry to join in appropriate collective efforts to profitably produce and market apples and apple products.

The U.S. apple industry exports about 25% of its fresh crop annually and the CAFTA-DR region represents a significant market. It is the largest export market for apples from Virginia, Pennsylvania and Michigan and a significant market for Washington, New York and other regions. Nearly one million cartons of U.S. apples were exported to the region last year with a value of over $11 million.

CAFTA-DR offers a significant and immediate market growth opportunity for U.S. apple exports. Since current trade barriers in Central America will be eliminated immediately when the treaty takes effect, U.S. apples will gain quota-free and duty-free access to the six countries included in the agreement – Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. This will give the apple industry fair opportunity to compete against producers who have enjoyed preferential market access into this nearby market of more than 45 million consumers.

CAFTA-DR will let fair competition drive the marketplace, instead of allowing foreign government trade barriers to disadvantage U.S. apple exports for the benefit of our competitors. CAFTA-DR will provide true market access for the U.S. apple industry, since U.S. exports do not face sanitary-phytosanitary import barriers in these Central American markets.

When Chile began enjoying the benefits of a free trade agreement in January 2003 with several Central American nations, U.S. apple exports suffered a competitive disadvantage in this regional market. For example, prior to Chile's free trade agreement with Costa Rica, U.S. and Chilean apples each had 41% market share.

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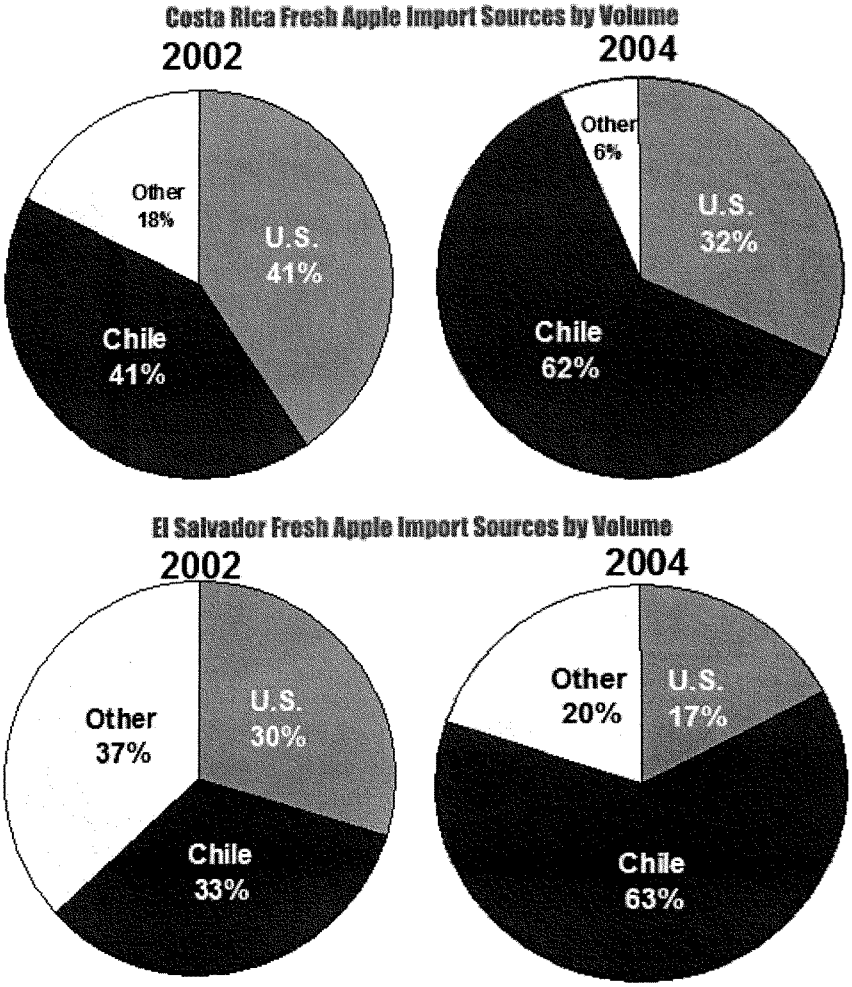
Just two years after the free trade agreement took affect, Chile's market share increased to 62% while the percentage of apples from the U.S. shrank to 32%. In contrast for example, during the same time period Chilean and U.S. market shares in Honduras each remained steady (Chile does not have a free trade agreement with Honduras). In a price-sensitive market such as this, the additional cost can easily price U.S. apples out of the market.

Import duties in CAFTA-DR nations currently range from 12-25 percent for U.S. apples, so the duty-free market access from the agreement will result in an immediate reduction of $1.80 to $3.75 in costs paid by the importer for each $15.00 bushel box of apples imported from the U.S. These duties would go to zero on day one of the agreement.

The attached charts illustrate the adverse effect of the Chilean free trade agreement with Costa Rica and El Salvador on U.S. apple exports to both countries.

The U.S. Apple Association urges the Committee, and Congress, to approve the CAFTA-DR agreement as negotiated. Thank you for considering our views, we would be pleased to provide the Committee with any additional information upon request.

Chilean Trade Agreements Cause A Shrinking U.S. Marketshare:

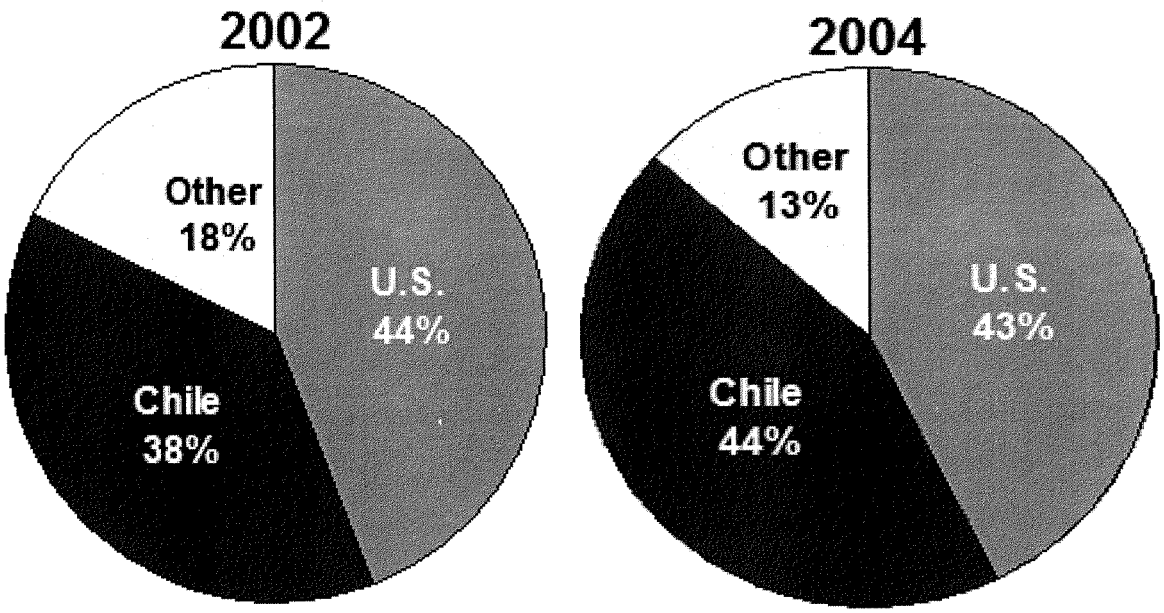


Source: Global Trade Atlas

Note: Chile's free trade agreements with Costa Rica and El Salvador began in 2003.

With Fair Access U.S. Apples Keep Pace:

Honduras Fresh Apple Import Sources by Volume



Source: Global Trade Atlas

Letter from Former Secretaries of Agriculture
To Members of the U.S. House of Representatives and the U.S. Senate

Dear Member of Congress:

As former secretaries of agriculture, we understand the importance of negotiating trade deals that minimize the costs and maximize the benefits to U.S. farmers, ranchers, and food and agriculture organizations. We support the Free Trade Agreement with Central America and the Dominican Republic (CAFTA-DR) because the benefits are very significant and the costs are minimal. We urge you to pass CAFTA-DR quickly and without amendment.

A vote for CAFTA-DR is a vote for fairness and for reciprocal market access. Under CAFTA-DR all of our food and farm products will receive duty free treatment when the agreement is fully implemented.

A vote against CAFTA-DR is a vote for one-way trade. Virtually all of what we import from the six CAFTA countries now enters the U.S. duty free as a result of the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI). Yet, our food and agricultural exports to these six nations are restricted significantly because of high tariffs. As a result of the current one-way trade deal, we are running an agricultural trade deficit with these six countries.

In addition, a formal trade agreement with the United States will help ensure the economic stability and growth that the region needs to avoid a return to the civil wars, insurgencies, and dictatorships of the recent past. As economic freedom and democracy take deeper root, incomes will increase and demand for our food and agriculture products will expand.

Failure to approve CAFTA-DR will have a devastating effect on U.S. efforts to negotiate trade agreements on behalf of U.S. agriculture. The World Trade Organization Doha Development Round would be dealt a serious blow. Other countries would be less willing to negotiate with the United States knowing that CAFTA-DR, a trade agreement so clearly beneficial to U.S. interests, could be rejected by the U.S. Congress.

The future of American agriculture continues to lay in expanding opportunities for our exports in the global marketplace, where 96 percent of the world's population lives. We must not forego these opportunities, especially when the benefits to our nation are so unmistakable.

Ann M. Veneman

Dan Glickman

Mike Espy

Clayton Yeutter

John Block

Bob Bergland

IMPERIAL SUGAR COMPANY

TESTIMONY OF

ROBERT A. PEISER, PRESIDENT AND CEO, IMPERIAL SUGAR COMPANY

RE: SUPPORT FOR THE CENTRAL AMERICAN FREE TRADE AGREEMENT

BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY

JUNE 7, 2005

Imperial Sugar Company is pleased to submit this written testimony in strong support of ratification of the Central American Free Trade Agreement ("CAFTA"). Imperial is headquartered in Sugar Land, Texas. We own and operate two cane refineries (Savannah, GA and Gramercy, LA) and two beet processing plants (Brawley and Mendota, CA). Imperial's four facilities represent approximately 20% of the nation's refined sugar production and we provide a full range of refined sugar products to the retail, food service and industrial markets.

It is important to note that Imperial is the last remaining wholly independent refiner in the US, which means that we do not grow the raw cane sugar or sugar beets that we refine. Other than Imperial, the rest of the domestic sugar industry has become partially or fully vertically integrated, as sugar growers purchased previously independent refining and processing assets. As a result, the vertically integrated grower-refiners supply themselves with the raw cane sugar or sugar beets grown by their integrated affiliates. In contrast, Imperial totally depends on our ability to purchase raw cane sugar and sugar beets from unaffiliated third parties, which include both US and foreign growers.

Imperial essentially buys all the US grown raw cane sugar and sugar beets we can. In fact, almost 100% of the raw cane sugar that we refine at our Gramercy facility and a full 100% of the sugar beets that we process at our Brawley and Mendota facilities are grown by US farmers. We are proud of our long-time association with our domestic growers and given their importance to those three facilities we have a strong interest in having a financially stable and vibrant domestic sugar producing community. No one can accuse Imperial of being anti-US grower. And we serve as a most valuable market for those US growers. Indeed, without Imperial many US growers would be hard pressed to sell their sugar crops.

Our largest facility—the cane refinery located in the port of Savannah, GA, which represents almost half of our entire production capacity—has historically also refined large volumes of US-grown raw sugar, particularly from Florida growers. But increasingly of late, our traditional sources of US-grown raw sugar have now been diverted to the refining facilities owned by their respective integrated affiliates—i.e. our competitors. We are now confronted with the reality that in 2006, our Savannah refinery will be wholly dependent upon foreign raw sugar for its operations.

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The Savannah refinery is one of the largest and most efficient in the nation. By itself, the Savannah refinery represents about 9% of the nation's sugar refining capacity. Its loss or even its decline in productivity would have significant adverse impacts on the price and supply dynamics of the US sugar market. We directly employ about 425 people at Savannah, and there are many more jobs in the Savannah economy dependent upon the vitality of our refinery, including local small businesses, stevedores, dockworkers, truck drivers and many others in the service industry either serving that facility or the approximately 60 ships that each year bring raw sugar to our plant, or delivering our refined product to our customers.

Given our now total dependency on foreign raw sugar at Savannah, Imperial's support for CAFTA is compelling. While the additional 110,000 tons of sugar which CAFTA would permit to enter the US is insignificant to the US sugar market in general—representing about 1% of the almost 10 million ton market---the portion of that 110,000 tons that we would acquire is very important to Imperial's ability to maintain Savannah's operations, fully serve our customers, and continue full employment for our direct employees at the refinery, as well as the many jobs dependent on us in the port of Savannah and the broader local economy. Ironically, preserving a financially strong operation in Savannah is critical to the financial health of our other three facilities which provide the competitive processing upon which some of those very same growers who are opposing CAFTA rely for their own livelihoods.

The Committee should understand that while sugar industry opponents of CAFTA assert that CAFTA's 110,000 tons of additional imported sugar jeopardizes US growers and the administration of the US sugar program, it is clear that such claims are wildly exaggerated. We are talking about increasing import volumes by around 1% of the whole US sugar market! Each year the US sugar market readily absorbs increases and decreases in the supply of more than that amount arising from a host of factors: from crop destruction due to hurricanes which reduce the supply, to overplantings or favorable weather which increase the supply. To allege that entry of an additional 110,000 tons of sugar under CAFTA spells economic disaster for US growers is hyperbole of an extreme degree. Perhaps one might oppose CAFTA on some other policy grounds, but opposition cannot be credibly sustained on the allegation that this meager 110,000 tons of sugar creates a threat to the US sugar market and US sugar program.

The Committee should further appreciate that most reliable estimates of market supply and demand for sugar in FY-06, considering both domestic and foreign supplies, demonstrate convincingly that the US sugar market will need an additional 700,000 tons of sugar beyond the current 1.250 million ton WTO mandated minimum level of imports to meet projected market needs. As such, the 110,000 tons from CAFTA fades to insignificance; indeed, of itself CAFTA's 110,000 tons is vastly inadequate to meet the 700,000 ton increase in projected needs in FY-06.

Futhermore, since the early 1980s the nation has seen 15 cane refineries shuttered, leaving only eight remaining today. These closed refineries provided high paying jobs with benefits to urban markets, especially in coastal cities such a Savannah. Imperial believes that the Agriculture Committee should be highly concerned with preserving US cane refining jobs—especially so when the jobs in jeopardy are in the *independent* cane refining sector which

provides strong competition to the integrated refiners. We respectfully suggest that the Committee has an affirmative public policy obligation to be concerned with Imperial's plight and the jeopardy in which we and our employees find ourselves at Savannah.

We view ourselves as an important element of the agriculture industry in this country. While in furtherance of their own self-interest those who oppose CAFTA might deny us the ability to secure legitimately needed raw sugar supplies now that we are totally dependent on foreign sources at Savannah, what is the credible public policy justification for Congress to embrace or connive in that strategy? With a demonstrated absence of any significant adverse impact on the rest of the domestic sugar industry from CAFTA's 110,000 ton increase in imports, what defensible public policy would lead Congress to deprive Imperial and our Savannah employees of that sugar which is needed to maintain vibrant operations at the refinery? There is none.

Imperial urges the Committee, and the Congress, to approve CAFTA and to do so without provisions in the implementing legislation that would deprive us of access to the very limited increased supply of sugar from the CAFTA countries. We legitimately need it; our customers need it; and our employees and many others dependent on us for their livelihoods in the Savannah economy need it. Thank you for considering our views on this most important matter. We would be pleased to provide the Committee any further information.

SWEETENER USERS ASSOCIATION
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Statement of the SWEETENER USERS ASSOCIATION

Hearing on the U.S.-Central America-Dominican Republic Free Trade Agreement Committee on Agriculture, Nutrition, and Forestry United States Senate

June 7, 2005

The Sweetener Users Association (SUA) appreciates the opportunity to provide information to the Committee on Agriculture, Nutrition, and Forestry in support of the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). SUA's members include the manufacturers of confectionery, grocery products, dairy foods, soft drinks and other products made with caloric sweeteners, as well as the trade associations that represent those companies.

SUA strongly supports the CAFTA-DR and urges Congress to give the agreement speedy approval. Our members believe this trade pact will benefit U.S. agriculture and our nation's food industry by opening up new opportunities for export sales, including sales of the processed foods manufactured by many of our members. Although the agreement's provisions for additional sugar market access are modest, we strongly support these aspects of the agreement as well, and believe they will enhance competition in the domestic sugar market while posing no threat to U.S. sugar policy.

Sugar Quotas

The CAFTA-DR countries will receive initial quantities of sugar market access totaling 109,000 metric tons. The countries' quotas will be allocated as follows:

Costa Rica	13,000 metric tons
Dominican Republic	10,000 metric tons
El Salvador	24,000 metric tons
Guatemala	32,000 metric tons
Honduras	8,000 metric tons
Nicaragua	22,000 metric tons

The sugar quotas will increase incrementally each year, by around 2%, and will reach 153,140 metric tons in Year 15, when they will be allocated as follows:

Costa Rica	16,080 metric tons
Dominican Republic	12,800 metric tons
El Salvador	36,040 metric tons
Guatemala	49,820 metric tons
Honduras	10,240 metric tons
Nicaragua	28,160 metric tons

The quotas will continue to grow, albeit quite slowly at 2% annually, after Year 15.

Perspective on the Agreement's Sugar Provisions

We believe the Committee will recognize that the CAFTA-DR is not a debate over the U.S. sugar program. It will not surprise the Committee to learn that our members do not think highly of that program, and believe that public support for producers should be provided in ways that do not distort trade. However, the CAFTA-DR does not threaten the sugar program and should be considered on its own merits.

Some of the furious opposition to the CAFTA-DR stems from the belief that it will establish precedents which will lead to much larger volumes of sugar imports in future free trade agreements (FTAs). Yet what these FTAs have in common, at this point, is that they are incomplete. Indeed, the only major FTA outside the DR-CAFTA that has been concluded and involves another sugar exporters – the U.S.-Australia FTA – excluded sugar completely (and wrongly, in our view).

Instead, the Committee has before it only the CAFTA-DR itself – and the quantities of sugar imports in this pact do not remotely threaten the sugar program or the U.S. sugar industry. Consider that the initial 109,000 metric tons of additional quota represent –

- Only about one-fifth of the existing surplus cane refining capacity in the United States;
- 1% of total supply in the current 2004/05 marketing year;
- Only 7% of total imports and only 6% of beginning stocks for 2004/05; and
- **Only about one-fifth of the *additional* imports that market analysts believe will be needed in 2005/06 – above and beyond the minimum import quota**.

The last point deserves emphasis. One of the ironies of the sugar grower lobby's opposition to the CAFTA-DR is that the United States will need sharply higher imports in the 2005/2006 marketing season to meet domestic needs for sugar. **Far from precipitating a crisis of surplus in the U.S. sugar market, additional DR-CAFTA imports in 2005/06 will comprise only a small part of the extra imports we will need just to meet market demand.** According to a recent analysis by Promar International, sugar imports under the U.S. tariff-rate quota will need to be 1.8 million short tons, compared to just 1.2 million tons annually in recent years. The 109,000 tons of CAFTA-DR sugar only represents about one-fifth of the additional imports the U.S. will need in the coming season.

In October 2003, economists at Louisiana State University published a study entitled "Impact of Potential Bilateral Free Trade Agreements on Projected Raw Sugar Prices and the Economic Viability of the Louisiana Sugar Industry," which attempted to quantify the price impact of various increases in sugar imports. SUA does not agree with some of the study's conclusions or results. For example, the study posits that 100,000 tons of additional imports – about equal to the CAFTA-DR's Year 1 quantity and therefore less than 1% of U.S. supply – would lead to a price decline of 3.17%. This elasticity may seem excessive. But accepting it for the sake of argument, it would still mean that recent refined beet sugar prices of approximately 25.0 cents per pound would decline to 24.2 cents, **a decline of only 0.7 cents per pound of refined sugar**.

This level of price change is substantially less than normal year-to-year, and even month-to-month, price variability. According to U.S. Department of Agriculture statistics, average refined sugar prices have varied from one year to the next by *more* than 0.7 cents per pound in all but two of the past 13 years.

More objective analyses have found much smaller price effects. The U.S. International Trade Commission's report on the DR-CAFTA shows only minimal price changes – 0.25% to 1.2% -- and even these are overstated because the Agriculture Department would be able to use its marketing allotment authority to prevent any significant price impact.

There is some evidence that **the U.S. sugar industry does not, in fact, find additional imports threatening under all circumstances**. At the same time that it is arguing against the CAFTA-DR, the U.S. sugar industry has been negotiating with its private-sector counterparts in Mexico toward an agreement that – if adopted by the governments of the two countries – would permanently increase U.S. sugar imports from Mexico by 260,000 metric tons (according to trade press reports).

Since the U.S. sugar industry has entered these negotiations voluntarily, and not under duress, one may presume that the industry feels it can live with another 260,000 metric tons of imports each year. **Why, then, would the CAFTA-DR quotas of less than half this amount be threatening?**

<u>The "Compensation" Provision</u>

One feature of the CAFTA-DR that SUA members do not like is the ability of the United States to compensate CAFTA-DR countries for the quota rents they would otherwise have obtained by shipping quota sugar to the United States, but prevent them from actually sending the sugar to this market.

Even after the United States pays compensation, this sugar will still exist. One can safely assume it will not be buried in the ground. Instead, it will be sold onto the world market. The price impact would be small, just as we have stated it would be in the U.S. market, but would still presumably be negative. **Thus, the United States would have implemented a policy whose direct and foreseeable effect would be to increase world sugar market supplies and decrease world market prices.** Indeed, the economic impact is not so different from **the European Union's** policy of importing sugar preferentially from former colonies, then using subsidies to export a like quantity onto the world market. Since the EU lost the recent World Trade Organization challenge to its sugar policies, what are the implications for U.S. use of very similar schemes?

The Committee should also consider the cost to taxpayers of exercising this "compensation" option. Even for the first-year quantities, the costs appear to be around $30 million. Such expenditures would belie the longstanding assertion that the sugar program is operated at "no net cost" to taxpayers.

Conclusion: CAFTA-DR's Benefits

We support the CAFTA-DR and believe its sugar provisions will confer numerous benefits on the United States. These benefits include the following:

- **Enhanced competition** in the increasingly consolidated U.S. sugar market, where fewer and fewer vertically integrated sellers control more and more of available supplies.
- **Better export opportunities** for those segments of U.S. agriculture that rely on opportunities to compete in world markets. It is clear from the negotiating history of the CAFTA-DR that the inclusion of sugar prevented the Central American nations from excluding several agricultural commodities of export interest to the United States, and permitted more rapid and complete trade liberalization in Central American agriculture.
- **Potentially positive U.S. employment effects**, to the extent that any marginal decrease in the artificial gap between U.S. and world prices may serve to reduce incentives to relocate confectionery production offshore in order to take advantage of world-price sugar.
- **The generation of foreign exchange** which the CAFTA-DR countries can use to buy U.S. agricultural and industrial products.
- **Benefits to consumers**, which are difficult to quantify for the very modest market access in the CAFTA-DR, but which would be consistent with analytical work by the U.S. International Trade Commission that found substantial welfare losses to the U.S. economy from the sugar program, and net benefits to the economy from reforming the program.

SUA thanks the Committee for the opportunity to submit these comments.

State of Louisiana
OFFICE OF THE GOVERNOR
Baton Rouge
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KATHLEEN BABINEAUX BLANCO
GOVERNOR

POST OFFICE BOX 94004
(225) 342-7015

May 31, 2005

The President
The White House
Washington, DC 20500

VIA FACSIMILE: (202) 456-7015

Dear Mr. President:

I am writing to you today to respectfully request that you reconsider bringing the Central American Free Trade Agreement (CAFTA) to Congress for a vote. If it passes in Congress, it will be another step down the road to disaster for the sugar industry that has been a vital part of Louisiana's economy and culture for more than two centuries.

Currently, 27,000 people are employed by the sugar cane industry in Louisiana. Sugar cane is produced in 40 percent of the state's parishes on nearly 600,000 acres of land. The economic impact of CAFTA and other bi-lateral trade agreements on the state will be disastrous. Louisiana stands to lose $750 million in direct sugar sales, as well as $2 billion in industry-related revenue each year. The approval of CAFTA and other bi-lateral trade agreements by Congress will devastate the sugar producing parishes and the economic ripple effect throughout the state will be seismic.

In addition, my concern is that your administration has expressed that CAFTA will be used as a model for several other trade agreements that are already under negotiations. If that happens, the domestic sugar industry will cease to exist. If Congress allows CAFTA and other bi-lateral trade agreements to go through, it will flood the U.S. market with imports from countries with subsidized farming that do not have any labor or environmental standards.

I am not opposed to free trade. However, sugar is one of the most distorted commodities traded in the world and any attempt to fix those distortions will require a global approach. The Louisiana sugar industry joins me in urging your administration to push for sectoral talks at the World Trade Organization (WTO) level. US sugar producers are among the most efficient in the world. They maintain efficiency and relatively low prices despite the significantly higher regulatory costs in the U.S.

I am sending letters to the Louisiana Congressional Delegation encouraging them to vote against CAFTA should it make it to Congress for a vote. I am asking them not to ignore the numbers – 27,000 jobs and $2 billion lost. I am respectfully asking you not to ignore them either, please reconsider and withdraw CAFTA.

Sincerely,

Kathleen Babineaux Blanco

Kathleen Babineaux Blanco
Governor

QUESTIONS AND ANSWERS

JUNE 7, 2005

SENATOR BAUCUS
QUESTION FOR SECRETARY JOHANNS

I'm getting a little tired of hearing you and other Administration officials trivialize the CAFTA sugar quota by talking about a teaspoon a week.

(1) First, I don't agree with you that this amount of sugar is trivial. The ITC's study predicted a more than 2% job loss in the sugar sector as a direct result of CAFTA. By my calculations, that is more than 3000 jobs. How do you square that with the teaspoon a day rhetoric?

(2) Second, your claim of trivial effects is based on looking at CAFTA in isolation. That is not fair. Sugar beet producers in northeast Montana look at CAFTA and see the tip of an iceberg. They see the imminent prospect of additional imports from Mexico under NAFTA. They see ongoing trade talks with major sugar producers like Thailand, South Africa, and Colombia. They see Brazil and the FTAA.

What assurances can you give Montana's sugar beet producers that CAFTA is not going to be the model going forward?

SENATOR BAUCUS
QUESTION FOR AMBASSADOR JOHNSON

The sugar industry believes, and I agree, that distortions in world sugar trade should be dealt with on a global basis at the WTO – not piecemeal in bilateral agreements.

This has been the United States' position on every other agricultural commodity, but not on sugar. We routinely refuse to negotiate domestic agriculture supports in bilateral FTAs. Except for sugar.

The European Union – a far less efficient sugar producer than the United States – massively subsidizes sugar beet production. Brazil cross-subsidizes sugar through its ethanol program. They are not alone.

If the United States opens up our sugar market unilaterally, without commitments from Europe, Brazil, and others, how can we ever achieve a fair and market-based solution worldwide? And what justifies treating sugar differently from every other commodity in our agricultural support programs?

Senator Stabenow

Questions for Secretary Johanns

1. Increased trade with other countries comes with increased risk of invasive pests and diseases. Michigan has been devastated by one such invasive pest – the Emerald Ash Borer (EAB). EAB is an invasive beetle that arrived in Detroit via wooden shipping pallets from China and has decimated Michigan's ash trees. It is extremely important to stop invasive pests and diseases, but it is paramount that we prevent their spread once they reach our shores.

   A. I would be interested to know how USDA and APHIS, under the Department of Homeland Security, are preparing to deal with the increased risks of pests and disease. Specifically, what kinds of program funding will be needed? Have the departments begun the process to ensure the funding is included in their budgets?

   B. I would like to know how USDA plans to deal with the current outbreak of EAB in Michigan. We have two immediate problems. The first is our need for immediate funding to eradicate the beetle. A lapse in funding will mean that we lose important ground in our fight to contain the infestation. The second is the need for a funding stream that will be steady from year to year. Will CCC emergency funds be made available to the State of Michigan for FY05? And what will UDSA do to prevent funding lags in the future?

Senator Stabenow

Questions for Robert Stallman – American Farm Bureau Federation

1. You note in your testimony that several of the six CAFTA countries have had political and economic instability in the recent past. Given our poor enforcement of existing trade agreements, are you confident that CAFTA can be enforced adequately? Do the recent instabilities of the CAFTA countries factor into your assessment of the enforceability of the agreement?

2. Your testimony suggests that most commodities have nothing to lose from this agreement because the Caribbean Basin Initiative (CBI) eliminated or significantly reduced most tariffs for agricultural products coming into the U.S. from CAFTA countries. Can you describe more fully the differences between the tariff removals on imports into the U.S. as specified by CBI and CAFTA? Which commodities- in addition to sugar- stand to lose the most from CAFTA's additional barrier reductions?

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Senator Stabenow

Questions for Ambassador Allen F. Johnson

1. In your written testimony you state that under CAFTA, more than half of U.S. farm exports to Central American will become duty-free immediately and most remaining tariffs will be phased out over the next 15 years. Could you please provide me with a list of commodities that will not have their associated tariffs lifted and the reason why?

2. My concerns with CAFTA extend, in part, from my belief that we will not enforce the agreement once it's enacted. We see this with nearly every trade agreement we enact. You need to look no further than our relationship with China and Japan to see the lack of enforcement on currency manipulation and intellectual property. I think it is imperative that we begin enforcing trade agreements before we start passing new ones. The implementation of my bi-partisan legislation to create a Chief Trade Prosecutor will go a long way creating a level playing field for our farmers and manufacturers. I would note that during Finance Committee hearings on his nomination to be the US Trade Representative, Congressman Portman conceded that not enough was being done with regard to enforcement where China was concerned. Can you give me your views on how well we are doing on the enforcement front where Central America is concerned and whether we are dedicating enough time and money toward enforcement?

Question to Cal Dooley, President and CEO of the Food Products Association (FPA), from Senator Debbie Stabenow (D-Michigan), Member of the United States Senate Committee on Agriculture, Nutrition and Forestry, following the full Committee hearing on CAFTA-DR and its potential impacts on agriculture and food sectors, held June 7, 2005:

In your testimony, you stated that CAFTA contains some ground-breaking environmental and food safety standards. One of my concerns with trade agreements is the tendency to "race to the bottom." That is, lowering standards in the U.S. in order to compete with developing countries rather than raising standards across the board. Could you please give me some further details of the kinds of standards that would be included in CAFTA?

Answer:

There is no empirical evidence to support your contention that trade agreements result in lower environmental and food safety standards. In fact, quite the opposite has occurred. U.S. environmental and food safety standards are higher today than they were 10, 20, or 30 years ago, before we entered into a number of international trade agreements.

It is important to note that any food product imported into the United States must meet our food safety standards. In fact, our Association is very active in developing countries, assisting their food industry's efforts to adopt production practices and standards that are consistent with U.S. standards.

CAFTA establishes committees tasked with promoting adherence to the World Trade Organization (WTO) Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) and Agreement on Technical Barriers to Trade (TBT). The enhanced regional cooperation provided through the Agreement provides dedicated forums to resolve issues related to sanitary and phytosanitary practices and ensure that food products in international commerce meet high food safety standards.

The Agreement requires that countries effectively enforce their labor and environmental laws. An innovative dispute settlement system uses monetary fines, as well as potential loss of trade benefits, to promote enforcement. CAFTA also contains a first-ever citizen participation process designed to identify and correct trade-related environmental problems. This citizen participation process has been enthusiastically supported; 10 environmental NGOs from the region have endorsed CAFTA.

CAFTA, like past trade agreements, will accelerate economic development in Central America. There is a direct correlation between improvement in per capita GDP and the resources a country has available to invest in improving labor, environmental and food safety standards.

CAFTA will reduce or eliminate the tariffs that U.S. food products face when they are exported to Central America. Today, these tariffs average 11%, and are as high as 60% for some food products. By contrast, more than 80% of the food and agriculture products imported into the United States from CAFTA nations enter duty-free. Passage of CAFTA will make U.S. food products more competitive, by phasing out and then eliminating these tariffs. Doing away with these tariffs will provide substantial economic benefits to U.S. food companies – while having no effect on existing U.S. food safety and environmental standards.

To sum up: There is no support for the contention that U.S. food safety and environmental standards will suffer a negative impact if CAFTA passes. Strong U.S. laws and regulation prohibit any such lowering of existing standards. In fact, it is our strong belief that passage of this Agreement will lead to stronger labor, food safety and environmental standards in our Central American trading partners, which surely is in the best interests of the citizens of those countries and the United States as well.

Senate Ken Salazar
Regarding the Potential Impacts on Agriculture in the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA)
Questions
June 7, 2005

Questions for Ambassador Johnson

1. Mr. Ambassador, in 2003, in my state of Colorado, we exported almost $7 billion worth of goods around the world. Over $843 million of those goods were agricultural exports. In 2004, Colorado exports to DR-CAFTA countries equaled about $8 million – a relatively small percentage. The International Trade Commission has concluded that the Agreement, when fully implemented, will provide the U.S. economy$166 million more each year. While $166 million is a step in the right direction, it certainly is not a sum that will provide substantial changes in regards to our enormous trade deficit. That leads me to conclude that tremendous economic gain is not the driving force behind this agreement.

- If major economic growth in the U.S. economy is not the driving force behind this agreement, what do you believe the consequences would be if CAFTA is not passed?
- If CAFTA is not passed, what do you believe would happen at the WTO Doha Round?
- If you were to exempt sugar from CAFTA what do you believe the consequences would be and would it affect your negotiations at the Doha Round?

2. Mr. Ambassador, as you are well aware, CAFTA includes a provision, which gives the U.S. the ability to manage U.S. sugar supplies through a mechanism that, if activated, would compensate the six countries for sugar not shipped under CAFTA's terms. When negotiating this trade agreement you obviously built in flexibility to accommodate the sensitive nature of the sugar industry. Is the Administration planning on using this flexibility to address the sugar industry's concerns?

Senate Ken Salazar
Regarding the Potential Impacts on Agriculture in the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA)
Questions
June 7, 2005

Questions for American Farm Bureau

3. As I'm sure you know, the Colorado Farm Bureau has announced it is opposing CAFTA. I understand that to be a position different than the National Farm Bureau. Have other State Farm Bureaus decided to oppose CAFTA? Can you explain why the Colorado Farm Bureau has dissented from the national organization and do you believe they have legitimate concerns regarding CAFTA?

4. The President of the Colorado Farm Bureau believes that "CAFTA has pitted commodity producers against each other…" As the President of an organization that represents producers of many different commodities do you believe this is true?

○