S. HRG. 109–306

UNITED STATES - CENTRAL AMERICA - DOMINICAN REPUBLIC FREE TRADE AGREEMENT

HEARING

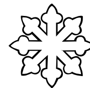
BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

APRIL 13, 2005



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UNITED STATES - CENTRAL AMERICA - DOMINICAN REPUBLIC FREE TRADE AGREEMENT

WEDNESDAY, APRIL 13, 2005

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD–628, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Snowe, Thomas, Bunning, Crapo, Baucus, Conrad, Jeffords, Bingaman, and Wyden.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Good morning, everybody.

We have just been informed that throughout the course of this meeting there are going to be some votes. So what Senator Baucus and I do is try to keep the hearing going, and we take turns going back and forth to vote. So, we will be alternating the gavel between Senator Baucus and me during those votes.

I welcome everybody to today's hearing on the U.S.-Central America Free Trade Agreement. I especially want to welcome our witnesses, many of whom have traveled some distance to be here.

I believe we also have the ambassadors of Costa Rica, El Salvador, Nicaragua, Honduras, Guatemala, and the Dominican Republic here as well, so we welcome you, too.

Twenty years ago, Congress voted for military assistance to aid some of our Central American neighbors' battle against Communist insurrection. Over the years, Congress has voted in other ways time and again for foreign aid to help build stable democracies in the region of Central America. Congress has voted again and again for certain unilateral trade benefits for countries to the south.

Now, CAFTA. With that, Congress has the opportunity to vote some help for our farmers and for American workers. With CAFTA, Congress can vote for our exporters and the jobs that are created as a result of exporting. Today, most imports from that region enter the American market duty-free. In contrast, our exports face the myriad of tariff and non-tariff trade barriers from those countries.

That has been the status quo for a long period of time, and, if we do nothing, that status quo holds. So I think, simply put, a vote

against CAFTA is a vote for the status quo. It is a vote to maintain unilateral trade, keep our trade barriers to our exports to those countries very high.

It seems to me that this issue before us makes common sense, and a vote against it would defy logic. Make no mistake: these tariff barriers to our exports are real. We have some examples here in front of us, that model Caterpillar off-road loader below.

Under the status quo, an off-road loader exported to Costa Rica would pay 14 percent tariffs. That is equal to $140,000 on our exports. With CAFTA, the tariff goes to zero immediately. So, that should be good news for Caterpillar workers who make this vehicle in Illinois.

Under the status quo, microchips produced in New Mexico or Oregon face a 10 percent tariff. With CAFTA, that tariff barrier is eliminated. Under the status quo, remanufactured auto parts cannot even get into the Central American market. Under this agreement, we will be able to export these manufactured goods into that Central American market.

This means new opportunities for such companies as Cardin Industries and their workers in Philadelphia, Pennsylvania. Under the status quo, DVDs produced across the country must pay tariffs of up to 20 percent before they can be sold to consumers in the region. With CAFTA, they become duty-free.

The story is similar for U.S. agriculture. Today, over 99 percent of the food and agricultural products that we import from the region come in to our country duty-free. Meanwhile, our food and agricultural exports are hit with an average of an 11-percent tariff going into those countries, with some tariffs ranging as high as even 150 percent on those agricultural products.

CAFTA levels the playing field. It takes 1-way trade and makes it a 2-way street. It tears down unfair barriers to our agricultural exports and gives our farmers a chance to compete in a growing and vibrant market of over 40 million consumers.

Again, these barriers are very real. Pork producers in my home State of Iowa face import tariffs from 15 to 40 percent. Upon full implementation of CAFTA, Iowa producers will be able to export pork products like those below duty- and quota-free.

Today, rice producers from across the South must overcome in-quota tariff rates from 15 to 60 percent. These tariffs are phased out and eventually eliminated under CAFTA. Prohibited tariffs of up to 40 percent lock our beef exports out of South American exports. CAFTA provides immediately duty-free, quota-free access for high-quality U.S. beef, with the eventual elimination of all tariffs on U.S. beef.

Value-added agricultural products such as the breakfast cereals demonstrated will see tariffs reduced from 32 percent to zero immediately, providing new opportunities for workers in Modesto, California or Jonesboro, Arkansas that produce this product.

The fact is, virtually every major agricultural producer in the country will benefit from the passage of this agreement, including dairy from Vermont, poultry from Mississippi, apples from Oregon and New York, barley from Montana, frozen french fries from Maine, nuts from New Mexico, dried beans from Wyoming.

All in all, the American Farm Bureau Federation estimates net gain to U.S. agriculture of nearly $1.5 billion upon full implementation. The agreement also opens the service market to U.S. service exports. Key sectors of opportunity include telecommunications, banking, insurance distribution, audio-visual and entertainment, energy transport, and construction.

Our high-tech sector stands to benefit as well. As part of the agreement, the Dominican Republic, Guatemala, Honduras, and Nicaragua will join the information technology agreement and eliminate tariffs on imports of high-technology products, thereby saving U.S. exporters more than $75 million annually in import duties.

But the agreement goes far beyond reducing import tariffs, putting into place strong investment protections, anti-corruption provisions, intellectual property rights protections, and strong provisions on labor and the environment. The agreement is a solid win for the U.S. economy and a solid win for our neighbors to the south.

So, trying to further clarify the situation where we are, the alternative to this agreement is nothing but status quo. It is unilateral access to our markets and nothing for our exporters. I do not think that the status quo is good enough for our farmers and workers.

I do not think Congress should vote to keep barriers to our exports into those countries as high as they have been. That is really what this vote on CAFTA really boils down to, a vote for unilateral trade and the status quo or a vote to reduce export barriers for our farmers and workers.

I am confident that, after careful consideration of the benefits of this agreement, starting with our witnesses today, Congress will vote for the American farmer and worker and approve this historic trade agreement.

I thank you for coming and look forward to your testimony.

I call on my colleague, Senator Baucus.

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

Senator BAUCUS. Thank you, Mr. Chairman.

This morning we begin our consideration of the U.S.-Dominican Republic-Central America Free Trade Agreement. Like all the recent free trade agreements this committee has considered, this one includes important benefits for United States farmers, ranchers, workers, and businesses. With that said, I still have serious concerns about this agreement.

My State is an agricultural State, so a good trade deal for Montana is one that benefits Montana agriculture. But some of the farmers and ranchers of my State tell me they have misgivings about this agreement. I hope that we can explore those concerns during today's hearing.

Now, I am not someone who runs away from difficult challenges. You do not get results by running away. You get results by rolling up your sleeves and trying to work things through. That is the approach I try to bring to all the issues we face in the Senate, and it is the approach that I plan to bring to this agreement.

I want to thank Ambassador Zoellick and his team for their willingness to work with me to address some of my concerns about this

agreement. Over the past 2 years, we have worked closely together and made some important progress.

And I appreciate the willingness of Ambassador Allgeier and the staff of the Office of the U.S. Trade Representative to continue working with me to develop the legislation to implement this agreement. I am looking forward to sitting down with you, Mr. Allgeier, to see if we can make this agreement work for Montana, and I am not convinced that we are there yet.

I also, regrettably, want to express my disappointment with the lack of leadership coming from the White House on this agreement. I have been in Congress for more than 30 years. During that time, I have been involved in a lot of tough trade fights. I worked with President Reagan on the Trade Act of 1988.

In the early 1990s, I worked closely with the first President Bush to defeat an effort to remove China's normal trade relations status.

I also worked with President Clinton to pass NAFTA. I believe that NAFTA was, and continues to be, a good agreement for Montana and for the United States. But it never would have passed if President Clinton had not spent months meeting personally with dozens of members of Congress, traveling around the country promoting the agreement, and speaking on television and radio to urge its approval.

Trade is a difficult issue. Even in the best of circumstances, trade agreements are a tough sell back home. Without significant Presidential leadership, it is very hard for members to support them.

By all accounts, the agreement we have before us today is the most divisive trade measure to come before Congress since NAFTA. I would expect to see a significant effort by the President to push the agreement, but have not seen it yet.

In fact, I am unaware of any event that the President has participated in to urge passage of this agreement, I do not believe that he has lobbied Congress on the agreement, and he has certainly never raised the issue with me.

We all know what an effort from this White House looks like. We have seen it on taxes and we are seeing it now on Social Security. When they want to do something, they know how to do it. When this White House wants to get something done, it certainly knows how to go about trying to get something done: Social Security, 60 States, 60 days is an example.

I have seen nothing to suggest this agreement is in any way a priority for this White House. Quite the contrary. A few weeks ago, President Bush introduced Congressman Rob Portman as his nominee to be the U.S. Trade Representative. Rob is a great choice and I look forward to working with him. But in his statement noting the challenges Rob will face, the President failed even to mention this agreement.

In my judgment, without Presidential leadership this agreement is going to face a very steep uphill battle. I also want to make a note about the process. Back in 1974, Congress and the executive branch set up a cooperative process for implementing trade agreements. These fast-track procedures have served us well for 30 years.

Lately, I have noticed a trend toward cutting corners. The administration pushes for trade agreements to move through Congress faster each time. Now, that might be fine when the agreements enjoy broad support and no one objects, but when they are controversial we need to leave time for full debate.

The debate over CAFTA will set the tone for Congressional consideration of many pending trade agreements and influence the course of the Doha Round. Most importantly, it will set the tone in Congress when trade promotion authority expires in 2007.

I want to thank Ambassador Allgeier and all the other witnesses testifying here today. I especially want to thank the Montanan on the panel, Mr. Lochiel Edwards, for traveling here to represent the views of the Montana Grain Growers. I look forward to hearing all of your testimony this morning.

I thank you again, Mr. Chairman.

The CHAIRMAN. Thank you.

Now, Mr. Allgeier, Acting U.S. Trade Representative, we thank you for your years of work that you have been doing, and now thank you for taking over since Ambassador Zoellick has left.

Would you proceed, please?

STATEMENT OF HON. PETER F. ALLGEIER, ACTING U.S. TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT, WASHINGTON, DC

Mr. ALLGEIER. Thank you, Mr. Chairman. I would like to thank you, Senator Baucus, and the other members of the committee for the opportunity to testify here before you and to respond to your comments and questions.

We certainly appreciate the work of this committee, not just with respect to CAFTA, but with respect to the entire trade agenda that we have, in particular, the leadership that you, Mr. Chairman and Senator Baucus, have provided and continue to provide.

CAFTA marks the successful culmination of a decades-long American policy of promoting economic reform and democracy in Central America. It offers us the best opportunity to strengthen the economic ties that we already have with these countries and to promote their progress toward economic, political, and social reform.

But CAFTA is not an act of unilateral altruism by the United States. We have much to gain from this agreement. Collectively, Central America and the Dominican Republic make up the second largest U.S. market in Latin America. With exports last year of $15.7 billion, that exceeds the exports that we had to Russia, India, and Indonesia combined.

The American Farm Bureau Federation, as you pointed out, Mr. Chairman, estimates that CAFTA would expand U.S. farm exports by $1.5 billion a year. That is practically a doubling of our current agricultural exports. That is with agricultural exports growing at an 8:1 ratio compared to the growth of our imports of agricultural products from this region.

The U.S. Chamber of Commerce estimates that U.S. sales to the region, both agricultural and industrial products, would expand by more than $3 billion in the first year of CAFTA.

We currently face an uneven playing field. As you pointed out, Mr. Chairman, we already have free trade with Central America

and the Dominican Republic, but it is 1-way free trade. Nearly 80 percent of the imports from Central America and the Dominican Republic already enter the United States duty-free.

In agriculture, it is more stunning: 99 percent of Central America's and the Dominican Republic's farm exports to the United States enter duty-free. CAFTA will level the playing field for American workers and farmers.

More than 80 percent of consumer and industrial goods from the United States will become duty-free in CAFTA and the Dominican Republic on day one of the agreement. More than half of our 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.

But there also will be improved market access for pork, dried beans, vegetable oil, poultry, rice, corn, and dairy products. That is why nearly 60 agricultural organizations have stated their strong support for CAFTA, and you will be hearing from a number of them today.

In services, the CAFTA countries are opening up their markets, providing us new opportunities in telecommunications, express delivery, computer and related services, tourism, energy, transport, construction and engineering, financial services, audio-visual, and I could go on and on.

It is a trade agreement for the digital age, providing strong intellectual property protection for our providers of software, music, text, videos, and products covered by patents. There also are strong anti-corruption measures in government contracting and in other matters affecting international trade and investment.

Textiles and apparel are an important component of our trade with the region. Indeed, they are the second largest market for U.S. fabrics and yarn. CAFTA represents a critical element in our domestic industry's ability to compete with Asia.

Without the tariff preferences and rules of origin of CAFTA, apparel companies may well move production to China or elsewhere in Asia, where they are more than likely to buy inputs from Asian suppliers.

For example, a T-shirt that is made in Honduras has roughly 50 percent U.S. content; a T-shirt made in China is likely to have little or no U.S. content. So, to keep our customers for U.S. yarn, fabric, and U.S. jobs in that sector, we need to pass CAFTA promptly.

Now, I know there is considerable interest on the part of the committee on worker rights and labor standards, and we share the goal of seeing the continuation of real and meaningful improvements of worker rights in the region.

We are focusing our attention and our efforts on the chief problem in this region, and that is the need to improve the enforcement of domestic labor laws. The Central American countries, and then subsequently the Dominican Republic, requested a study by the International Labor Organization of the labor situation in their countries.

That study demonstrated that the labor laws on the books in Central America and the Dominican Republic are generally in line with the core labor standards in the ILO. But let us be clear. The

enforcement of labor laws in the region needs more attention and resources. This has been recognized by the countries themselves.

A week ago, the trade ministers and the labor ministers from these countries came to Washington and presented us, and you, with a very candid and complete evaluation of their labor situations, including enforcement. It included recommendations that they would be following in order to improve the enforcement situation in their countries.

We are approaching this with a 3-part comprehensive strategy. First, the agreement requires that countries not fail to enforce effectively their labor laws. As the *New York Times* said in an editorial on November 24th of last year, "CAFTA actually goes further than the pact with Jordan, since penalty fines collected for not enforcing labor laws would be sent back to the offending country to fix the offense."

The other thing I would like to add is that the use of those funds is subject to agreement by the United States, so it is not just that the funds go back into the treasury of these countries.

The second element in our approach on labor is the countries already have taken numerous concrete steps to improve labor law enforcement, including hiring more labor inspectors, appointing special labor prosecutors, and prosecuting perpetrators of violence against trade unionists. We are pleased, as I mentioned, that the labor and trade ministers have identified clearly additional steps that they will be taking.

Finally, there is a need to provide assistance to build the capacity of these countries to enforce their laws more effectively and to strengthen their enforcement institutions and infrastructure.

Our Department of Labor has already committed $7.7 million for a multi-year effort of technical assistance, and the Congress has appropriated $20 million for fiscal year 2005 for assistance both on labor and on environment.

Speaking of environment, we have also broken new ground on the environmental side. I am particularly pleased that we have been able to work with Senator Baucus, who has provided leadership to enable us to put innovations in this agreement on environment that we have not had in any previous agreement.

Let me just mention a few of the more important ones. First, again, working with you, Senator Baucus, we developed the new public submissions process that will allow the interested public in these countries, including non-governmental organizations, an opportunity to challenge their party's failure to enforce environmental laws and to obtain an independent review of their submissions with the Secretariat that we have set up in Central America. CAFTA is the first trade agreement ever to include this kind of a mechanism in the agreement itself.

Second, there is a parallel environmental cooperation agreement which will focus on capacity-building efforts in the region. This also breaks new ground. So, for the first time in this kind of a trade agreement, and with the environmental component, an environmental cooperation agreement, we will be establishing short-, medium-, and long-term benchmarks for progress. That will be monitored by outside organizations.

Finally, we are taking steps to ensure that the capacity-building efforts are adequately funded. I mentioned the Department of Labor on the labor side, and I mentioned the $20 million that has been appropriated and been earmarked for this kind of capacity building, and we certainly want to work with you, Senator Baucus, and with others on the committee to ensure that resources continue to be provided for these efforts on environment and on labor.

At the beginning of the year in January, 10 Central American environmental, non-governmental organizations sent us a letter indicating their strong support for the environmental package within this agreement and urged that the agreement be ratified by all of the countries participating.

Mr. Chairman, the last 20 years have been a difficult road to democracy in this region, but today we have neighbors in Central America and the Dominican Republic who want to trade in goods, not guns, across their border, who want to replace chaos with commerce, and, most importantly, who want to use CAFTA as an important tool of reform that will deepen and strengthen their democracies.

Working closely with the Congress, we have negotiated a landmark free trade agreement. We believe that CAFTA 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 that the Congress will agree that America should not turn its back on these struggling democracies that want a closer economic relationship with us for the benefit of our citizens and their citizens. CAFTA makes eminent sense for the United States, it makes eminent sense for Central America and the Dominican Republic.

Thank you.

[The prepared statement of Mr. Allgeier appears in the appendix.]

The CHAIRMAN. Thank you very much. We will take 5-minute rounds of questioning at this point. The order would be: Grassley, Baucus, Crapo, Conrad, Thomas, and Bunning, of those that are here now.

Ambassador Allgeier, do you recall what was the initial request of CAFTA countries for access to U.S. sugar markets? How did the final agreement differ from the initial request?

Mr. ALLGEIER. Yes. Initially, the Central Americans, I think, if you added up their individual countries' requests, it came to something on the order of 400,000 metric tons of sugar. Of course, they wanted the duty eventually to go to zero.

Also, there are a number of features that we have in the agreement that certainly were not part of their original request that they would not have wanted to have, for example, the compensation mechanism that we have in the agreement and also the measures that we have to ensure that other people's sugar does not get included in what countries from Central America and the Dominican Republic are sending to us.

The CHAIRMAN. Is there a uniqueness about paying compensation, being available, in lieu of imports?

Mr. ALLGEIER. Yes. This is the first agreement and it is the only product in which we have this compensation mechanism. And perhaps I could just take a half a second to explain it.

What it means is that, if the U.S. decides that we are concerned about the small flow of sugar that is allowed under this agreement, we still have a mechanism by which we can, on our own, decide to compensate them in some other way. How we compensate them is totally at our discretion. That is not a feature that we have had for any other product in any other agreement.

The CHAIRMAN. Did the CAFTA countries ask that certain products be excluded from the negotiations, and if so, how would such an outcome have impacted the final agreement?

Mr. ALLGEIER. Well, they made it very clear from the beginning that if there were to be any exclusions on our side, that they would seek exclusions from their side.

Among the products in which one or more of the CAFTA countries would seek exclusions would be practically the list that you gave earlier, Mr. Chairman: pork, poultry, beef, rice, corn, dried beans, vegetable oils. All of those products would then have become subject to a debate and a negotiation about exclusions.

The CHAIRMAN. All right.

Some have called for the renegotiation of CAFTA to remove sugar from the agreement. If we were to go back and remove sugar from the agreement, what would be the impact on other free trade agreements that the United States is currently negotiating?

Mr. ALLGEIER. Well, of course, as I said, the first consequence would be, if we try to renegotiate sugar, they will try to renegotiate all these products that we are interested in. In future agreements, everybody would approach that with their list of exclusions and it would include products beyond the ones that I mentioned, including wheat and other products that would be of interest to us.

The CHAIRMAN. Would it impact any other free trade negotiations that are going on?

Mr. ALLGEIER. Absolutely. Certainly the Andean countries would be in there in a nanosecond with their list of potential exclusions, but we would face that situation also in our negotiations, certainly, with Thailand and with the South African Customs Union.

The CHAIRMAN. We have heard some arguments that our unilateral trade preference programs contain stronger labor enforcement provisions than those found in CAFTA. Is that a reasonable assessment?

Mr. ALLGEIER. CAFTA is the most forward-leaning package of labor provisions and environmental provisions. The thing that I would really like to emphasize is, with the trade capacity building and the other features that we have, the cooperation, these elements of our agreement are really focused on solving practical problems and improving situations on the ground, both with respect to labor and environmental protection.

The CHAIRMAN. Yes. I understand that 71 percent of the CAFTA-made apparel entering the United States is made from U.S. yarn and fabrics. How important is it for the United States' textile sector that the CAFTA region remain competitive against China, and does China use U.S. fabrics or yarn?

Mr. ALLGEIER. CAFTA, in my view, is essential for the continued competitiveness of our textile industry, of our fabric and our yarn. That is because, of course, the quotas have been removed and we are already seeing enormous shipments from China and other providers.

In the absence of a quota, the tariff preference that the Central American products have in our market is their main leg up in competitiveness. Therefore, because they are such heavy importers of our products, of our inputs of yarn and fabric, it is essential for our competitiveness as well, vis-à-vis China. China uses very little, if any, American inputs. It just is not economical for them.

The CHAIRMAN. All right.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Allgeier, as I mentioned in my statement, I sense there is a vacuum of leadership in the White House on this.

Could you tell me, how many speeches has the President given on CAFTA, in favor of CAFTA?

Mr. ALLGEIER. I do not have the exact number of speeches that the President has given, but I certainly would be happy to go back to the White House speech writers and give you a number on that.

Senator BAUCUS. How many events has he attended in favor of CAFTA?

Mr. ALLGEIER. Oh, he has attended multiple events. I think one of the more dramatic ones was when he met at his ranch in Crawford with Prime Minister Martin of Canada and President Fox of Mexico, and all three of them talked about the importance of expanding free trade.

Senator BAUCUS. I mean, specifically in CAFTA, attending an event that is specifically geared toward CAFTA, not a hemispheric area.

Mr. ALLGEIER. Well, I would be happy to consult with people in the White House and give you an inventory of events.

Senator BAUCUS. How many meetings has the President had with members of Congress pushing CAFTA? How many has he met with?

Mr. ALLGEIER. All right. We will get those numbers for you, Senator.

Senator BAUCUS. Do you know if he has had any?

Mr. ALLGEIER. I do not have the numbers. I will get you that number.

Senator BAUCUS. All right. I appreciate that. Because I do not know of any, frankly.

Let me ask a couple of questions on how this sugar mechanism works. Under what circumstances would the administration enact this trigger mechanism where CAFTA countries would be compensated rather than allowing them to have an increasing quota?

Mr. ALLGEIER. Well, the beauty of this, from our standpoint, is that it is totally up to the United States to determine the circumstances. In other words, there is not a mathematical trigger or any set of conditions that would have to be met.

So as we monitor this agreement and specifically the flow of sugar from these countries, we will make determinations as to

whether we think, in the interest of maintaining the sugar program, we would need to provide compensation in some other form.

Senator BAUCUS. I guess the issue is really this. I have a lot of producers and they are wondering, under what circumstances might the administration want to trigger it?

They hear it is pretty wide open, at the discretion of the U.S. government. They are asking themselves, well, gee, that is good, but it is also bothersome, it is worrisome, that is, under what circumstances would they?

For example, would you wait until the loan rates are down and forfeited because the price gets low? Would you wait until, with additional sugar coming into the United States, that the marketing allotments would not be enforceable any more? They are wondering, what is the deal here?

Mr. ALLGEIER. Right. Well, first of all, we are going to take a very anticipatory approach to this. It is not the sort of thing that we are going to wait until something actually happens that threatens the sugar program.

Obviously, we will be consulting with members of Congress who have an interest in sugar, and we will obviously be consulting with the industry. We will be working very closely with the Department of Agriculture. It is very difficult at this point to predict the precise circumstances under which we would want to make use of this compensation option.

But, frankly, we negotiated very hard to have this in the system, in the program, in the agreement, and we did not do that with the idea of not using it when necessary.

Senator BAUCUS. I guess, again, if you are a producer, you would rather know, what are the conditions, before I, as a producer, think this is a good agreement. It is something else to say, we will support the agreement, without knowing in advance what those conditions would be.

That is an obvious point that, clearly, a reasonable producer would take. I mean, you just do not know under what circumstances, so how can a producer think this is good? Particularly when they are worried that this is going to set a big precedent. What is it?

The quota goes up a bit, it goes up 2 percent every year after that, something like that. But the point is, producers are worried. They would just like a little more of an understanding of what they are dealing with.

Like most businessmen, if you know what you are dealing with, you can work around it or deal with it. But this is very, very uncertain. You do not know whether it is going to be triggered or not, this new mechanism.

Mr. ALLGEIER. Well, I think one reason, actually, that there is a degree of uncertainty, is that this is a unique step that we have taken to provide assurance to an industry that has sensitivities that we have mechanisms under our control, not that we have to negotiate with the other side again, to respond promptly in anticipation of any problems.

So, we are certainly prepared to work with you, with the Department of Agriculture, with the sugar industry to keep a close eye on

the situation and, if we need to use this compensation mechanism, to do so.

Senator BAUCUS. Some of the beef producers are concerned that this will be kind of a back door for Brazil, transshipment of some kind through CAFTA countries. On that point, I might ask, when in the world is the administration going to finally act on, and not keep extending, the suggestion that Brazil is violating intellectual property rights?

A petition was filed with USTR, and USTR just keeps on extending, extending, extending. There is a feeling among many Americans that USTR is not really standing up to fight and protect U.S. intellectual property rights in Brazil.

Mr. ALLGEIER. Let me assure you that we have devoted enormous efforts and attention working with our industry, particularly our copyright industries, on the problem of piracy, which is very, very significant in Brazil.

Our recent decision to extend a period of time to work with Brazil is a decision that has been endorsed by the copyright industries because they recognize, their people on the ground in Brazil recognize, that there have been some promising steps.

Has it solved the problem? Absolutely not. Will these promising steps result in a dramatic change? We will have to see. But we are working with the Brazilians, and most importantly with our industries, to turn that situation around.

Senator BAUCUS. I appreciate that.

Next on the list here is Senator Crapo.

Senator CRAPO. Thank you very much.

Ambassador Allgeier, I appreciate your coming today and the opportunity to visit with you. As you know, I am one of those who has strong concerns about the sugar provisions in the agreement. First, it is my understanding that we have nearly 200 bilateral agreements, either bilateral or regional free trade agreements, throughout the world.

The first question I have to you is, how many of those included sugar import mandates? I will just give you an indication. My understanding is that only two of them do, and that would be NAFTA and CAFTA, and those are highly controversial agreements.

What I am getting at with this question is, if I am correct about that, why would we not be better off negotiating sugar in the context of the WTO where we can deal with it on a global basis rather than having it come up selectively in these types of trade agreements?

Mr. ALLGEIER. First of all, in terms of, worldwide, the number of free trade agreements that other countries have, I do not know to what degree they include sugar. Certainly in our agreements, we look at it case by case. We are very, very careful on sensitive products, even certainly beyond sugar.

The problem of excluding a product that is sensitive, excluding it entirely, is then the other country will insist on excluding products that are important to us.

Now, in the case of sugar, we have taken extraordinary steps to respond to the sensitivity of the industry. Number one, the amount that is allowed to come in under the quota, the additional amount,

is extremely small. It is minuscule. In fact, we do have a chart here.

Senator CRAPO. Well, because my time is limited, I want to get into the compensation mechanism that you were probably leading up to talking about there.

Mr. ALLGEIER. All right.

Senator CRAPO. I want to follow up a little bit on the questions that Senator Baucus raised.

It seems to me that the discretion that the United States has, it is good to know that they have that discretion. As I understand you, the United States, in its discretion, can decide to implement the compensation program if it determines that the sugar program in the United States is jeopardized. Is that correct?

Mr. ALLGEIER. We can do it whenever we want.

Senator CRAPO. Whenever we want.

Mr. ALLGEIER. Yes, to tell you the truth.

Senator CRAPO. Kind of following the line of questioning that Senator Baucus raised, the sugar industry, in my opinion, has presented a pretty solid case that the threat is there instantaneously once the agreement is signed. If the administration does not believe that, then what would cause them to believe that the program is in jeopardy?

Mr. ALLGEIER. Well, we certainly do not believe that the provisions of CAFTA put our sugar program in jeopardy. I mean, we never would have included the elements in there that we did if we really thought that was a fear. The amount of sugar that is in this agreement is much smaller than the annual fluctuations in sugar imports into this country.

Senator CRAPO. Just to briefly get into it, with the 109,000 tons that are included in this agreement, added to that which is already authorized under NAFTA, plus the sugar that we import already under the WTO requirements, when you start adding all the other agreements and requirements that we have together, it equals about 1.6 million tons of sugar imports.

That number is critical because, once we import 1.53 million tons of sugar, all domestically stored sugar is released into the market. That is another million tons. It is this cumulative impact that we see as devastating. For some reason, we cannot get an acknowledgement of that threat.

Mr. ALLGEIER. Well, throughout these negotiations we work very, very closely with the Department of Agriculture. Of course, they have a very strong interest in ensuring that the program is not disrupted.

So, working with them, we are convinced that the volumes that we have put in here, and then taking into account the protections that we have incorporated, that it does not lead to the impact that you were suggesting.

Senator CRAPO. What about, assuming that the United States did decide to implement the mechanism. What is the amount and what is the form of the payment that would be made?

Mr. ALLGEIER. The amount is totally up to us. It could cover the entire amount of sugar that we have authorized within this agreement. The form also is entirely up to us. Obviously, we will consult the industry.

Senator CRAPO. And the participating nation would have no right to challenge the amount we determined?

Mr. ALLGEIER. Correct.

Senator CRAPO. So the United States could simply pick a really low rate of compensation and declare it, and then prohibit the importation of any additional sugar?

Mr. ALLGEIER. We can do that. Obviously, this is very, very important, to talk about the protections for sugar. But we do need to remember that over 90 percent of cash receipts to agriculture are in other products. We need also to be sure that we have access for them.

So, that is the reason that we do not exclude a product entirely from this agreement. We are making no change whatsoever in the tariff above the quota on sugar, no change at all.

Senator CRAPO. I understand that.

Mr. ALLGEIER. That is over 100 percent.

The CHAIRMAN. Can we move on?

Senator CRAPO. I did not see the clock had expired. I am sorry, Mr. Chairman.

The CHAIRMAN. That is all right, Senator.

Now, Senator Conrad. And Senator Bingaman came in without our knowing it, so he will go after Senator Conrad. Then we have Senators Thomas, Bunning, and Snowe. It is my fault. I missed him.

So, Senator Conrad, then Senator Bingaman.

Senator CONRAD. Thank you, Mr. Chairman.

Welcome, Mr. Ambassador.

Mr. ALLGEIER. Thank you.

Senator CONRAD. You will excuse me if I become increasingly skeptical as I hear additional claims that the latest trade agreement is another great success for United States trade policy.

It reminds me a little of a story that we heard from Germany toward the end of World War II when a German general reported that he knew they were in trouble when they kept reporting the victories closer to Berlin. Here we have another set of claims about the great success of these negotiations.

Let me say, I voted for WTO. I voted for the opening to China. I opposed the so-called Canadian Free Trade Agreement, and I opposed NAFTA because I was very skeptical of how those agreements would affect my State.

But now when I look back and just check the record, just take out all the hype and all the discussions of how great these successes have been and look at the record, here it is on this chart, which shows our growing trade deficits over the past 15 years. With NAFTA in 1994, the trade deficit was large, but manageable.

Then in 1995, we implemented the WTO agreement. Still, the deficit was large, but manageable. Then China PNTR in 2001, another great success. Look at where we have gone now. The trade deficit just keeps growing. Now you are reporting another great victory in this agreement.

The trade deficit last year was $618 billion. $618 billion. Now we have one of the most prominent investors in the United States betting against the U.S. dollar because of these massive trade deficits.

Now we are told, well, things are getting better because the dollar is going down in value.

Let us see what happened this most recent month. Here is the report from this morning's paper: "Trade Gap Hits Yet Another Record. Despite a weaker dollar, February imports exceed exports by $61 billion." If this is a success, I would hate to see a failure.

NAFTA. We had a $2 billion trade surplus when we negotiated NAFTA. We were told this was going to be a great thing. Now the trade deficit with Mexico is $45 billion. I do not know how anybody labels that a success.

Now you come to us and you tell us, well, we have another great success, just ratify CAFTA. This agreement, as I read it, would devastate a whole industry. Let me show you why. Let us put up the chart. The sugar industry would face another almost 100,000 metric tons of additional sugar coming into this market.

That is not what is devastating. What is devastating is, if that same template is applied to the other agreements that you have under negotiation—South Africa, Thailand, and the Andean countries, which, Mr. Ambassador, you have already mentioned—if you apply the same precedent that would be established in this agreement to those agreements, then you would have almost 500,000 metric tons of additional sugar coming into this country.

I have held a hearing on this matter in North Dakota with economists of every stripe, and every single one of them testified that if we had an additional 500,000 tons coming into this country in sugar it would collapse the price here below the redemption price and destroy the U.S. sugar program. The U.S. sugar industry in this country has 146,000 employees. So as I see it, you just negotiated away another industry here.

Now, my question is this. The CAFTA promotional materials say that 80 percent of the goods in the CAFTA countries already enter duty-free here, but that they have higher tariffs against our goods, suggesting that this is a great opportunity for us.

In that very favorable negotiating environment, how did USTR manage to negotiate an agreement that our own International Trade Commission says will increase the trade deficit with that region by over $100 million? In that very favorable environment, how did we come back with an agreement that digs the hole deeper?

Mr. ALLGEIER. First of all, there are several aspects to your comments, Senator Conrad. First, as you point out, there is a huge disparity in the degree of duty-free market access that we have to those countries compared to what they have to ours. In agriculture, it is particularly dramatic.

Senator CONRAD. You are saying again what the promotional materials say. I have read the promotional materials. Tell me, how do you come back with an agreement that makes the trade deficit worse with that region, according to our own International Trade Commission?

Mr. ALLGEIER. We disagree that leveling the playing field, a playing field that is so uneven, as it is today, is going to lead to that kind of an outcome.

Senator CONRAD. But is that not what the ITC says? Does our own International Trade Commission not say, in a very favorable environment, our Trade Representative has come back with an

agreement that makes the trade deficit worse? Is that not what they have reported?

Mr. ALLGEIER. The ITC looks at a part of the trade agreement. They look at the merchandise trade in a rather static model, so it does not take into account the dynamic effects, it does not take into account the sorts of improved access that we have, and services.

Senator CONRAD. Well, sir, are you saying that this would improve our trade position? Would this lessen that trade deficit with the region?

Mr. ALLGEIER. I think that when one levels the playing field, when we have half of the market access duty-free into that region that they have here, that that will contribute to an improved balance of trade with that region. I do not see how else——

Senator CONRAD. Did you make the same projection with respect to NAFTA? Were you one of those who told us this was going to be a great success, a trade agreement that, when we made it, we had a $2 billion trade surplus, and now we have a $45 billion trade deficit? Were you one of those who said that was a good deal?

The CHAIRMAN. After you answer that, I will call on Senator Bingaman.

Mr. ALLGEIER. All right.

I certainly believe that NAFTA has been a good deal for the United States, for Mexico, and for Canada.

Senator CONRAD. I thank you, Mr. Ambassador.

Let me just say, we have a profound disagreement about what constitutes success.

The CHAIRMAN. Senator Bingaman?

Senator BINGAMAN. Thank you very much, Mr. Chairman.

Let me follow up on the same issue that Senator Conrad is talking about. I have been concerned that NAFTA has been in effect now for 10 years this January. It seems to me, there ought to be some useful lessons to learn out of that. I do not know exactly what they are, but I am trying to figure it out.

This is what happened to our trade balance with Mexico from 1994 forward, as I see it. This is another version of the same chart that Senator Conrad was showing. We went from a period of some surplus, not a great surplus, to a period of dramatic deficit with Mexico. Now, maybe there are reasons to explain that.

I am concerned, though, that there is a pretty consistently downward line from the time NAFTA took effect with regard to our trade imbalance with Mexico. I am just concerned. We have another chart here which shows CAFTA, or shows the Central American countries.

It shows that we also have a trade deficit with them. It is not as bad, of course. It has been going up in the last couple of years. The situation has been improving, from our perspective.

Are you persuaded that we are not essentially going down the same road here and signing on to something which will have the ultimate effect of adding to our trade deficit and further worsening our trade relationship with that part of the world?

Mr. ALLGEIER. I am absolutely convinced that passage of CAFTA will make American producers, farmers, and ranchers more competitive in that region. Now, I cannot predict what is going to be the relative macroeconomic situations of other countries.

One of the reasons that our deficit is as large as it is with countries is that we have been fueling the world's economic growth. Our growth rates have been higher than Europe, than Japan, and than other countries. One consequence of that is that our buying power and consumption is much greater. So, I cannot predict what will happen to the macroeconomics of other countries.

But what I can say is, in agriculture, for example, the beef tariffs in these countries are 35 to 79 percent of the bound rates, and we are going to improve our competitiveness when we eliminate those tariffs.

When our pork tariffs we face are 35 to 60 percent and we are providing zero through CBI, I cannot help but believe that our competitiveness is improving. I can go through the list.

Senator BINGAMAN. Well, let me ask you about some of those figures. I am also concerned when I look at the list of our witnesses, Mr. Chairman. I know this is not the only hearing we are going to have on CAFTA, I assume. The one group that I do not see represented on the witness list are small farmers in Central America. In those economies, in many cases, 50 percent of the population is engaged in agricultural activities. I fear that, as we change the rules to become more competitive so that we can sell grain, we can sell corn, we can sell beef, we can sell all of these agricultural staples that people depend upon into those markets, and we can produce them a lot cheaper than those small farmers can down there, and we will show them, particularly with the subsidies we provide to agriculture in this country.

We can flood those markets with agricultural goods. I am concerned that the dislocation of their agricultural sector is going to have very significant adverse consequences, not necessarily economic, between the two countries.

But we are debating over there on the Senate floor right now immigration-related proposals. Everyone says, why do these people want to leave those countries? A lot of the people who come to my State as illegal immigrants come from Central America, not just from Mexico.

I am just thinking that we may be adopting a policy here that is good for agriculture in this country and that is terrible for agriculture in those countries, and terrible for our own immigration policies. What is your reaction to that?

Mr. ALLGEIER. Well, Senator, we obviously, in addition to trying to negotiate an agreement that is going to be very beneficial for the United States, feel that we have negotiated an agreement that is going to be very pro-development for these countries.

So, for example, in areas where they have this very high sensitivity in certain crops that are primarily produced by poor farmers, we have, for example, in white corn, which is a product that a lot of campesinos in these countries produce, we are working with a tariff rate quota.

We are not bringing the out-of-quota tariff down to zero on those products, and similarly in Costa Rica with sensitive products. In other products that are sensitive to them and their development, we are putting in very long staging periods.

But the other side of this is that they will also have access to various inputs, feed grains, for example, that will enable them to

more effectively, more productively, produce other products, including meat products. This is what we have seen has happened in Mexico, for example.

Obviously, there is going to be movement from the rural areas to the cities, regardless of whether we do CAFTA. But with CAFTA, we are providing them with additional opportunities so that they can deal with those movements of their people. But we have tried to be very sensitive to the development considerations here.

Senator BINGAMAN. My time is up. Thank you, Mr. Chairman.

The CHAIRMAN. Now, Senator Thomas?

Senator THOMAS. Thank you, Mr. Chairman.

Thank you for being here. These are difficult issues. Of course, very clearly, we are in a world where trade moves around all the time. We cannot avoid that, so we need to make it as successful as we can for ourselves. I am sorry, sometimes, that we passed the law calling it "free trade." I think we are not looking at free trade, we are looking at fair trade. That seems to be the difference.

As we focus on this part of the world in terms of the economy, is this a good market? What kind of impact is this going to have on our total trade?

Mr. ALLGEIER. Well, it is a good market. As I mentioned, these are small countries but they are very good markets. Together, they are our second-largest market, second only to Mexico, in Latin America.

Senator THOMAS. Not in the world.

Mr. ALLGEIER. Well, I mean, when you see that we sell more to these countries compared to Russia, India, and Indonesia combined, I think it is rather dramatic. They purchase probably two-thirds of their imports from the United States. So, as their economies grow and we have improved access, that is only going to get better, from our point of view.

Senator THOMAS. I have observed, as I have gone to WTO meetings and others, that mostly the smaller countries basically look at agriculture, and that is where they get their exports. They are not great purchasers. But in any event, obviously, not every agreement is going to be popular. I have 5 pages of opposition here. Why do you think there is that kind of resistance to this plan?

Mr. ALLGEIER. Well, I must say, that is really difficult to understand, because we have had more than 60 agricultural groups that have come out publicly and endorsed this agreement. It runs from the Cattleman's Association to——

Senator THOMAS. I am talking about the 5 pages of opposition, which also represent many agricultural groups.

Mr. ALLGEIER. Well, I do not know that it is many, frankly.

Senator THOMAS. I will have to show you.

Mr. ALLGEIER. I can only think of one that is left out of this list, to tell you the truth, Senator.

Senator THOMAS. Would you like to see the list?

Mr. ALLGEIER. Well, sure. We can exchange lists.

Senator THOMAS. Farmer's Union. Many of them.

Mr. ALLGEIER. Well, we can exchange the lists.

Senator THOMAS. Well, the point is, there is a great deal of opposition and most of it does, obviously, center around sugar, because

that is the obvious one. We've had discussions on sugar, and it was left out of Australia.

I think it also has to do with the potential of coming up with something with Brazil, which is going to be quite different in terms of production. I am interested, too, when you talk about cash to offset this. Actually, the farm bill mandates the sugar program will be operated at no cost to the U.S. taxpayers. What we have done, is to seek to hold down production. It is a unique commodity. Apparently, you are going to change it and pay people not to produce. Is that right?

Mr. ALLGEIER. Well, another advantage of the compensation mechanism is that it does not have to be a cash transfer. We can do it through some other means.

Senator THOMAS. That will not cost anything? Of course it will cost something. There is no other way to do it.

Mr. ALLGEIER. Well, if we provide them with another commodity, that commodity taken out of a stockpile, perhaps. But there does not necessarily need to be a financial transfer out of the U.S. Treasury or out of the sugar program.

Senator THOMAS. Well, I would be happy to hear how you do that, if it amounts to anything, because I do not see how it can possibly be that way.

Some of the livestock people are interested, as we go forward, in the potential for more imports of beef, for example, in getting something done on country of origin. Have you all been supportive of that idea?

Mr. ALLGEIER. I am sorry. Could you repeat that, please, Senator?

Senator THOMAS. Country of origin.

Mr. ALLGEIER. You mean labeling here in the United States?

Senator THOMAS. Yes. When these products come in, that people will be able to determine whether they are buying domestic products are not.

Mr. ALLGEIER. Well, that is not part of this agreement, no. I mean, that would be a separate Congressional——

Senator THOMAS. Of course not. I am asking if you think that is an idea, and if that is something that makes some sense.

Mr. ALLGEIER. I think that would be something to ask the Department of Agriculture, frankly. USTR does not have a role in that.

Senator THOMAS. You do not have a thought, of course?

Mr. ALLGEIER. I am not an expert in this field, Senator.

Senator THOMAS. Well, these are some of the things that are there, and I am anxious to see us have a program. But I do think the precedent that is set in terms of sugar is clearly going to be difficult. What are you going to do with Brazil?

Mr. ALLGEIER. Well, we are not negotiating an agreement with Brazil at the time.

Senator THOMAS. I know that. But you are going to. That is the next one that is on your list, and you have talked about it a number of times. I was in Argentina, and that is where the real issues are going to come with trade, with Argentina and Brazil. That will make this program look like a tiny one.

Mr. ALLGEIER. Well, we are not in a position to negotiate those sorts of terms with Brazil and Argentina. Obviously, in any other negotiations we will consult closely with Congress, including those who represent sensitive industries.

Senator THOMAS. My point is, you set a precedent when you do it here. I think you have to give some thought to how this is going to impact the future. I hope we can do something to work the problem out. I am for trade, but I do think you have to listen to some of the things that are coming up and not just ignore them.

Mr. ALLGEIER. Well, we do this. For example, Senator Conrad wrote us a letter, saying that we should not alter the sugar tariff that is above the quota, and we did not. We left that in place.

On other products, we listened very closely to people, especially, I would note, people who very much want to get improved access into this market and are on this list of 60 farm groups, including the Farm Bureau, and everybody from dairy, to poultry, to rice who endorsed this agreement. So, we have tried to listen very closely, and we will continue to work with them.

Senator THOMAS. I understand. But I am saying that you cannot deny there is a good deal of opposition on the other side, and we are trying to find a balance of those things. So, thank you.

Mr. ALLGEIER. Right.

The CHAIRMAN. Senator Bunning?

Senator BUNNING. Mr. Chairman, I would like to enter an opening statement into the record.

The CHAIRMAN. Yes. That statement will be included in the record.

[The prepared statement of Senator Bunning appears in the appendix.]

Senator BUNNING. I would like to talk about textiles.

Mr. ALLGEIER. All right.

Senator BUNNING. I understand that, in contrast to the current rules that govern trade between the United States and the CAFTA region, the CAFTA agreement requires only that the component that imparts the tariff classification of the good be made from originating fabrics. I understand that the CBPTA, for instance, requires that all fabric components be made of U.S. fabric or be made from U.S. yarn.

Can you specifically address the essential characteristic component aspect of the rule in the CAFTA agreement with regards to textiles and tariff preference levels for Nicaragua and Costa Rica?

Mr. ALLGEIER. Well, first of all, the basic rule is the "yarn-forward rule of origin," that the yarn and the fabric must be originating from one of the members in the agreement, including the United States.

That is the rule, by the way, that our industry requested that we incorporate into CAFTA. So, we have done that, and that rule applies both to Costa Rica and to Nicaragua, and to the other countries.

In the case of Nicaragua, they have a temporary, transitional provision. They are allowed a very small amount of fabric from outside the region, but that is purely as a transitional provision.

Senator BUNNING. Transshipped, or otherwise?

Mr. ALLGEIER. No, not transhipped. It is a tariff preference level that would be monitored.

Senator BUNNING. In regards to Nicaraguan yarn?

Mr. ALLGEIER. Only Nicaragua has this transition. The overall rule, and the rule that will apply after the transition for Nicaragua, is that it must be this yarn-forward rule that we worked with the industry on and that they requested. You prevent the transshipment, obviously.

Senator BUNNING. Well, we will see.

I understand that the United States' industry filed a safeguard petition last week with respect to bras coming into this country from China, an item which I have been told has seen a 35 percent increase in the level of Chinese imports during the first quarter of 2005.

Can you address the single transformation rule in the CAFTA agreement which would apply to bras, among other things?

Mr. ALLGEIER. Well, first of all, Senator, let me say that we are, with the Department of Commerce and the other Departments, paying very close attention to the changes in imports that we are receiving as a result of the change in the quota situation, and specifically from China.

I think, as you know, the administration, already on its own, has initiated investigations in three very important categories of imports from China. And, as you pointed out, there are petitions that we are looking at for other products.

But I can assure you that the rules of origin that we have incorporated into CAFTA, and some very specific rules about monitoring and enforcement to avoid transshipment, to prevent transshipment, are extremely strong and we expect them to operate effectively.

Senator BUNNING. As you know, there are going to be some changes proposed on the floor of the U.S. Senate in regards to trade with China.

Mr. ALLGEIER. Yes.

Senator BUNNING. In August of 2004, the ITC stated that, "The CAFTA agreement could encourage CAFTA apparel manufacturers to use third country yarns and fabrics instead of U.S. materials."

Do you agree with this assessment?

Mr. ALLGEIER. No. We have been very, very careful to ensure that the kind of partnership that is in place now with the countries of Central America and the Dominican Republic continues under CAFTA, with even strengthened rules on enforcement.

Senator BUNNING. How are you going to enforce it?

Mr. ALLGEIER. Well, we will enforce it through the normal Customs procedures. Of course, Customs fraud is a Federal crime.

Senator BUNNING. I know it is a Federal crime. But if it is profitable——

Mr. ALLGEIER. People will try. But these countries have had to sign onto provisions that they will apply within their own countries to strengthen the enforcement and to prevent transshipment. It is not in their interests to have transshipment, because then the benefits of this agreement will certainly be questioned by us.

Senator BUNNING. Well, because they will not be buying from us. That is the big difference.

Mr. ALLGEIER. Well, we are not going to let it get to that stage. They want to be part of this partnership with the United States. It is the only way that they, and we, can compete. Well, I would not say it is the only way, but it is a critical element in their ability to compete, and our ability to compete, using fabric and yarn from the United States.

Senator BUNNING. I have some other questions. If I do not get to ask you them, I am going to submit them to you in writing.

Mr. ALLGEIER. I would welcome them. Thank you, Senator.

Senator BUNNING. Thank you.

The CHAIRMAN. Now, Senator Snowe, then Senator Wyden, and then Senator Jeffords.

Senator SNOWE. Thank you, Mr. Chairman.

I think there is an element of trust and confidence that is missing with our trade agreements. You mentioned earlier monitoring and enforcement. Those are key words. That has been sorely lacking, unfortunately, not just with this administration, previous administrations as well. I served both in the House, and now, of course, in the Senate, and I have opposed trade agreements. I have supported some.

Regrettably, I do not see a change in disposition on the part of our government officials to aggressively enforce agreements. That is why you are hearing so much concern here today. Because, while you could say, well, we are the winners, we are going to win, a lot of people have lost. We have lost a million jobs since NAFTA. That is an agreement I did not support.

We have lost a million jobs. We have seen what China has done on the economic landscape. What is our government doing? What are our officials doing? We have a $660 billion trade deficit overall, the largest, of course, with China. It is unprecedented. We know the concerns that Senator Bunning just raised.

He just raised concerns about the potential for transshipments from China. That is a serious concern. But we do not know what our government is doing to enforce these agreements. That is the point. That is why you have lost trust with respect to these agreements, because so many jobs have been lost.

Certainly, Maine has been an example of that, with manufacturing, textile and apparel. We have been devastated over the last 4 years. It has been alarming, and that is true across the country.

So, while we can talk about, we have Customs officials, they will enforce the agreements, they will catch fraudulent shipments, we have monitoring and enforcement compliance provisions in these agreements, what is happening to suggest that we have been effective and successful? What are we doing with China?

Why should we believe the fact that we are going to have an agreement that will be upheld and that we will not have China engaging in transshipment and fraudulent provisions that undercut our ability to be competitive? That is the issue here.

I cite that because I think that we have to come to terms with the issue of enforcement, and becoming tough and enforcing these agreements. Yes, they are fair agreements, but it is not fair for one side. We are obviously seeing it in the display of the trade deficits.

I think it is manifested in that figure, not in totality, but certainly a good measure of it. That is the problem. That is the prob-

lem that we are facing. Just, I have lost confidence in the ability of our government to enforce these agreements.

Mr. ALLGEIER. Senator, certainly I agree with you that enforcement is an essential part of our trade agenda. We cannot just go out and negotiate agreements and then go off and negotiate another one and not pay attention to the countries' abiding by our previous agreements. I assure you, we are very aggressive in how we deal with our trading partners.

For example, we are very aggressive in filing cases in the WTO, but that is not our only way of enforcing. With respect to China, of course, I think the United States is the only country so far that has taken them to dispute settlement in the WTO.

But also, we have worked with domestic industries to solve problems. The semiconductor industry, for example, had a problem with China that we worked on. We did not have to go to dispute settlement.

But we take very seriously our responsibility to enforce agreements that we have negotiated. We are happy to work with you and your constituents in any instances where you feel that a trading partner is not abiding by a trade agreement with us.

Senator SNOWE. Well, I think you understand the concerns, and the breadth of concerns that have been expressed here, but also in the Senate recently with China manipulating its own currency.

Mr. ALLGEIER. Yes.

Senator SNOWE. It is our workers and our companies that are at a serious detriment. That is the issue here. That is fundamentally the issue. We talk about it and we talk about it, but we have to see aggressive enforcement and we have to see a demonstration of that. That is the point here.

The potential for fraud from China and this transshipment problem, I think, undercuts our ability. We have a deficit with each of these countries, as I understand it. Is that not correct?

Mr. ALLGEIER. With the CAFTA countries, we have an overall deficit of about $2 billion.

Senator SNOWE. Yes. So that is the point. All right. So again, are we going to widen that deficit?

Mr. ALLGEIER. Well, we are trying to correct it by getting a level playing field. But we are happy to work with you and your constituents on enforcement, wherever it occurs.

Senator SNOWE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Wyden?

Senator WYDEN. Thank you very much, Mr. Chairman. I commend you and Senator Baucus for getting us started on this effort.

I am one of the few people here who is willing to call themselves a free trader. I will tell you that, as a free trader, I am still very troubled by the fact that trade policy seems, in the last few years, to have been transformed from an opportunity to open foreign markets to our products into a vehicle for special interest policies.

I am going to talk to you in just a minute about one that concerns me very much. I think the agreement, as it stands now, is a huge giveaway to brand-name pharmaceutical firms. I am going to ask you about that shortly.

But, first, I want to talk about something I heard just 10 days or so ago at home, and that involves the sugar situation. In our area, 300 workers at Amalgamated Sugar were just certified as eligible for trade adjustment assistance.

We have 80 sugar beet farms, 100 sugar beet seed farms, most of the beet farms in eastern Oregon. A layoff of 300 people in a small part of the rural west is enormous. That is happening, even before CAFTA. What kind of assurance can you give those sugar beet growers in Oregon who are expecting somebody who is pro-trade to stand up for them?

Mr. ALLGEIER. Well, first of all, let me say that we have worked very, very hard to provide new markets for agricultural interests. Of course, in the case of Oregon, things like apples and pears are extremely important.

Senator WYDEN. The question is about sugar, sir.

Mr. ALLGEIER. No. I am going to get to that. I will. But we have a 2-pronged approach: a) to open up as many markets as possible; b) to be extremely sensitive where we have products such as sugar.

That is why, in this chart here, you can barely see the amount of sugar, the percentage of sugar that would come in, if the CAFTA countries used the full measure of sugar that they are provided in this agreement. You can barely see it on that chart.

And there are the other protections that I have mentioned before, that we are not increasing the out-of-quota tariff at all, we have the compensation mechanism. We are taking very strong measures to ensure that countries do not substitute someone else's sugar for their sugar.

Senator WYDEN. Well, I am going to send Oregon sugar beet growers around to visit with you, because I certainly do not think that is the case.

Mr. ALLGEIER. I would be happy to.

Senator WYDEN. Let me turn to the question of the pharmaceuticals. In 2002, the General Accounting Office found that essentially people with a public health background had been locked out of your Trade Advisory Committee process.

As far as I can tell, there is huge dominance by brand-name pharmaceutical manufacturers. My understanding is that something like over two-thirds of the representatives are brand-name people.

But my question to you, in particular, is about this outrageous way in which you give the brand-name people even more protection under CAFTA. The way it works is, most companies, of course, seek market approval for drugs here in the United States.

A company gets approval in the United States, and under U.S. law, gets 5 years of protection of this data in CAFTA countries. At the very end of the 5 years, the brand-name company then hopscotches to one CAFTA country and gets, at least, an additional 5 years of market exclusivity simply by hopscotching somewhere else and seeking approval in that market.

So, because the language of the agreement is so favorable to these brand-name companies and is so murky, it might even be possible for a brand-name drug company to essentially hopscotch all over the world, getting 5 more years here, and 5 more years

there, and who knows how many years of exclusivity they are going to get.

Now, what could possibly be in the public interest about something like that?

Mr. ALLGEIER. Two things. First of all, we have not done anything in CAFTA to alter the provisions that countries have under the TRIPS agreement with respect to access to medicines. In other words, we have not changed the period under which there is protection of data.

What we have done in this agreement is conscientiously follow the guidance that we have been given in trade promotion authority, which is to provide a balance between the protection for innovation—which, if you look at the Jordan Agreement, some 40 new drugs have been introduced into Jordan since that agreement—but to balance that with the legitimate need of governments to meet the public health needs of their countries, including, specifically, access to medicines.

So, we have followed scrupulously that balanced guidance that we have from TPA and incorporated that into CAFTA.

Senator WYDEN. I will just tell you that we have looked at several of the agreements, for example, Australia and NAFTA, and there is no question in our mind that there is more protection for brand-name companies in this. I am going to furnish that to you in writing. But throughout this administration, the brand-name folks have done awfully well, and that has not been in our interests in this country or overseas. This agreement takes it to new lengths.

I will just tell you, I am one of the people that you have to get support from to have any chance of passing this. I have voted for all of the major trade agreements in the past and have the welts on my back to show for it.

Unless you do something about the egregious favoritism for these special interests that is in this agreement, I will not be able to go along. So, I look forward to working with you.

I would like to be in the camp that has supported free trade, and have worked closely with Senator Baucus, in particular, and Senator Grassley on this. But you have a ways to go to convince me this time.

Thank you, Mr. Chairman.

Mr. ALLGEIER. Thank you. I would welcome the opportunity, Senator Wyden, to sit down with you to talk about agriculture, and also about pharmaceuticals, at a time that is convenient for you.

The CHAIRMAN. Senator Jeffords?

Senator JEFFORDS. I am pleased to be with you. I have heard from these very well-informed witnesses about the benefits of CAFTA to both the United States and the countries in Central America.

I am concerned, however, about the assumptions that underlie this agreement. Traditionally, enforcement in the Central American countries of the labor laws, environmental laws, and even commercial code has been uneven.

Some of the CAFTA countries are doing a very respectable job of enforcing the laws on their books, and others are not, however. For example, respect for the international labor law standards was the

subject of an investigation by the ILO in 2003, and by the Department of Labor this year.

Significant questions remain as to the ability of these countries to enforce rules on their own books. I do not see how we can enter into a complicated and comprehensive treaty if we do not have confidence in the underlying systems which we are joining in a close economic relationship.

Mr. Ambassador, I would like your comments on this concern.

Mr. ALLGEIER. Yes. It is a legitimate concern, Senator. In fact, one of the biggest advantages or benefits, both to us and to these countries, is what we introduced through this agreement in terms of improving the rule of law and good governance, transparency, and non-discrimination in the legal and regulatory systems of these countries.

It is actually something that their leaders want. They see CAFTA as a way of making irreversible the kinds of reforms that they are trying to make in their legal system, whether it is in commercial law or in labor law.

I think that a good illustration of their commitment is this report that the trade ministers and the labor ministers put together, with assistance from the Inter-American Development Bank, and building on that ILO investigation or that study, identifying very candidly the weaknesses in their systems and the steps that they are committed to take, in cooperation with us, to improve their systems.

They do not like the fact that they do not have the same sort of rule of law that we have here, so CAFTA is a very important vehicle for moving them in that direction and reinforcing their inclinations and their comments in that.

Senator JEFFORDS. When entering into a trade agreement between economies of such unequal size, there is always a concern on the part of the smaller economies that some of their industries will not be able to compete when faced with the economies of scale in the United States.

Small farmers, for example, in many Central American countries are worried about the ability to survive the onslaught of American agricultural products. I would appreciate your comments on this concern.

Mr. ALLGEIER. All right. Speaking generally—and I will get to agriculture in a minute—less and less is the situation one in which industry A is located entirely in one country, industry B in another. More and more, it is a question, as you know, of a global network in which certain components come from country A, and others from country B and country C, and then they are assembled.

What these countries gain, and what they hope to gain, is to be more of a part of that international network, which is, of course, very strongly centered in the United States. So, they see enormous benefits of being part of a global network.

Obviously, they have sensitivities, and we have treated those sensitivities both in agriculture and on the industrial side by longer transition periods, and so forth.

Senator JEFFORDS. Thank you.

The CHAIRMAN. Thank you very much.

Thank you, Mr. Allgeier.

We will call the second panel now. I appreciate very much your participation. Be cognizant of the fact that there will be questions submitted for answer in writing, and try to answer those as fully as you can.

Mr. ALLGEIER. Thank you. Thank you very much, Mr. Chairman and Senator Baucus.

The CHAIRMAN. Our next panel is Mr. Edwards, president of the Montana Grain Growers Association, Big Sandy, MT; Mr. Harris, chairman of the Western Hemisphere Trade Committee, USA Rice Federation, Stuttgart, AR; Mr. Jack Roney, director of Economics and Policy Analysis, the American Sugar Alliance, Arlington, VA; and Mr. Mark Berlind, executive vice president, Global Corporate Affairs, Kraft Foods, Northfield, IL.

We will take you in the order that you were introduced, so Mr. Edwards, Harris, Roney, and Berlind.

You will not have to ask for your longer statements to be put in the record. They will be automatically included, if you submit them. So, now I look forward to your 5-minute summary.

Mr. Edwards?

STATEMENT OF LOCHIEL EDWARDS, PRESIDENT, MONTANA GRAIN GROWERS ASSOCIATION, BIG SANDY, MT

Mr. EDWARDS. Yes. Good morning, Chairman Grassley and members of the committee. For the record, my name is Lochiel Edwards. I farm on the prairies of Montana with my brother, sister, and my children. We grow high-quality wheat and barley for the domestic market, as well as for many nations around the world.

Today I am representing the Wheat Export Trade Education Committee, which handles trade policy for the wheat industry, and also the National Association of Wheat Growers, the U.S. Wheat Associates, which is a trade promotion organization of the wheat industry, and the National Barley Growers Association, as well as my passion, which is the Montana Grain Growers Association.

That is a long list, but simply summarized, that means I represent my wheat- and barley-producing neighbors back home.

Exports are critical to our industry. Domestic use of wheat absorbs only half of America's production. As you can imagine, our success or failure hinges on access to world markets.

Ninety-five percent of the world's consumers live beyond our borders. This obviously represents and presents a market opportunity, of which CAFTA is an important part, to the wheat and barley industries.

Wheat and barley currently have little or no tariff applied in these CAFTA-DR countries, but WTO rules allow for the imposition of duties from 60 percent to well over 100 percent. A 6- to 14-percent tariff is currently applied on wheat flour, but tariffs up to 135 percent are currently allowed.

This is our interest in this agreement. To establish long-term markets, we must compete with aggressive countries like Canada, Australia, Argentina, and, of course, the European Union. These countries, and others, are negotiating agreements around the world, and in this region as well.

The Caribbean Basin initiative and other market preferences currently give NAFTA countries duty-free access to the United

States for virtually all agricultural products, and as you know, sugar being a notable exception to that.

The CAFTA agreement levels this playing field, providing the U.S. exporters market access that is better than, or at least equal to, the access of those competitors I mentioned, and any other competitors.

Back home in Montana, a world-class malting plant is being completed this spring which will give our barley producers a new outlet for their grain. While Coors Brewing and Anheuser-Busch will likely use much of the barley malt from this new facility, the Central American market is exactly what is needed to complete demand for malt. This market is at least 60,000 metric tons in the region, which translates to 90,000 tons of barley annually.

This is significant, and is a market now served by Canada and the European Union, not the United States. International Malt Company, the owner of the plant, will surely be working to develop competitive freight to Central America out of the Pacific Northwest, and the Gulf Coast as well. This CAFTA agreement is important to projects such as this.

There are some trade-offs in this agreement due to the protections written in on behalf of the U.S. domestic sugar market. We believe a long phase-in of free trade and the exemption of white corn from complete tariff elimination, to name a couple, are disappointing precedents to set for our trade negotiators.

However, the agreement is positive for U.S. agriculture and retains the 100-plus percent tariff on over-quota imports of sugar into the United States, as well as other sugar protections which should be adequate to satisfy all parties.

It is important that no commodities are excluded from this agreement, and we congratulate the negotiators for this. We strongly oppose the amendment of trade agreements to exclude select commodities, an action which would set a poor precedent for the negotiation of trade agreements with additional Central American nations.

This market has been dismissed by some as a small economy, but in these countries we have 40 million consumers with rising incomes and a desire for the products we produce.

Our market is already largely open to agricultural imports from their countries, so this agreement will result in very little added competition here at home. It is in our best interests to forge this relationship. Trade agreements have a way of taking time to bear fruit, but a good example is our trade with Mexico, which is on the verge of becoming our fourth-largest customer for U.S. wheat.

Trade with Central America has a larger value as well. Those we trade with will form societal attitudes of partnership with our country. Rising standards of living and political stability result from increased commercial activity. I propose that this is the preferable avenue to achieving these goals in our neighborhood.

The United States' market is already open to imports from these countries. Although gradually, in some cases, CAFTA-DR ensures the trade will be on a 2-way street. This is good for our Nation and is good for the people of Central America.

This is the right thing at the right time. We ask your support and approval of this agreement, and I thank you for this opportunity to present the views of the wheat and barley producers.

[The prepared statement of Mr. Edwards appears in the appendix.]

The CHAIRMAN. Thank you.

Now, Mr. Harris?

STATEMENT OF TERRY HARRIS, CHAIRMAN, WESTERN HEMISPHERE TRADE COMMITTEE, USA RICE FEDERATION, STUTTGART, AR

Mr. HARRIS. Thank you, Mr. Chairman. I am here today on behalf of the USA Rice Federation, and we very much appreciate you holding this hearing about CAFTA-DR.

The USA Rice Federation represents U.S. rice growers, millers, exporters, and allied industries such as brokers and transportation firms throughout the U.S. I serve as the chairman of the Federation's Western Hemisphere Promotion Subcommittee. My testimony today has been endorsed by the U.S. Rice Producers Association.

In addition, this testimony has also been endorsed by the Agriculture Coalition for CAFTA-DR, a group made up of 56 agricultural and related organizations that support this agreement. A letter of support signed by these 56 groups is attached to my written statement.

On a day-to-day basis, I serve as vice president for Latin America and the Middle East, in the Rice Export Division of Riceland Foods, the largest rice and soybean farming cooperative in the world. We are headquartered in Arkansas, with more than 9,000 farmer members and about 2,000 employees.

The CAFTA countries—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, plus the Dominican Republic—represent one of the top five regional markets for U.S. rice exports. U.S. rice exports to these countries in 2004 were 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.

Despite the large demand for U.S. rice, though, negotiations over rice were long and very difficult with each of the countries. Rice is one of the most sensitive agricultural commodities for the Central American and Dominican Republic negotiators, and this sensitivity is reflected in a long transition period, which is 18 to 20 years, for free trade in rice.

While our industry sought a much shorter move to free trade, we do believe the negotiators got the best agreement possible. Our negotiators did not give in to demands that rice be excluded, and the comprehensive agreement they negotiated was central for 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 to 50 percent of the U.S. crop is exported, and imports make up 10 to 12 percent of domestic consumption. Import duties are nearly non-existent.

Exports are critical to the economic health of the industry and the rural communities that our producers and millers serve. We must continue to insist that other countries provide similar access

into their markets. The CAFTA-DR agreement helps us to achieve this goal.

The CAFTA-DR agreement will improve our existing access in this large market, reduce high import duties, eliminate tariff discrimination against certain forms of rice, and provide preferential duty treatment not available to any other supplier.

Currently, the CAFTA-DR countries charge duties between 35 to 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 us consistent and meaningful access for U.S.-milled rice.

The CAFTA-DR agreement addresses such discrimination by preserving the existing access of paddy rice, or unmilled rice, and providing for immediate, guaranteed market access for brown and fully milled rice. Tariff rate quotas will be established in all countries.

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.

The American Farm Bureau Federation concluded last year in an economic analysis of CAFTA-DR that full implementation of the agreement would boost the value of rice exports to the region by over $90 million annually. U.S. rice exports for the current marketing year are projected by USDA to be over 3.3 million tons on a milled basis.

On a value basis, U.S. rice exports will once again likely exceed $1 billion in 2004–2005. We have seen substantial benefits from multilateral trading agreements.

Without NAFTA, our exports to Mexico would be far below current levels. Without the Uruguay Round agreement on agriculture, the Japanese market would remain closed to all U.S. rice. These two countries represent one-third of the value of U.S. rice exports.

Likewise, our market success in the EU, Korea, and Taiwan are directly correlated to the access disciplines in the Uruguay Round. These markets represented 10 percent of U.S. rice exports in 2004–2005. We are confident that U.S. rice sales to the CAFTA-DR countries will also be strengthened by this new agreement.

We know that neither CAFTA-DR, nor any trade agreement, will solve all of our problems. However, trade agreements, in conjunction with consistent enforcement by our trade officials of non-tariff barriers, have immensely improved our competitive position in foreign markets.

CAFTA-DR also addresses the most prevalent type of non-tariff trade barriers, that dealing with sanitary and phytosanitary measures. An SPS committee is established to expedite resolution of technical issues.

I actually received a call just yesterday. There is a vessel with U.S. rice being held at the port in the Dominican Republic right now due to a phytosanitary issue that we feel is not based on science, and is simply harassment of the people exporting to that country.

While we understand that 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 does strengthen 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 in Central America and the Dominican Republic.

In conclusion, Mr. Chairman, CAFTA-DR means opportunity, growth, and choice, both for U.S. rice producers, millers, and exporters, and also for the consumers in Central America and the Dominican Republic.

Thank you.

[The prepared statement of Mr. Harris appears in the appendix.]

The CHAIRMAN. Mr. Roney?

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

Mr. RONEY. Thank you, Mr. Chairman, for the opportunity to testify. I am Jack Roney, staff economist 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 sugarcane in 19 States.

As Senators Baucus, Conrad, Thomas, Wyden, Smith, Schumer and Crapo are aware, the proposed CAFTA threatens American sugar jobs in their 6 States, and 13 other sugar States. By the government's own estimates, sugar job losses from CAFTA will be far greater than any other sector's.

The same International Trade Commission study which Senator Conrad referred to earlier also questions the overall value of CAFTA to our economy. The ITC concluded that CAFTA will increase the U.S. trade deficit with that region, not reduce it.

Our sugar growers and processors are among the most efficient in the world. Like other American farmers, we would welcome the opportunity to compete globally on a level playing field, free of government intervention. Like other American farmers, we can compete against foreign farmers, but we cannot compete against foreign government subsidies.

The world's 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 dumped market through genuine global sugar 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 programs, 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 United States has ever guaranteed access to its sugar market in an FTA, in NAFTA and CAFTA, and these agreements are mired in controversy. Sugar must be reserved for the WTO, where genuine trade liberalization can occur.

As the Senators from sugar-producing States know, if CAFTA passes, it will have devastating effects on sugar jobs in their

States. Our farmers know their industry and their policy well. We have examined the CAFTA provisions soberly and carefully.

We regard 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 cutesy, misleading depictions of additional access and teaspoons per consumer of production 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 importer of sugar. The CAFTA countries and the DR are already our biggest duty-free supplier, accounting for a fourth of all of our imports.

Unfortunately, our market is already over-supplied. Every additional ton of sugar we are forced to import from foreign countries is 1 ton less that struggling American sugar farmers will be able to sell in their own market: import more foreign sugar, export more American jobs.

CAFTA poses serious short-term and long-term dangers to American sugar farmers and workers. In the short term, the CAFTA sugar market access concessions, on top of import concessions the U.S. has already made in the WTO and NAFTA, will prevent the USDA from administering a no-cost sugar policy, as Congress directed it to do in the 2002 Farm Bill.

CAFTA will further over-supply 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.

U.S. sugar producers are currently holding more than a half million tons off our market and storing it at our own expense. Absent marketing allotments, this surplus sugar would cascade onto the market and destroy our price.

Contrary to misleading claims of CAFTA proponents, there is no cushion, no additional share of the U.S. market that Congress intended to make available in the FTAs.

The difference between recent actual imports and the 1.5-million-ton marketing allotment trigger has already been allocated to Mexico under NAFTA. The administration is ignoring NAFTA to promote CAFTA.

In the long term, 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. 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. 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, CAFTA will cost thousands of American sugar farmers and workers their jobs. The dangers of CAFTA to the U.S. economy outweigh the benefits. We respectfully urge that this committee reject 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 appears in the appendix.]

The CHAIRMAN. Now, Mr. Berlind?

STATEMENT OF MARK BERLIND, EXECUTIVE VICE PRESIDENT, GLOBAL CORPORATE AFFAIRS, KRAFT FOODS, INCORPORATED, NORTHFIELD, IL

Mr. BERLIND. Mr. Chairman, members of the committee, I am Mark Berlind, with Kraft Foods. Thank you very much for inviting me to testify with you this morning.

Trade is an issue of vital importance to Kraft, our 50,000 U.S.-based employees, other U.S. food manufacturers, and the thousands of American farmers who supply high-quality raw materials to our industry.

We urge this committee and this Congress to support implementation of CAFTA-DR. We are convinced that this agreement will benefit our company, customers, employees, stakeholders, and the many farmers and others who supply us.

Kraft is heavily engaged in world trade and painfully familiar with the global web of barriers that frustrate movement of agricultural and food products. On a worldwide basis, we buy $7 billion worth of agricultural commodities annually, about half of which are bought right here in the U.S. for use in our American manufacturing facilities.

The U.S. is currently Kraft's largest market, but given demographic realities, we know that our industry's future growth is inextricably linked to its ability to export. Ninety-five percent of the world's consumers live outside the United States. Looking forward, one of the primary engines of our growth will simply have to be external.

There are over 40 million consumers living in the six CAFTA-DR countries. With relatively young populations, moderate population growth, rising incomes, and improved diets, the demand there for U.S. processed food is expanding and has the potential to expand far more rapidly as trade barriers come down.

Food, beverages, and consumer products currently face an average ad valorem tariff of 15 percent in the five CAFTA countries and 20 percent in the Dominican Republic. There are other added import charges that lift the effective DR tariff rate to about 33 percent.

Some food products of special interest to Kraft, like processed cheese and cream cheese, face tariffs that range up to 66 percent in some CAFTA countries. Under the agreement, tariffs on U.S. exports of most food and beverage products would be reduced to zero over 15 years. Certain products, such as breakfast cereals, cookies, and pet food would receive immediate duty-free treatment.

This represents clear opportunities for Kraft products as diverse as Post breakfast cereals, Oreo cookies, and Milk Bone pet foods.

As Chairman Grassley pointed out at the beginning, CAFTA will level the playing field. Currently, food products can come in from those countries without any tariffs whatsoever.

We are the only ones who have to pay tariffs to send it going the other way. So, we see this as an opportunity and an incentive to

be able to make more products in the United States using American workers and American ingredients.

The total value of shipments of Kraft products from the U.S. into the six CAFTA-DR countries was $10.6 million last year, and it cost us about $2.3 million in tariffs just to enter those goods.

Ultimately, the greatest benefit to Kraft from tariff reductions may come in those cheese categories that I mentioned. Cheese is one of our core businesses and a sector of the CAFTA-DR market where we now face almost insurmountable barriers.

One of the most important features of this agreement for Kraft, and for the entire U.S. processed food industry, is its comprehensiveness. All products are included in the agreement, including sugar, a key ingredient for Kraft and for many food and beverage manufacturers.

The agreement provides for limited access to lower-priced Central American and DR sugar, but in an exceedingly modest way that fully recognizes the sensitivity of this commodity in our country.

No products should be excluded from free trade agreements to which the U.S. is a party. We are convinced that the exclusion of any single commodity from free trade agreements because of our import sensitivities provides our trading partners with an excuse to take their import-sensitive issues off the table as well.

In the case of CAFTA, we would expect that an attempt to renegotiate sugar would erode benefits for other U.S. agricultural commodities and cause the entire delicately balanced agreement to unravel.

As a country that enjoys the world's strongest economy, our message to other countries simply cannot be that we are only interested in free trade in those goods and services for which we maintain a competitive advantage.

If there were to be a decision subsequent to this hearing to upset the delicate balance that the negotiators reached in forging this agreement by taking any specific commodity off the table, we would have a very difficult time continuing to support the pact.

Kraft is a strong supporter of trade liberalization and a vigorous advocate for high-standard, comprehensive trade agreements. We believe such agreements create opportunity and are good for our company and our country.

Again, we urge you to approve legislation that will implement CAFTA-DR. Thank you very much for your attention. I would be happy to answer any questions that you have.

[The prepared statement of Mr. Berlind appears in the appendix.]

The CHAIRMAN. We will have 5-minute rounds, as we have in the past.

Mr. Edwards, you state in your testimony that Mexico would soon become the fourth-largest customer of U.S.-produced wheat, so your industry is apparently benefitting from trade with Mexico.

Yet, some contend that U.S. agriculture has prospered little under trade with Mexico and that, accordingly, U.S. farmers and ranchers would benefit little from the trade with CAFTA countries. Your comment on that?

Mr. EDWARDS. Yes, Chairman Grassley. One of the big difficulties out in the countryside with agriculture is change. Change is difficult for anyone, anywhere, but it is difficult for agriculture when you cannot plan and know what is in the future.

I mean, a changing Farm Bill, changing weather, for that matter, changing patterns of trade, they are difficult for our people. In some ways, that is our most difficult barrier toward acceptance of trade agreements. If you look at the numbers from the NAFTA agreement, they look pretty good, really, for agriculture.

There are local problems, and Montana is at the heart of some of those local problems, with trade with Canada, for instance. But when you look at the overall numbers, you see that there is a net gain to trade for agriculture and for our people, but there are individual victims at any given time as trade shifts.

The CHAIRMAN. Mr. Edwards, also, what do you believe the impact would be if the United States failed to implement CAFTA, and how would such an outcome affect the trade agenda for your wheat growers?

Mr. EDWARDS. Well, currently, as I stated, and as is commonly known, there are few tariffs supplied into the Central American countries. Costa Rica is the only one, and it is 1 percent.

What this does to our agenda is give the wheat industry the inability to plan its trade agenda. We have some very aggressive neighbors. I hate to name names, but Canada is very pointed in undercutting U.S. wheat exports, and they are good at it, partly because they have a single-desk State trading enterprise.

That kind of competition is not for the faint-hearted, and it is not for those who are subject to the whim of a country to slap a tariff on where there was none before. It takes foresight and planning to forge the economic ties, the planning, the relationships it takes to have trading customers. So, essentially it puts us on an uncertain field with these countries.

The CHAIRMAN. All right.

Mr. Roney, CAFTA provides many accommodations for the sugar industry: tariff rate quotas on sugar imports for the CAFTA countries will remain in place under the agreement; significantly, the U.S. over-quota tariffs, which are generally prohibitive, will remain intact under CAFTA; increased access for CAFTA countries during the first year of the agreement will total a little more than 1 day's worth of production of sugar in the United States and will amount to approximately 1.2 percent of the U.S. sugar production; and after 15 years imports will increase only to about 1.7 percent of U.S. consumption. Only in that surplus, exporting countries in the region will obtain increased access to the United States.

Our International Trade Commission has found that a cushion does indeed exist between the trigger level of imports that would suspend marketing allocations and projected imports under the CAFTA agreement. The International Trade Commission estimates that it would take about 60 years following implementation of the agreement for the cushion to be exceeded.

We talked about the compensation agreement. Do you believe that the United States could have negotiated this agreement in any way, besides excluding sugar, that would have been acceptable to the U.S. sugar industry?

Mr. RONEY. Mr. Chairman, the concessions, as they currently stand, would devastate our industry. In the short term, the extra 100,000 tons of access that we granted to the CAFTA countries would trigger off our marketing allotments and cause a cascade of blocked stocks we are now holding off the market, onto the market.

In the long term—and Senator Conrad's chart, I think, depicted this very well—we are setting a precedent that would result, even if we did nothing more for the subsequent countries than we have done for the CAFTA countries, that it would result in a half million more tons on our market.

The same ITC study that you cited, Mr. Chairman, also concluded that the job losses in the sugar sector would be 28 times greater than the next most harmed sector, textiles.

So, even though the ITC got it wrong about the cushion—we have met with them and corrected them on that—and under-estimated the effect on sugar, they still found the effect on sugar to be the worst of any sector that they studied.

The CHAIRMAN. So I think the answer to my question is no.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Lochi, I just have a couple of questions for you. Thanks very much for coming.

Mr. EDWARDS. You are welcome.

Senator BAUCUS. It is a long way to come, from Montana to Washington, DC.

I guess the basic question I am going to ask you is, what do you say to our sugar farmers at home? I understand how the grain growers think it helps grain growers. But I think one can probably understand how this agreement does not exactly warm the cockles of the hearts of sugar producers, especially with the points that have just been raised, namely, it is the precedential effect, it is the camel's nose under the tent, and will these other South American countries not insist and demand on getting the same treatment on their FTAs that Central American countries are getting under CAFTA? What can you tell them? What do you say to them?

Mr. EDWARDS. Senator Baucus, we have the luxury at Montana Grain Growers, of course, representing wheat and barley, and we understand that is a luxury. What we will be saying to our sugar farmers—we have cross-over there.

I mean, some of our sugar farmers grow wheat and barley. Many of them do. You know the agriculture in Montana. It is homogenous. Beef people raise a little wheat on the side, and vice versa. It is difficult.

I think what we say to the sugar growers in Montana is that it appears to us at Montana Grain Growers that there is a concerted effort in this agreement by the USDA to have in place a means to compensate the damage, whatever that damage is. We, of course, cannot guarantee that that will be carried out or enacted, but there is a promise to do so, a promise to control or limit the damage there.

As far as the camel's nose under the tent problem, I think that problem is coming anyway. Two sides of this issue are uncomfortable with the precedent, but I think the camel's nose is under the tent and I think this needs to get settled for farm bill purposes and

for other trade agreements, and I think the WTO negotiations are going to be just as difficult.

Sugar is going to have to take a look at its program and find the solution. I do not know what the solution is. I am sympathetic, but I am sworn to represent the second- and third-largest agricultural industries in Montana, which is grains. That is my responsibility.

Senator BAUCUS. Thank you. That is not an easy question to answer.

Mr. EDWARDS. No.

Senator BAUCUS. I deeply appreciate it. It is just one that I think a lot of us in Montana are struggling with, and I appreciate your help.

Thank you, Mr. Chairman.

The CHAIRMAN. Now, Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman.

I would say, first, to Mr. Edwards, my grain growers have reached a different conclusion. My grain growers see very little benefit from this agreement, but they see a potential substantial down side. Here is the conclusion they have reached. We really face no tariff barriers for wheat and barley going into CAFTA countries. You are correct, there are no barriers in any of the countries, except Costa Rica, where it is 1 percent. So, there are really non-existent tariff barriers. We have 90 percent of the market, so there is really very little to be gained. On the other hand, I have held formal hearings, I have had economists of every stripe come before those hearings and testify that, in their judgment, this will take us to 500,000 tons of additional sugar imports based on the precedent being set, and that that will collapse the U.S. sugar price.

We will go into redemption, and that will ultimately kill the U.S. sugar industry. Those acres will migrate over into other commodities, weakening them. So, our grain growers have reached a different conclusion than yours, and I respect those differences.

With the limited time I have, I would like to turn to Mr. Roney, because I saw the chart that our friends from USTR put up. The chart suggests virtually no impact on the domestic sugar industry.

Put up my chart that shows the countries that are being negotiated. Now, I have tried to ascertain through hearings where the truth lies here. This is what conclusion I come to. CAFTA will permit another 97,000 metric tons into the United States. The Dominican agreement would allow another 10,000.

If that precise precedent applies to the other treaties being negotiated, namely South Africa, Thailand, and the Andean countries—I do not count Free Trade of the Americas here at all, I do not count the additional access from Mexico at all, I just take those treaties that are being negotiated right now and what this percent would mean when applied to them: 499,000 metric tons of additional supply coming into this country.

Every single economist that I had testify—and I did not just have industry economists, I called on the best economists at our State university to testify—said, without question, that level of additional import would collapse sugar prices in this country.

So, Mr. Roney, you are here representing the Sugar Alliance. What do you say?

Mr. RONEY. Well, Senator, I could not agree with you more. This is why we regard CAFTA as a life-or-death issue for our industry. In the short run, that 100,000 tons triggers off marketing allotments.

We are holding 600,000 tons of sugar off the market now at our own expense to try to balance the market. But Congress designed a program that did not allow for, or encourage, additional FTA concessions.

Congress, in the 2002 Farm Bill, gave sugar not only the only no-cost sugar policy, but looked at our efficiency, looked at our market and said, well, this is unique. We are efficient producers, but we are guaranteeing to foreign producers 1.5 million tons of guaranteed access at the U.S. price.

Congress essentially said, enough is enough. Let us reserve the rest of this market, at least under the 2002 Farm Bill, for efficient American producers. So, that additional access makes this the fourth-largest importer in the world and we are already granting to these CAFTA countries duty-free access for a fourth of all our imports. So, we have given already, in that regard.

In the long term, of course, besides the jeopardy to the sugar program in the short run, as you very well cited, the precedent for these additional FTAs—and you have barely mentioned the FTAA; of course, Brazil is by far the world's largest sugar exporter and they export amounts of sugar that are triple our production, Brazil alone—has the potential, if this precedent continues and carries forward beyond this half million tons that you cite and we send this to Brazil, then it is a complete disaster for the sugar economy, and, I would argue, much of the rest of U.S. agriculture would have to be concerned about subsidized Brazilian exports coming in.

One other quick note is that there are 2.5 million acres of sugarcane and sugar beets, and one has to wonder the effect on other commodities if the sugar industry goes out of business and that acreage shifts to other crops that are already in surplus.

Senator CONRAD. Well, I know what it would mean in my State. Those are some of the most productive acres anywhere in the country and those acres would migrate into other commodities. They would have to. That would weaken the prices for those commodities.

In many ways, we are a chain that is only as strong as our weakest link. When you start trading away entire commodities in these trade agreements, you are headed for big trouble, in my judgment.

I must also say to our friends from the Trade office who are still here, I thought the chart that they put up was one of the most misleading charts ever brought before this committee. It had nice colors, but it is absolutely misleading. To show a chart, a pie chart that shows just a sliver going to Costa Rica, it is true in a very narrow sense, but it does not communicate the larger reality.

The larger reality is that this additional amount of sugar coming from Costa Rica, and the precedent it sets for the other agreements being negotiated, would collapse the price in this country. It is just as clear as it can be.

The notion that there is this cushion does not stand up to much scrutiny, because the notion that there is 256,000 tons out there

that is available as a cushion is swept away by what has already been committed to Mexico and in CAFTA. The cushion is gone.

How about the other free trade agreements that are being negotiated? Where is the cushion for them? The cushion is gone, when you consider commitments already made in NAFTA and the commitments that would be in CAFTA.

So their argument about a cushion, and there is no harm to the sugar industry, is about as false and misleading a testimony as I have ever heard before this committee.

I thank the Chairman.

The CHAIRMAN. I thank this panel.

I call, now, Mr. John Castellani, president of the Business Roundtable; Mr. Keith Crisco, president of Asheboro Elastics Corporation; Ms. Patricia Forkan, president, Humane Society International; and Mr. Mark Levinson, chief economist and director of policy, UNITE HERE!

In the case of this panel, we will submit your entire statement for the record, if you submit it. Then we would ask you to likewise summarize in 5 minutes. Make sure your microphone is on, and pull it close to you.

Mr. Castellani?

STATEMENT OF JOHN CASTELLANI, PRESIDENT, BUSINESS ROUNDTABLE, WASHINGTON, DC

Mr. CASTELLANI. Thank you, Mr. Chairman, Senator Baucus, and other members of the committee. I am John Castellani. I am president of the Business Roundtable, and I am pleased to appear before you this afternoon to express the Roundtable's support for the U.S.-Dominican Republic-Central America Free Trade Agreement.

The Business Roundtable members are the CEOs of America's leading corporations, and we have a combined workforce of more than 10 million employees in the United States. We have been long-time supporters of U.S. efforts to reduce barriers to trade.

We have appeared before Congress in support of the free trade agreements with Australia, Chile, Singapore, and Jordan, and in support of normalized trade relations with China.

Our support for trade liberalization is consistent, because we know how important liberalized trade is to U.S. economic growth overall, to our companies, and their employees, in particular.

I am here today to say that the approval of DR-CAFTA will be one of the most important trade policy decisions Congress can make this year. DR-CAFTA is more than just another trade agreement. It is a symbol of continued U.S. support and engagement in opening international markets. I want to focus on just a few key points about the importance of this agreement and why it should be approved.

First, approval of DR-CAFTA is vital to signaling continuing U.S. support for hemispheric and global trade negotiations and maintaining continued leadership in these negotiations.

Second, this FTA is important to American businesses and their workers. The agreement will provide groundbreaking provisions to level the playing field for U.S. companies and improve access to a market that is already the second largest in Latin America for U.S. exports.

Third, this agreement is beneficial to the Dominican Republic and to the countries of Central America. By improving access to U.S. markets on a reciprocal basis, it will improve their economies and help protect their democracies.

Finally, DR-CAFTA includes unprecedented protections for labor and the environment, promising the benefits to both workers and the environment that are proven to accompany economic growth.

For the past 20 years, the United States has enjoyed a unique economic relationship with the Dominican Republic and Central America. The Caribbean Basin Initiative opened U.S. markets to goods from the region to improve economic conditions in an impoverished region in America's backyard, but it did not open those markets to U.S. goods and services.

The theory behind the CBI was that, by building stronger economies, the U.S. could help bring political stability to a region where Marxism, military dictatorships, and civil wars were once common.

On this, CBI has been a success. As a result of the continued and bipartisan support, CBI has given the economies of the region a boost. They have developed more diversified economies with competitive manufacturing sectors, and exports to the United States have grown from $3 billion in 1987 to $17 billion in 2004.

With this success, we believe that the time has come to change the CBI's 1-way street by opening DR-CAFTA markets to U.S. goods. This agreement not only establishes a healthy 2-way trading relationship between the United States, Guatemala, Honduras, Costa Rica, Nicaragua, El Salvador, and the Dominican Republic, but it will also lock in economic progress in the political reforms that CBI began.

We believe the benefits of DR-CAFTA will spread to virtually all sectors of the U.S. economy. Key U.S. exports will immediately receive duty-free treatment, including information technology, construction and agricultural equipment, paper, and medical and scientific equipment.

The agreement will immediately reduce restrictions on 80 percent of U.S. industrial exports and more than 50 percent of agricultural exports to the region, and that will benefit a wide array of U.S. industries, including manufacturing, consumer goods, agriculture, and processed foods.

The agreement also opens the services sector to U.S. companies by going beyond the multilateral services agreement negotiated in the Uruguay Round. This opens the DR-CAFTA market to American financial services and telecommunications companies, all of whom support this agreement.

But beyond opening the markets, DR-CAFTA will help U.S. businesses and workers by improving the protections afforded by international trade rules, including the protection of intellectual property rights and the protection from unfair treatment for companies investing in the region.

DR-CAFTA deserves Congressional support, whether it is based on economic or foreign policy grounds. It is a sound trade agreement that will benefit the broad U.S. economy, foreign policy, and security interests now and for the years to come.

I thank you, Mr. Chairman. I appreciate the opportunity to express the support of the Business Roundtable on the importance of this trade agreement.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Castellani appears in the appendix.]

The CHAIRMAN. Now, Mr. Crisco?

STATEMENT OF KEITH CRISCO, PRESIDENT, ASHEBORO ELASTICS CORPORATION, ASHEBORO, NC

Mr. CRISCO. My name is Keith Crisco. I am the president of Asheboro Elastics, and I live in Asheboro, North Carolina. I am also a member of the board of directors of the American Apparel and Footwear Association, the National Textile Association, and the American Apparel Producers Network, which is a group of Caribbean and U.S. contractors for garments.

Asheboro Elastics is a manufacturer of narrow elastic fabric for the apparel, home furnishing, and industrial markets. These are examples of our products. We make waistbands for people like Fruit of the Loom, Hane's, VF Corporation (Lee and Wrangler jeans), Kellwood, Oshkosh children's wear. Simply stated, our job is to hold your underwear up. If we fail, you normally know it. [Laughter.]

With me today are my wife, Jane Crisco, and Penny Davidson; both are co-workers with me at Asheboro Elastics. I would like for them to stand up, if they would.

Jane and I started Asheboro Elastics from zero in 1986. That is zero: no plants, no employees, no customers, no equipment. We now have approximately 200 employees in North Carolina, we have 4 plants, and we have 11 distribution points in the Caribbean and Mexico.

Last year, we shipped over 500 million yards of elastic. That, sir, is enough to stretch around the world 27 times at the equator. I might add, that is before it is stretched.

We are now a leader in our industry. Penny is here today because she is an example of a person in our company whose job depends on our aggressive sales in the DR-CAFTA area. Yes, she has a real job. Her job is in the plant. She is an hourly employee. She pre-loops elastic waistbands in different sizes. Again, that job is dependent on CAFTA sales.

By the way, it is Penny's first trip to Washington in her life, so she is real nervous, and she and Jane both are here. They do not have a formal statement, but they are willing to answer any questions.

I have been saying for months that a vote against CAFTA is a vote for China. Let me explain why. If DR-CAFTA is not passed, the U.S. customers we have will move their offshore garment sourcing to China.

Asheboro Elastics has been successful and has grown jobs in North Carolina by supplying DR-CAFTA countries. China will be much more difficult. Plus, we will not be employing people in the U.S. if we supply China by doing manufacturing there.

Number two. The passage of DR-CAFTA and associated increases in apparel sourcing in this region will not only result in increased

employment in the Carolinas, but will create increased opportunities of employment by our company in the DR-CAFTA region.

Number three. DR-CAFTA countries need this bill to assure continued economic growth. We forget the situation in these countries just 15 to 20 years ago when economic stability was not in hand.

CAFTA represents the next step in the evolution of this trade relationship. It will transform the current 1-way temporary preference program into a comprehensive and permanent 2-way partnership.

In doing so, it will create the economic platform in which U.S.-Dominican-Central America companies, including Asheboro Elastics, can compete in the future. Without CAFTA, this economic partnership falters.

Increased pressure from China, particularly on the textile and apparel industry, which has emerged as a key element of this partnership, will lead to job losses and other economic disruption in Central America, the Dominican Republic, and the United States. Again, a vote against CAFTA is a vote for China.

As Central America and the Dominican Republic lose their competitiveness without CAFTA, they lose the ability to purchase U.S. goods and services, which harms companies like ours.

Moreover, economic disruption in Central America fosters instability in that region, which in turn undermines the fragile democratic institutions we have worked so hard to create in our own backyard.

Our company has grown in these times since NAFTA, in the last several years, and created new jobs in North Carolina. If CAFTA is not passed, and with the new environment created by the elimination of quotas on goods shipped from China, we will most likely not enjoy additional growth and, in fact, may reduce employment. Congress must approve CAFTA as soon as possible. This is the best way to keep U.S. textile jobs in the U.S. This is a non-partisan effort and it must be done.

Thank you for this opportunity.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Crisco appears in the appendix.]

The CHAIRMAN. Now, Ms. Forkan?

STATEMENT OF PATRICIA A. FORKAN, PRESIDENT, HUMANE SOCIETY INTERNATIONAL, GAITHERSBURG, MD

Ms. FORKAN. Thank you. Thank you, Mr. Chairman and other members of the Senate Finance Committee. My name is Patricia Forkan. I am president of Humane Society International. I certainly appreciate the opportunity to testify today on the Dominican Republic-Central America Free Trade Agreement.

I might add, it is a long and unusual route that brings me before this committee today, because when I began my career 30 years ago on behalf of animals, I worked on Law of the Sea, the International Whaling Commission, Tuna-Dolphin, Shrimp-Turtle, and a number of other things regarding humane treatment of animals.

I happened to have been in the streets of Seattle, along with hundreds of other folks, many in sea turtle outfits which we helped create, protesting the over-reaching—at least in our opinion—of the WTO into U.S. environmental and animal protection laws, so it can

be safely said neither I, nor my organization, has ever been accused of being free traders or globalization supporters.

However, unlike organizations that seem to want to only criticize and complain, Humane Society International also recognizes when we think the U.S. has actually done something positive, in this case, the environmental provisions of DR-CAFTA.

Humane Society International is the international affiliate of the Humane Society of the United States. We were founded in 1954 and we are, today, the largest animal protection organization in the U.S., with over 8.5 million constituents, and we have a growing, significant global presence.

We have been involved in international trade policy for over 15 years, and a member of the Trade and Environment Policy Advisory Committee, TEPAC, since 1998.

HSI became involved in DR-CAFTA through my membership on TEPAC. In late 2002, we volunteered to be part of a capacity-building committee of TEPAC to explore ways in which groups could address the environmental and economic needs of the Central American countries.

We saw an opportunity to work with countries that were willing to improve their environment and their national policies to protect species and habitat, while at the same time promoting economic development.

We have been working specifically in Central America since January, 2003, with the assistance of a matching grant from USAID. We have partners in each of the Central American countries on a number of trade capacity-building projects, and I would like to share some examples with you today.

For example, Organic Cacao Project. We are working with small Central American cacao farmers—chocolate—to reduce production costs, improve land management, improve efficiency, and this all, of course, helps to provide habitat for migratory birds and other wildlife.

Sustainable agriculture. We are working with the livestock and pork associations in Central America to make their industries safer, more environmentally friendly, and, of course, in furtherance of our mission, more humane.

CITES. We have been working with the CITES Secretariat and the Central American governments on improved regional and national enforcement of CITES. We heard this morning that there is a lack of enforcement. Well, we are there training them, giving them the capacity to do enforcement.

Then we have been doing outreach events. We have been organizing, along with the Central Americans, trade and environment events to improve civil society participation and transparency throughout the region.

We think the DR-CAFTA environment chapter is more complete than those of previous agreements. We believe the parties have many obligations to effectively enforce their environmental laws and to strive to improve their environmental laws and policies.

Although some criticize DR-CAFTA on the basis it does not go far enough, I question this because there is clear language in Article 17.2 that the parties undertake to effectively enforce their laws.

As I understand it, that also includes multilateral environmental agreements, MEAs, ratified by the parties. So CITES has to be effectively enforced as a result of the CAFTA agreement.

Another important aspect of the environmental chapter is that it allows public submission. There is a mechanism that allows groups in Central America or the United States to take their governments to task for failure to effectively enforce environmental laws. These provisions empower Central American and Dominican civil society to have a voice in their countries' environment policies, programs and regimes.

I want to take a moment to publicly recognize and commend Senator Max Baucus for his leadership in developing these innovative provisions with USTR and DR-CAFTA. We thank you.

In addition, we believe the inclusion of the provisions requiring each country to set up a national advisory committee that is to provide advice and guidance is also very important, as well as the environmental cooperation agreement, which is very important.

So, we support the far-reaching and innovative environmental provisions of DR-CAFTA. We support the continuing partnership and assistance for environment protections represented by the environmental cooperation agreement, and we have the greatest respect and admiration for our Central American partners and friends, and therefore do support the environmental chapter and the environmental cooperation agreement of CAFTA.

We do, however, recognize, as we all should, that we share this hemisphere. We share a history and we share a future. Let us ensure that it is a bright one for all of us.

Thank you very much for the opportunity to testify.

The CHAIRMAN. Thank you, Ms. Forkan.

[The prepared statement of Ms. Forkan appears in the appendix.]

The CHAIRMAN. Now, Mr. Levinson?

STATEMENT OF MARK LEVINSON, CHIEF ECONOMIST AND DIRECTOR OF POLICY, UNITE HERE!, NEW YORK, NY

Mr. LEVINSON. Chairman Grassley, members of the committee, my name is Mark Levinson. I am the chief economist of UNITE HERE!, a union of 450,000 workers in the apparel, textile, laundry, distribution and hotel industries.

Every time Congress is faced with a new trade agreement, promoters promise that it will stimulate growth, create good jobs, lead to development. Unfortunately, the result has often been exactly the opposite. CAFTA, rather than recognizing and addressing the flaws in these prior trade deals, simply expands upon them.

The most likely result of passing this CAFTA, an agreement based on the failed models of the past, is a deteriorating trade balance and more jobs lost in the U.S., in Central America, and the Caribbean, continued repression of worker rights, intractable poverty, and inequality.

We cannot continue to apply the same prescription and hope for a different result. It is time for policy makers to take an honest look at our trade policy and the impact it has had on workers and communities at home and abroad and start revising the rules that govern trade.

The rules of CAFTA, like NAFTA, upon which it is based, make large corporations more mobile, and at the same time less accountable to local communities and governments. These rules dramatically shift the balance of power away from democratically elected governments and toward private companies.

They also increase the bargaining power of employers vis-à-vis their own workers. While companies gain powerful new rights, the basic human rights of workers are largely unprotected. As a result, companies are able to pit workers against one another in a desperate race to the bottom in wages and working conditions.

Labor laws in Central America uniformly fail to protect basic worker rights, and deficiencies in these laws have been repeatedly criticized by the ILO, the U.S. State Department, and independent human rights organizations for many years.

Despite this criticism, these flaws persist today. Amazingly, the U.S. Trade Representative and Central American countries continue to cite these reports as evidence that laws in the region largely meet ILO standards, a gross mischaracterization of the reports themselves.

Employers take advantage of these weaknesses in the labor laws to harass, intimidate, and fire workers who dare to organize an independent union. Employers refuse to bargain with legitimate worker representatives, and most strikes are declared illegal.

The result is a climate of fear, insecurity, and even physical danger for workers in the region who try to exercise their most basic rights on the job. In El Salvador, no independent trade unions have been registered in the past 4 years. There are only two collective bargaining agreements enforced in Guatemala's maquillas, zero in El Salvador's.

In Guatemala, 45 incidents of threats against trade unionists were reported to the government in 2004; only one conviction was achieved.

In the face of these inadequate labor laws, CAFTA only requires that countries enforce the labor laws they already have. Obligations to improve one's laws to meet ILO standards, to not derogate from or waive laws in the future, are all completely unenforceable under CAFTA.

CAFTA's failure to include an enforceable requirement that labor laws meet ILO standards represents a step backwards from the Labor Rights provisions in the U.S.-Jordan Free Trade Agreement.

The Jordan agreement allows each one of its labor rights obligations to be brought up under the agreement's dispute settlement and enforcement mechanism, including provisions committing countries to meet ILO standards.

CAFTA also backtracks from the Jordan agreement by giving labor rights second-class status within the agreement's dispute settlement and enforcement apparatus. In the Jordan Free Trade Agreement, the dispute settlement and enforcement measures that apply to the labor provisions are identical to those that apply to the commercial provisions and can include fines or sanctions. Under CAFTA, only violations of the agreement's commercial provisions can lead to sanctions or fines sufficient enough to compensate the harm caused by the violation.

Perhaps most disturbing is the fact that CAFTA's rules on worker rights are actually weaker than the current labor conditions that apply to Central American countries under our unilateral trade preference programs, the Generalized System of Preferences and the Caribbean Basin Initiatives.

CAFTA's labor chapter backtracks from the labor standards in GSP and CBI, and the agreement eliminates enforcement tools currently available in the unilateral programs.

Let me say a word about the apparel and textile industry. These industries in the United States are in crisis. The first 90 days of this year, these industries have lost over 17,000 workers. That is almost 200 workers a day. That is in a recovery.

It is our view that CAFTA will make this worse by allowing big loopholes in CAFTA that allow the use of foreign fabric to be used by producers in the region, and then have the goods imported duty- and quota-free into the United States.

In conclusion, along with many allies throughout the region, workers, environmentalists, people of faith, hundreds of civil society organizations, we are urging that CAFTA be rejected. Only then can we begin to construct a new way to trade that recognizes the failures of the current model and finds solutions for working families in all countries involved.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Levinson.

[The prepared statement of Mr. Levinson appears in the appendix.]

The CHAIRMAN. I am going to let Senator Baucus go first, because he has another obligation.

Senator BAUCUS. Thank you very much, Mr. Chairman. I deeply appreciate that.

Let me ask you, Mr. Crisco or Mr. Castellani, this question. Clearly, times change. Therein lies the tension. On the one hand, we want to adapt to the future. On the other hand, it is just difficult at times.

As the world gets more complicated, it sometimes gets even more difficult, especially for people who are less mobile employees, the salary people who just do not have the ability that some higher income people have, or some businesses have, as they work in the United States, as well as other countries.

Second, it is also clear that other countries are very aggressive in their operations in trying to get an advantage, say, in Central America or South America. The European community, for example, is one. I know Canada has to some degree, too. China is becoming very involved worldwide, and it is astounding where China shows up now in the world.

But, yet, here we are, faced with this potential agreement, and the question is whether to accept it or reject it. Many concerns I think have been raised today which I think are real.

One, is the sugar industry. They feel that they are not getting a good deal out of this, whereas, other sectors in the United States' economy think they are getting a good deal out of this.

Second, as I have listened to all of this, the major concern is insufficient U.S. enforcement or adherence to these agreements. That

is, making sure that these other countries live up to these agreements.

Now, I appreciate the work of Ms. Forkan and others who are involved in capacity building, particularly in the area of labor and the environment. I think all of that is very important and helpful.

But my question is this. What would happen, in your judgment, if this Congress did not accept this agreement because it felt that, given all the reasons for supporting it, it just is not quite there yet? Sometimes it is important to say "no" in order to get a better "yes." It is a matter of judgment.

What would happen if this Congress said this just is not good enough? Obviously, the reaction of some is going to be, well, gee, go back and try to help put in different provisions that are better from the U.S. point of view.

The problem is, the argument will be, well, other countries will say, well, if you want those changes, we want these changes. Nothing is free. It is not a 1-way street. Both sides negotiate an agreement.

But yet, if that were to happen, that is still in the context of what is best for these countries and what is best in the United States.

I mean, are the agreements that these countries have with the European Union, for example, such that they will just thumb their noses at the United States, or are there provisions that make our renegotiation—a potential renegotiation—competitive? I know it is a very difficult question to answer, but I think it is one that we need to ask.

Mr. CRISCO. That is a very difficult question, I agree. But it is very important that I convey to you the importance of timing of this agreement. You have seen the statistics from China in the first 2 months. In fact, retailers in the United States are making sourcing decisions right now. Their decisions are leaning towards Asia all over, including China.

The CAFTA agreement. I was more involved than I should have been for my little company in trying to get this agreement. But the truth is, it is not perfect. We, the textile industry, got 90 percent of what we asked for. We probably will not get that batting average in any renegotiation.

If we wait 2 years, if we renegotiate, I cannot believe we will get as good a deal. But if we get as good a deal, if we get a better deal in 2 years, the sourcing decisions that are made by retailers in this country will decimate, in my judgment, the apparel industry there, and they are our customers.

We just do not have time to go back to the drawing boards and go through all these countries and renegotiate this agreement, because there is a dynamic thing going on now. Timing is critical that we pass this CAFTA agreement.

I am getting out of my field. I am not an expert in sugar. I tend to eat quite a bit of it, as you probably can gather. But you mentioned 190,000 people employed in that industry. That is a large industry. We have 600,000 people in the apparel and textile industry. We have lost 600,000. We lost 17,000 this year already.

If everything goes to China, we might sell some in China, but we are not going to sell very much. If we pass CAFTA, China may

come into the Caribbean and they may be a competitor there. But I have a shot.

I will not sell every piece of elastic in the Caribbean, but I have a shot. I do not have a shot in Asia. I will increase employment in North Carolina and I may increase employment there, but it is better for me down there.

Senator BAUCUS. Do you want to respond to that, Mr. Castellani?

Mr. CASTELLANI. Yes, Senator. First and foremost, following up on what Mr. Crisco has given as an example within his industry, others will take our place. In fact, as you well know, if you look at the number of free trade agreements around the world, we still are participants in very few compared to the large number that are out there.

More importantly, it will continue to exacerbate the trade deficit. It is interesting in the discussions earlier about the balance of trade. The large percentage of that imbalance comes from trade with countries with whom we have no free trade agreement.

As we engage in free trade and free trade agreements, we are better able to bring the trade deficit into balance because we have access to those markets. So, we would be very concerned about that.

Third, I think we would send a signal around to the world that we are not interested in continuing to open markets, not just on a bilateral basis, but on a multilateral basis that we are trying to achieve through the Doha Round at the WTO.

So, we think that failure to pass this particular piece of legislation for this trade agreement would, indeed, be very negative and very detrimental.

Senator BAUCUS. I appreciate that. I do not know, you guys are the experts, but presumably the CAFTA countries are quite concerned about China. Presumably, they, therefore, would want to come to the negotiating table, if this were not approved, pretty quickly again because of the concern with China.

I am just wondering, just for information, why it would necessarily take 2 years to renegotiate another agreement. Why could it not be done much more quickly?

Mr. CASTELLANI. You would have to ask the trade negotiators, from my perspective. I think it would send a very bad signal. The countries who are involved in it would have to question whether or not it would be worth the effort to go through the process again not to have it approved.

Senator BAUCUS. Well, that is just an interesting question.

Thank you very much, Mr. Chairman. I appreciate it.

The CHAIRMAN. Because of time and votes coming up, I am going to have to submit my questions for answer in writing.

Thank you all very much.

[The questions appear in the appendix.]

[Whereupon, at 12:48 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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

Statement of
Ambassador Peter F. Allgeier
Acting United States Trade Representative
before the
Committee on Finance
United States Senate
Washington, D.C.
April 13, 2005

INTRODUCTION

Chairman Grassley, Senator Baucus, 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, or CAFTA. As I have stated before in this room on several occasions, the Office of the U.S. Trade Representative greatly appreciates the hard work of this Committee, and I commend in particular Chairman Grassley and Senator Baucus 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.

CAFTA 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. CAFTA 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 CAFTA 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,

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, myself, 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 CAFTA.

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 CAFTA 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. 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 America countries and the Dominican Republic are physically small, they are clearly large markets for U.S. products and services. The American Farm Bureau Federation estimates CAFTA 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 CAFTA 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 of CAFTA. 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. Workers, Farmers

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 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, CAFTA will lock in those benefits and expand on them, helping to promote U.S. investment in the region.

But more importantly, CAFTA will level the playing field for American workers and farmers. It will further open regional markets to *our* products and services, which currently face very high average tariffs or non-tariff barriers. For example, today the average Central American applied tariff on motor vehicles is 11.1%, while U.S. applied tariffs on imports from Central America are zero. The regional tariff on steel averages 16.3%, but the U.S. tariff is zero. The regional tariff on chemicals is 12.8%, but the U.S. tariff is zero. The same situation exists in agriculture: Central American and Dominican tariffs on U.S. vegetables faced a tariff ranging from 15 % to 47%; ours are zero. U.S. fruits and nuts faced a tariff as high as 25% while products in this same sector enter our market duty free. The chief effect of CAFTA 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.

CAFTA 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.

The agreement will also expand markets for U.S. farmers and ranchers. 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 CAFTA.

In the important area of services, the Dominican Republic and the Central American countries will accord substantial market access across their entire services regime, offering new access in sectors such as telecommunications, express delivery, computer and related services, tourism, energy, transport, construction and engineering, financial services, insurance, audio/visual and entertainment, professional, environmental, and other sectors. The Dominican Republic and the Central American countries made significant commitments regarding their "dealer protection" regimes. These commitments will help ensure that U.S. firms are not locked into exclusive or uneconomical distributor arrangements.

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. Protections for U.S. patents, trademarks and trade secrets are strengthened, and several are Chile-plus provisions, such as strong patent protection by 2007 for certain modified plant varieties.

And this agreement breaks new ground, providing strong anti-corruption measures in government contracting and other matters affecting international trade or investment. U.S. firms are guaranteed a fair and transparent process to sell goods and services to a wide range of Central American and Dominican Republic government entities. 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.

Textiles

Textiles and apparel is an important component of our trade with the region and deserves special mention. The Administration strongly believes that CAFTA is not a threat to U.S. textile producers but in fact represents a critical element in our domestic industry's ability to compete with Asia.

Today, garment factories in Central America and the Dominican Republic are very large consumers of U.S.-made textile fabric and yarn. The extensive use of U.S. inputs in the regional apparel business means that Central America and the Dominican Republic actually constitute the second-largest world export market for U.S. textile yarn and fabric, behind only Mexico. For states like North Carolina, exports of textile fabric and yarn to garment makers in the region make a small country like Honduras that state's number one export market in the world. CAFTA will help keep it that way, by delivering tariff preference benefits for clothing made in the region that uses U.S. yarn and fabric.

Without CAFTA, our domestic yarn and textile industry would likely lose one of its biggest customers. Worldwide quotas on textiles and apparel expired at the end of last year, meaning that the hemispheric industry faces a new collective threat from Asia. Without the tariff preference benefits of CAFTA, apparel companies may well move production to China. Indeed, the uncertainty to date about CAFTA has already caused a number of apparel firms to shut down operations in Central America and move them to China; as many as 10,000 workers may already have already lost their jobs. In China, there are no special trade incentives for apparel producers

to buy U.S. yarn and fabric. In fact, they are much more likely to buy inputs from Asian suppliers, rather than producers here in the United States. That's why a T-shirt that is Made in Honduras is likely to contain well over 50% U.S. content, while a T-shirt Made in China is likely to contain very little U.S. content at all.

To keep our customers for U.S. yarn and fabric, we need to keep them close to home. And to keep them close to home, we need to pass CAFTA soon.

Labor

I know that there is considerable interest on the Committee with regard to worker rights and labor standards in Central America and the Dominican Republic. We share that interest, and I believe we share the goal of seeing the continuation of real, meaningful improvements in worker rights in the region. I believe we should focus our strategy, and our attention and efforts, on the chief problem in these countries: the need to improve enforcement of domestic labor laws.

The Central American countries, and later the Dominican Republic, requested a study by the International Labor Organization (ILO) of the labor situation in their countries. The ILO study demonstrated that labor laws on the books in Central America and the Dominican Republic, are generally in line with ILO core labor standards. The Administration's own, more detailed analysis of the labor rights situation in these six countries confirms that their labor laws are generally ILO-consistent. Indeed, labor protections on the books in the region are broadly similar to labor laws in Morocco, and in some areas (e.g., child labor) are stronger. Congress gave broad bipartisan support to an FTA with Morocco in 2004.

But let's be clear: the *enforcement* of labor laws in the region needs more attention and resources. Our analysis shows this, and the Central Americans and Dominicans themselves acknowledge this, as the White Paper released last week by regional Labor and Trade Ministers clearly demonstrates. CAFTA is specifically designed to respond to the problem at hand by improving enforcement and expanding resources with a comprehensive, three-part strategy:

- First, the agreement *requires* that countries not fail to effectively enforce their labor laws. If they consistently fail to enforce those laws in a manner that affects our trade, then they face the prospect of monetary penalties that will be directed to solve the problem, or potentially face the loss of preferential trade benefits. As the New York Times said in an editorial on November 24, 2004, "*Cafta actually goes further than the pact with Jordan, since penalty fines collected for not enforcing labor laws would be sent back to the offending country to fix the offense.*" Exactly right.

- Second, it's important to note that countries in the region have already taken numerous, concrete steps to improve labor law enforcement, including hiring more labor inspectors, appointing special labor prosecutors, prosecuting perpetrators of violence against trade unionists, and cutting the backlog of cases in their labor courts. There is much more to do, however. So we were pleased that last week Labor and Trade Ministers announced a series of additional and specific recommendations to further improve labor law enforcement.

- Finally, we need to provide assistance to build the capacity of these countries to enforce their laws more effectively and to strengthen their enforcement institutions and infrastructure. We're pleased that the Department of Labor committed $7.7 million to a multi-year technical assistance effort. Congress has now appropriated $20 million for FY05 for "labor cooperation, capacity building on fundamental labor rights and the elimination of child labor, and improvement in labor administration", as well as for important environmental cooperation activities in this region. The Administration intends to work with the Congress and with the CAFTA countries to target these funds toward the areas of greatest need, and we hope that the funds provided for FY05 are only a first step in an ongoing commitment by the Congress to fund labor capacity-building in this region.

Our comprehensive strategy does not attempt to minimize the challenges we faced: We negotiated a fully TPA-consistent labor chapter, we worked with the Dominican Republic and the Central American countries to make real worker rights progress during the negotiations, and there is a strategy for long-term capacity building. This concrete, real-world effort is directed at where the problem lies: problems with the enforcement of existing laws in Central America and the Dominican Republic. By contrast, a strategy of defeating CAFTA would preserve the status quo, and very likely set back progress to date. Defeating CAFTA will do nothing to improve working conditions for a single worker in Central America or the Dominican Republic, and in fact will have the opposite effect, as tens of thousands of Central Americans and Dominicans stand to lose their jobs to China if the United States turns its back on CAFTA. We believe that one of the best ways to improve working conditions in Central America and the Dominican Republic is to have strong economic growth, combined with a comprehensive and targeted strategy to build the capacity of these countries to enforce their labor laws.

Environment

We have also broken new ground on the environment side. I believe that the CAFTA environmental provisions, and the associated Environmental Cooperation Agreement, are the most forward-leaning trade and environment package ever. We have worked closely with Congress in developing our approach, and I would like to particularly acknowledge the role of Senator Max Baucus as a key architect of many of its unique features.

The CAFTA countries have come a long way in the last decade in putting in place good environmental laws as well as the beginning of a complete environmental legal regime, but enforcement in many cases remains a significant challenge. There is also the need for greater transparency and involvement of civil society in environmental decision-making. To address these concerns, in addition to continuing existing Administration efforts to help the CAFTA countries further develop their legal regimes, we have included several innovations in the environment package:

- First, working with Senator Baucus, we have developed a new public submissions mechanism that will allow the interested public, including NGOs, an opportunity to challenge a Party's failure to enforce its environmental laws and to obtain an independent

review of their submissions. CAFTA is the first trade agreement ever to include this kind of mechanism in its core provisions, and it will give civil society in the region a new voice in working to improve environmental enforcement in the region. Just a few weeks ago, in a ceremony taking place at the Organization of American States, we and our Central American and Dominican Republic counterparts signed a landmark agreement that designates a new environmental unit within SIECA – the Organization for Central American Economic Integration—as the secretariat to implement these provisions.

- Second, the parallel environmental cooperation agreement (also signed at the OAS ceremony) builds on previous capacity-building efforts in the region, but breaks new ground in several ways. For the first time ever, the agreement provides for the establishment of short-, medium- and long-term benchmarks for measuring progress in meeting environmental goals. The agreement also provides for independent monitoring by outside organizations of success in meeting these benchmarks. Initial priority areas for cooperation include reinforcing capacity to implement and enforce environmental laws, including habitat conservation, trade in endangered species and treatment of hazardous wastes.

- Finally, we are taking steps to ensure that capacity building efforts are adequately funded. The Administration has initiated a Deputies process to oversee environmental cooperation efforts linked with all the FTAs and to organize an inter-agency budget process to promote coordination across interested federal agencies. The Administration also is considering how to allocate the $20 million in FY05 funding between labor and environment activities.

The response in the region is already gratifying. Last month ten Central American NGOs sent a letter to former U.S. Trade Representative Zoellick and the trade ministers of our Central American and Dominican Republic partners, expressing their support for the CAFTA and urging its passage. These groups praised the CAFTA environmental package and the opportunities it provides for them to have a new voice in pressing for environmental progress in the region. The governments are also doing their part to prepare the way for CAFTA's implementation. With our participation, they have held numerous public outreach sessions in the region, with more to follow. And just to take some of the most recent examples of concrete action: Nicaragua has created a new office on trade and environment within its environment ministry as the result of the CAFTA, while El Salvador has established a new advisory committee on trade and environment issues, with NGOs on the committee, very much like our own Trade and Environment Policy Advisory Committee (TEPAC). In fact, the Environment Chapter requires all of the CAFTA-DR countries to establish such advisory committees.

Thus, we are poised to make a real difference in strengthening civil society and environmental protection in Central America and the Dominican Republic. We should not let this historic opportunity pass.

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. CAFTA will *not* have a destabilizing effect on the U.S. sugar program, because even with a modest increase under CAFTA, U.S. imports will still fall comfortably below levels set for sugar imports in the Farm Bill.

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. We produce more than 7 million metric tons of sugar in the United States annually. The increased amounts under CAFTA 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 only about 1.7% of U.S. consumption.

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

To put sugar imports under CAFTA into perspective, the increased imports in the first year under CAFTA amount to about *a teaspoon and half per week* per American. That compares with average consumption of 10-20 teaspoons of added sugar *per day* for most Americans. The amount of sugar allowed into the United States under CAFTA is minuscule. Claims that the CAFTA 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 CAFTA 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. CAFTA will level the playing field, helping our workers and farmers sell to countries that already enjoy virtually unlimited access to the United States market. The agreement will help the U.S. textile industry

unite with some of its largest world customers to better compete against imports from China and other Asian competitors. It contains a focused, results-oriented strategy that will – when combined with a strong Congressional commitment to capacity-building – produce real improvements in working conditions and environmental protection in the region. And it handles sensitive commodities with great care.

We believe CAFTA 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. CAFTA makes eminent sense for America, and for Central America and the Dominican Republic.

Thank you.

QUESTIONS FOR THE RECORD

United States Senate
Committee on Finance

Hearing on
"The U.S. – Central America – Dominican Republic Free Trade Agreement"

April 13, 2005

Questions from Senator Santorum for Ambassador Allgeier

1. Ambassador Allgeier, it is my understanding that U.S. pharmaceutical exports face tariffs of up to 15% on products exported to the region. Do you believe that the provisions of CAFTA-DR provide for improved market access for these life-savings products?

Answer:

Yes. Under the CAFTA-DR, 88 percent of US exports of pharmaceuticals will become duty-free immediately. Tariffs on remaining exports will be eliminated within 5 years.

2. The pharmaceutical industry is a key component of America's high tech economy. The average wage in the industry is over $18 per hour. The industry is among the top U.S. exporting industries, and ranks with the semiconductor, aerospace and computer industry in the value of its exports.

At the same time, the industry faces enormous challenges. The research and development process of discovering and developing a new medicine is long and complex. Today, the process of bringing a drug to market takes up to 15 years. As a result, the average cost to develop a new drug has grown from $138 million in 1975 to over $800 million today. The risks involved in the new drug development and approval processes are also substantial. Of every 250 drugs that enter preclinical testing, only 1 is approved by the FDA. Only 3 out of 10 marketed drugs produce revenues that match or exceed average R&D costs.

With these observations in mind, can you address how this agreement safeguards intellectual property rights and protects the investment that spurs innovation in this key industry?

Answer:

In negotiating the CAFTA-DR, USTR was mindful of the Trade Promotion Authority (TPA) negotiating objectives provided in the Trade Act of 2002, which direct USTR to seek, among other things, to "ensur[e] that the provisions of any multilateral or bilateral trade agreement governing intellectual property rights that is entered into by the United States reflect[s] a

standard of protection similar to that found in United States law." We understand that the rationale for this guidance includes the desire of Congress to "maximize opportunities for the critical sectors and building blocks of the economy of the United States," including the pharmaceutical industry. U.S. standards for protection of patents and the data required for marketing approval are among the strongest in the world. CAFTA-DR includes provisions that reflect U.S. law, thereby providing strong protection for pharmaceutical-related intellectual property and for the investment necessary to develop new drugs and bring them to market.

Questions from Senator Baucus for Ambassador Allgeier

1. I want to say again how much I appreciate the willingness that Ambassador Zoellick and the staff at USTR have shown to working with me to improve this agreement, including the environment and capacity building provisions.

With NAFTA, we saw that the commitment to capacity building faded and the funding dried up once the agreement went into effect.

What kinds of commitments can the Administration make to ensure that the same thing will not happen again?

Answer:

I fully share your view on the need to ensure adequate funding for capacity building in the region over the long-term. In a first for any free trade agreement, the CAFTA includes a Committee on Trade Capacity Building, in recognition of the importance of such assistance in promoting economic growth, reducing poverty, and adjusting to liberalized trade. The Committee will meet twice a year during the transition period of the agreement to ensure focus to these important issues is maintained. We envision non-governmental organizations, private sector representatives, the Inter-American Development Bank, World Bank, Organization of American States, ECLAC, and the Central American Bank for Economic Integration as active partners of our work in the Committee.

In response to the needs identified by the Central American countries, U.S. Government assistance as stemming from the efforts of the trade capacity building working group as part of the negotiating process has increased from approximately $66 million in 2003 to over $80 million in 2004. These TCB activities strengthen the countries' ability to implement the commitments in the trade agreement.

Of particular note, the Department of Labor has provided funding for labor-related capacity building initiatives totaling $7.75 million in 2003 and 2004. We are pleased that Congress has earmarked $20 million for environment and labor capacity building in 2003 and 2004.

Concerning environment specifically, we have established a Deputy Secretary-level group to oversee the implementation of the CAFTA-DR Environmental Cooperation Agreement, along with environmental cooperation mechanisms linked to other FTAs. This group will establish a unified budget process so that relevant agencies will coordinate their budget proposals on cooperation and capacity building matters as part of the preparation of the President's budget for each fiscal year.

I look forward to working with the Congress to explore additional ways in which we can secure funding for this critical initiative.

Your question also notes a "faded" commitment to NAFTA trade capacity. This is not the case, since the NAFTA does not include any of the capacity building commitments this Administration has integrated into subsequent Free Trade Agreements. The NAFTA did, of course, create several bilateral and trilateral institutions designed to address the unique nature of our relationship with Mexico. For example, the North American Development Bank (NADBank) and the Border Environment Cooperation Commission (BECC) are working with more than 130 communities throughout the Mexico-U.S. border region to address environmental infrastructure needs. With changes to the mandates of these institutions effective in August 2004, they are playing a larger role than ever in the development of the border region.

2. My impression is that the labor chapter in the DR-CAFTA agreement was essentially dictated to the Central American and Dominican Governments by the Bush Administration and was not the subject of meaningful negotiations.

I have also heard it said that many – if not all – of the regional Governments would have been willing to accept stronger labor provisions, had they been asked to do so.

Can you comment on this issue?

Answer:

The Central American governments, as many other of our FTA negotiating partners, were extremely reluctant to accept labor provisions within the Agreement, in part because of fears that such provisions could be used as disguised protectionism. The Canada-Costa Rica Agreement on Labor Cooperation, modeled very closely on the NAFTA labor side agreement, NAALC, was put forward by the Centrals as an alternative to the proposed U.S. text of the Labor Chapter. They ultimately accepted our formulation, which includes the labor provisions within the text of the Agreement and makes the core labor provision subject to dispute settlement, only after intense and prolonged negotiations. (The Dominican Republic accepted the labor provisions as they had been negotiated with the five Central American countries.)

Certain provisions of our proposed text were in fact called for by the Bipartisan Trade Promotion Authority Act of 2002 (TPA), and throughout the negotiations we were insistent

on their inclusion. For example, Article 16.2.1 of the DR-CAFTA is drawn directly from TPA Section 2102(b)(11). Before and during the negotiations we consulted closely and frequently with Members and Congressional staff concerning the labor provisions, and each time we consulted, USTR received strong, bipartisan guidance to adhere strictly to the TPA labor objectives in the negotiation of the Agreement's labor provisions.

A comparison of the labor provisions in DR-CAFTA with prior U.S. FTAs (e.g. Jordan or Morocco) will confirm that these provisions are in fact the "strongest" labor provisions ever negotiated in any trade agreement.

Questions from Senator Conrad for Ambassador Allgeier

1. Sugar – Cushion. Ambassador Allgeier, as you know, the US is home to a very competitive, very efficient sugar industry that generates good jobs for 146,000 Americans. In my part of the country, sugar is a $2 billion a year industry in the Red River Valley that creates income to farmers, provides good jobs to factory workers, and supports the Main Street businesses of small communities. Last year, I received petitions from 25,000 people urging defeat of the CAFTA, and I intend to do everything in my power to block ratification of this agreement.

USTR has repeatedly said that the CAFTA poses absolutely no risk to the US sugar industry, because there is a "cushion" between the amount of sugar we are currently required to import and the level of imports that will trigger the suspension of marketing allotments under the Farm Bill. That's nice rhetoric, but when I look for this cushion, it's awfully hard to have any confidence that it's real. First, under the WTO, we are required to import 1.256 million short tons of sugar. That leaves only 276,000 short tons for CAFTA, Mexico, and any additional FTAs. But taken together, NAFTA and CAFTA provide for nearly 400,000 tons of additional access – and that doesn't even account for possible future FTAs. Currently, USTR is negotiating FTAs with sugar exporting countries including Panama, the Andean countries, the South Africa Customs Union, and Thailand. That means that if Mexico sends us anywhere near the maximum amount of sugar it is allowed to, we will effectively end the no-cost operation of the US sugar program. **So, my question is – where is the cushion? Do you have any commitment from Mexico that it will not use all of its allowable exports to this country at any point in the next several years?**

Answer:

Currently, competitive U.S. agricultural exporters have severely restricted market access opportunities in the CAFTA-DR countries. This fact is emphasized by the broad-based support for the CAFTA-DR from U.S. agriculture groups, including farmers and ranchers in your state who produce such products as beef, soybeans, corn, wheat, dairy, potatoes, dry beans, and many others. These farmers are looking for an opportunity to compete, and the CAFTA-DR will provide that opportunity by providing immediate access and ultimately eliminating all tariffs to our exports. Trade agreements don't bring guaranteed sales, but they

provide farmers, ranchers and processors with opportunities to compete where they are currently restricted by government barriers. Most U.S. agricultural sectors depend on export markets and are eager to seize these new opportunities.

As with the NAFTA and the WTO, we will also provide new opportunities for CAFTA-DR countries to compete in our market. These are opportunities that CAFTA-DR farmers may or may not actually utilize. In the CAFTA-DR, the opportunities for sugar will be strictly limited by a number of extraordinary specific provisions in the agreement. These include: (1) no reduction in the out-of-quota duty; (2) provisions requiring each CAFTA-DR country to be a net sugar exporter to guard against circumvention of the U.S. sugar tariff-rate quota (TRQ) by exports from Brazil or other countries; (3) expanded access under the sugar TRQ limited to a little over 100,000 metric tons in the first year of the agreement – this increase is less than the year-to-year variation in U.S. production and only slightly larger than 1% of annual U.S. sugar consumption; and (4) an alternative compensation mechanism that gives the United States the ability to block sugar imports from CAFTA-DR countries if we compensate them for lost access. In sum, these provisions give us the tools to ensure that the CAFTA-DR will not result in additional sugar imports that undermine the U.S. sugar program.

U.S. sugar imports have been substantially below the 1.4 million metric ton level set in the farm bill. For the reasons noted above, the CAFTA-DR will not threaten the "cushion." Under the NAFTA, Mexico is only eligible to ship if its domestic production exceeds its domestic consumption. In recent years, Mexico has not been a net surplus producer of sugar and, in fact, has had to import sugar to meet its domestic needs. Accordingly, the United States has not provided Mexico with any duty-free access for sugar in recent years under the NAFTA. (We provide Mexico with 10,212 metric tons of duty-free access under our WTO commitments.) Nor have Mexican exporters shipped sugar paying the over-quota tariff under the NAFTA. It is thus an incorrect assumption that Mexico will export the maximum amount provided for in the NAFTA, and the facts do not support that assumption. The reality is that the United States is not an attractive market for Mexico, which has been importing sugar. Thus, we see no reason to believe that imports from Mexico and the CAFTA-DR countries will jeopardize the sugar program.

2. Sugar – Cumulative Impact. Mr. Ambassador, USTR is fond of minimizing the amount of additional sugar that will come in under the agreement. But that ignores the fact that you are negotiating with a whole host of other sugar exporting countries. Those countries will demand additional access to our sugar market, and they see the CAFTA model as a precedent. It sort of reminds me of that kid's game, The Straw that Broke the Camel's back. No individual straw is heavy enough to break the camel's back, but the cumulative impact is crippling.

The simple fact is that if we extend the CAFTA precedent to the other agreements we are negotiating with Panama, with the Andean countries, with Thailand and with South Africa, we will end up importing an additional 500,000 tons of sugar. That doesn't even count the

additional sugar that might come in from Mexico, or the Free Trade Area of the Americas negotiation. And every economist who has looked at this issue has concluded that an additional 500,000 tons of sugar will devastate our sugar industry. **What assurance can you give that none of the additional FTAs the Administration is negotiating will result in increased sugar access?**

Answer:

There is no basis for assuming that an additional 500,000 metric tons of sugar would be imported as a result of FTA's that are currently being negotiated. This Administration's record of protecting the sugar industry in trade agreements is strong, reflecting that our case-by-case approach has allowed us to maximize our export advantages while addressing our import sensitivities. Following the conclusion of our negotiations with the five Central American countries, we concluded negotiations with three other trading partners – each of which had a different result with respect to sugar: with Australia, we gave no additional access for sugar; with the Dominican Republic, we only agreed to provide an additional 10,000 metric tons of sugar access, subject to the requirement that the Dominican Republic be a net sugar exporter; with Morocco we also agreed to a limited TRQ, subject to the requirement that Morocco be a net sugar exporter, which in Morocco's case effectively means there will be no additional imported sugar. We will continue with this careful approach in other FTAs.

3. *Sugar – Future Commitment to take Sugar off the Table.* In the Australia FTA, we took sugar off the table and still got immediate tariff free access for all of our agricultural exports. So it is clearly possible to take sugar off the table and still get a terrific result in a free trade agreement. **Why can't you take sugar off the table in all future FTA talks as you did with no negative consequences in the Australia FTA?**

Answer:

Each FTA negotiation brings a unique set of interests and sensitivities, each requiring their own balance. For example, while sugar is an important export interest for Australia, it had a number of other priorities in the negotiations and was able to meet its objectives even with sugar excluded. We could do this in the Australia FTA without damaging the overall benefits to U.S. agriculture and other economic interests. However, in the CAFTA-DR, it is clear that many U.S. farmers producing rice, corn, beans, pork, beef, poultry, dairy products, fruits, vegetables and soybeans for vegetable oil would have paid a heavy price for such an exclusion. Future FTA partners may have different interests and sensitivities, and excluding any sector at the start of the negotiations will only reduce our ability to achieve our interests through negotiations.

Questions from Senator Bingaman for Ambassador Allgeier

1. In America, we have the most robust generic drug market in the world—a sector that saves this nation's health care system tens of billions of dollars each year. This is

accomplished through a careful balance of intellectual property protections for innovators and consumer access provisions to ensure timely access to generic medicines. In CAFTA, I see that the intellectual property protections for brand drugs are mandated in the agreement; however, there is no mandated provisions for important generic access provisions. In negotiations with our trading partners, is it not important for USTR to promote the same balance between pharmaceutical innovation and access that we have here in the United States? And would you not agree, that means ensuring we take the same comprehensive system approach with respect to pharmaceuticals in FTAs as we do here in the U.S.?

Answer:

Consistent with the TPA objectives established by Congress, USTR seeks intellectual property rights provisions that are similar to laws in the United States which, as you mention, do promote a balance between innovation and access for pharmaceutical products. All of the intellectual property rights provisions, including provisions related to pharmaceutical patents and data protection, are consistent with and do not go beyond U.S. law, thus preserving in CAFTA-DR the approach we have here in the United States and ensuring that our trading partners can strike the same balance.

2. The CAFTA agreement seems to go beyond current U.S. law in its language concerning pharmaceutical intellectual property protections and other measures. For example, this agreement seems to permit unlimited patent extensions for regulatory delays for any pharmaceutical product. Current law provides that patent extensions are: (1) limited to one patent covering a novel pharmaceutical product—a product that contains a new molecular entity, and (2) the patent restoration period must not exceed 5 years. Why is USTR advocating for provisions outside our own laws? And would agreeing to these provisions force the Congress to change our own laws to conform to this agreement?

Answer:

As with several other provisions, the text is written to allow each of the Parties to retain the flexibility to implement the details as appropriate within its own domestic regime, as long as the Party complies with the basic obligations. All of the CAFTA-DR provisions – including those related to patent term extensions – are consistent with current U.S. law and thus would not require Congress to change our own laws. Under the CAFTA-DR, Article 15.9.6 does indeed require Parties to adjust the term of a patent as a result of either (a) unreasonable delays that occur in granting the patent, or (b) unreasonable curtailment of the effective patent term as a result of the marketing approval process. The detailed provisions in 35 U.S.C. § 156 are tailored to the U.S. system of patent term restoration as a result of the FDA marketing approval review process. We expect our trading partners to implement the agreement in a way that makes sense in their system. The text preserves flexibility for each Party to tailor its domestic provisions in this way, and to provide additional protection if appropriate. Indeed, it is a fundamental tenet of TRIPS and our FTAs that countries always retain the flexibility to provide for stronger intellectual property protection if they choose to do so. However, the CAFTA-DR obligations in no way bind the United States to additional levels of protection beyond current law; on the contrary, they are fully consistent with U.S. law.

3. I have heard some concerns over inconsistencies of the CAFTA and our laws regarding the pharmaceutical intellectual property protection provisions. Would you say that USTR does not intend to exceed or deviate from current U.S. law when negotiating these agreements, and therefore any interpretation of the CAFTA intellectual property language must be consistent with current U.S. law?

Answer:

The CAFTA-DR intellectual property rights provisions are fully consistent with U.S. law. The TPA negotiating objectives established by Congress direct USTR to "ensur[e] that the provisions of any multilateral or bilateral trade agreement governing intellectual property rights that is entered into by the United States reflect[s] a standard of protection similar to that found in United States law." USTR negotiated the CAFTA-DR and will continue to negotiate future FTAs subject to TPA under this direction.

4. A number of very legitimate international groups – from OXFAM to Doctors Without Borders – have expressed concern with CAFTA because they feel it places limitations on the CAFTA countries in their effort to obtain affordable medicines in the instance of a health care crisis. USTR suggests that this should not be a concern because of the side letter "understanding that assures the CAFTA countries that the CAFTA provisions "do not affect a Party's ability to take necessary measures to protect public health by promoting access to medicines for all" or from "effective utilization" of the WTO decision on TRIPS. The groups I have mentioned suggest that this side letter is not legally binding and that unless it is included in the agreement has no legal standing under law. Do you agree or disagree with this assessment?

Answer:

We disagree with this assessment. The side letter constitutes a formal agreement between the Parties. It is, thus, a significant part of the interpretive context for this agreement. According to Article 31 of the *Vienna Convention on the Law of Treaties,* which reflects customary rules of treaty interpretation in international law, the terms of a treaty must be interpreted "in their context," and that "context" includes "any agreement relating to the treaty which was made between all the parties in connection with the conclusion of the treaty."

Questions from Senator Schumer for Ambassador Allgeier

1. United States law has created a careful balance between innovation and access in the pharmaceutical industry to the great benefit of American consumers, and it is important that this balance is maintained and promoted in trade agreements – both for benefit of the citizens of our trading partner nations and to protect American consumers' long-term interests. USTR has included many mandatory protections for pharmaceutical intellectual property in the Central American Free Trade Agreement. Where are the complementing provisions that will mandate timely access to affordable generic pharmaceuticals in the agreement?

Answer:

Consistent with the TPA objectives established by Congress, USTR seeks intellectual property rights provisions that are similar to laws in the United States which, as you mention, have created a balance between innovation and access in the pharmaceutical industry. All of the intellectual property rights provisions, including provisions related to pharmaceutical patents and data protection, are consistent with and do not go beyond U.S. law, thus preserving in CAFTA-DR the approach for balancing innovation and access we have here in the United States and ensuring that our trading partners can strike the same balance.

2. In the North American Free Trade Agreement, the five-year exclusivity period for pharmaceutical products runs from the time it is registered in one of the three countries. Therefore, if a product is registered in the United States, the exclusive marketing rights the manufacturer has in Mexico is no longer than that of the United States, even if the company delays registering the product in Mexico. However, in CAFTA, the brand pharmaceutical company is given five years to register its product in these countries while still maintaining the entire five year exclusivity period in that country. This could result in as much as a five year extension of the exclusivity period beyond the time of exclusivity rights in Mexico and Canada. Why does USTR advocate for the Central American countries to wait for access to life-saving medicines for up to five years after they are introduced in the US, and to wait for generic medicines an extra five years beyond that of their neighbors to the north?

Answer:

The situation you refer to in NAFTA applies only with respect to marketing approvals based on reliance on the approval of another NAFTA member. This has not occurred because Mexico and Canada do not grant marketing approvals on this basis. Therefore, the discrepancy in data protection periods referenced in the question does not arise. In addition, CAFTA-DR neither encourages nor requires delays in the marketing of medicines in the Parties' markets. Introduction of a pharmaceutical product is determined by the market, which provides economic incentives for pharmaceutical producers to bring a product to market as soon as it is feasible to do so. Finally, in situations where it is necessary to protect the public health, in particular in circumstances of extreme urgency or national emergency, the United States and the other CAFTA-DR Parties have formally confirmed their understanding that the intellectual property chapter of CAFTA-DR does not affect the ability

of the Parties to take necessary measures to protect the public health by promoting access to medicines for all, including life-saving medicines.

3. In the United States, patent restorations under the Drug Price Competition and Patent Restoration Act of 1984 (Hatch/Waxman) are permitted for only new molecular entity pharmaceutical products based on delays in FDA's regulatory approval process. Hatch/Waxman also provides for clear limitations with respect to these patent extensions. First, the product must contain a new molecular entity. Second, the patent restoration period may not exceed five years, and the remaining effective term of the restored patent may not exceed 14 years. Yet, in stark contrast, CAFTA seems to allow for patent extensions for any and all patents covering pharmaceutical products without any limitations. Why does USTR advocate for broader patent extensions than those we grant in the United States? Shouldn't the Administration be faithful to the delicate balance of pharmaceutical innovation and access that was carefully crafted in US law?

Answer:

As with several other provisions, the text is written to allow each Party to retain the flexibility to implement the details as appropriate within its own domestic regime, as long as the Party complies with the basic obligations. All of the CAFTA-DR provisions – including those related to patent term extensions – are consistent with current U.S. law. Under the CAFTA-DR, Article 15.9.6 does indeed require Parties to adjust the term of a patent as a result of either (a) unreasonable delays that occur in granting the patent, or (b) unreasonable curtailment of the effective patent term as a result of the marketing approval process. With regard to the patent restorations under Hatch/Waxman, the safeguards placed under 35 U.S.C. § 156 are tailored to the U.S. system of patent term restoration as a result of the FDA marketing approval review process. We expect our trading partners to implement the agreement in a way that makes sense in their system. The text preserves flexibility for each Party to tailor its domestic provisions in this way, and to provide additional protection if appropriate. Indeed, it is a fundamental tenet of TRIPS and our FTAs that countries always retain the flexibility to provide for stronger intellectual property protection if they choose to do so. The CAFTA-DR obligations are consistent with U.S. laws that maintain the balance of pharmaceutical innovation and access, and in no way bind the United States to additional levels of protection beyond current law.

4. Why is it that in CAFTA and other recent agreements, USTR is including "at least" 5 years of data exclusivity when US law has only five years? This goes beyond what was agreed to in the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) and, in addition, violates the Trade Promotion Act, which requires USTR to respect the Doha declaration. What purpose is there for negotiating beyond US law and creating these so-called "TRIPS-plus" agreements, if not to limit access to lifesaving medicines in the developing world and to provide the brand pharmaceutical industry with an argument for eventual attempts to alter this carefully-balanced US law – through broader FTA measures and eventual harmonization at the international level via WIPO and WTO – against the interests of American consumers and timely access to lower cost generic drugs? Is the USTR planning to extend exclusivity periods and/or patent terms in a harmonization process? If

not, why does the agreement not just say five years of exclusivity, and why does it provide for longer patent terms?

Answer:

All terms of protection in the FTA, such as those for trademark and copyright protection, are drafted as minimum terms. As stated before it is a fundamental tenet of TRIPS and our FTAs to allow each Party to provide stronger intellectual property protection if it elects to do so. The text does not obligate the United States to change its laws, and it does not extend data protection or patent terms as part of any harmonization process.

These provisions are consistent with the TRIPS obligations to protect such data from unfair commercial use. (In fact, several other countries provide even longer periods of protection: The European Union requires its members to provide 6-10 years; China, Japan and Korea all provide 6 years of protection; Canada's new proposed data protection regulations would implement a protection period of 8 years.)

The CAFTA-DR is also consistent with the TPA objective established by Congress to respect the Doha Declaration, and the United States confirmed with our CAFTA partners the understanding that the intellectual property chapter does not affect the ability of a Party to take the necessary measures to protect public health by promoting access to medicines for all, in particular concerning cases such as HIV/AIDS, tuberculosis, malaria, and other epidemics, as well as circumstances of extreme urgency or national emergency.

Lastly, the agreement does not provide for longer effective patent terms, although it does provide, consistent with U.S. law, that the term of a patent is adjusted if there are (a) unreasonable delays that occur in granting the patent, or (b) unreasonable curtailment of the effective patent term as a result of the marketing approval process).

Kraft Foods

TESTIMONY
OF
MARK BERLIND
EXECUTIVE VICE PRESIDENT
GLOBAL CORPORATE AFFAIRS
KRAFT FOODS, INC.

United States Senate
Committee on Finance
Hearing on
U.S-Central America-Dominican Republic
Free Trade Agreement
April 13, 2005

Mr. Chairman, Members of the Committee, I am Mark Berlind, Executive Vice President, Global Corporate Affairs, Kraft Foods, Inc. Thank you for inviting me to appear before you today to discuss the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). Trade is an issue of vital importance to Kraft, our 50,000 U.S.-based employees, our stakeholders, other U.S. food manufacturers, and thousands of American farmers who supply high quality raw materials to the U.S. food processing industry.

Kraft Foods, which recently celebrated its one hundredth anniversary, traces its origin back to the days when James L. Kraft rented a horse and wagon and started selling cheese in Chicago. The company he founded and built is now the largest branded food company in the U.S. and the second largest in the world. Last year, Kraft reported net revenues of over $32 billion from sales in 155 countries.

The Chicago area is still our home, and America remains our biggest market. Kraft products can be found in 99% of American households. In addition to our flagship cheese brands, we take pride in producing and marketing many other iconic food and beverage brands, including *Ritz* crackers, *Post* cereals, *Maxwell House* coffee, *DiGiorno* pizza, *Oreo* cookies, *Planters* nuts, and *Oscar Mayer* meat products.

Kraft is essentially in the business of transforming raw or semi-processed farm commodities into consumer-ready products. On a global basis, Kraft buys $7 billion worth of agricultural commodities annually. We are one of the world's largest buyers of dairy products, sugar, meats, coffee, oils, and nuts. We also purchase large quantities of wheat, rice, corn, and soy and other crops.

Last year, for use in our U.S. manufacturing facilities, we bought $3.6 billion worth of farm commodities. This included $1.3 billion worth of dairy products, nearly half a billion dollars worth of pork, and almost one quarter of a billion dollars worth of sugar. We believe that the growth and success of Kraft and the strength of our brands is directly linked to the emphasis we place on providing consumers with high quality, good-tasting,

convenient and fun products at the right price. This involves a constant challenge to provide better products to our customers at the best value.

The 50 U.S. states are currently Kraft's largest market. Given U.S. demographic realities, however, future growth for Kraft – as well as for the entire U.S. food and agriculture complex -- is inextricably tied to our ability to access export markets. Mr. Chairman, as you and most other farm state Members know, 95 percent of the world's consumers live outside the U.S. That is where future growth will take place.

Kraft and Entire U.S. Food Industry Would Benefit from Access to CAFTA-DR Markets

There are about 46 million consumers living in the six CAFTA-DR countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic). With moderate population growth, rising incomes, and improved diets, demand for U.S. processed foods is expanding.

For U.S. food and agricultural producers, in particular, population age and growth are among important indicators of market potential. For comparison purposes, the median age of the U.S. population is 36 years, and rising. Median ages for our six prospective CAFTA-DR partners are dramatically younger, ranging from 18.4 years in Guatemala to 25.7 years in Costa Rica. And, while the U.S. population is growing at a rate of less than one percent (.92%) annually, rates for the six countries range from 1.33 percent for the Dominican Republic to 2.61 percent for Guatemala. These numbers have striking implications for projected levels of food consumption inside the U.S. vs. within the six CAFTA-DR countries over the foreseeable future.

In general, U.S. exports of processed food products already capture roughly one quarter of total food imports into the six countries, and U.S. brands – including a number of well-known Kraft brands – are popular throughout the region. Already, exports of many processed food products are growing faster than other agricultural products. We are convinced CAFTA-DR would make Kraft products even more competitive, and more popular, in the region.

Cereals, Cookies, Soups, Pet Food Would Benefit from Immediate Tariff Relief

Food, beverages, and consumer products currently face an average *ad valorem* tariff of 15 percent in the five CAFTA countries and 20 percent in the Dominican Republic (DR). Some food products like processed cheese and cream cheese – products of special interest to Kraft – face tariffs that range up to 66 percent in some CAFTA countries. Under the Agreement, tariffs on U.S. exports of most food and beverage products would be reduced to zero over fifteen years. Certain products, such as breakfast cereals, cookies, and pet food products would receive immediate duty free treatment. This means Kraft would benefit immediately on products like our *Post* breakfast cereals, *Oreo* cookies, and *Milk Bone* pet foods.

The DR is currently the largest market of the six for Kraft products. And, that market could be much larger if it were not constrained by the most daunting tariffs we face in the region. During 2004, Kraft shipped nearly 700 tons of food products, worth $1.7 million, to the DR. This included 192 tons of *Kraft Mayonnaise*, 65 tons of *Oreos* and *Chips Ahoy* cookies, and 62 tons of *Kraft Macaroni and Cheese*. While the DR technically maintains a tariff of 20 percent on most food products, other added import charges lift the total effective rate to 33 percent. Consequently, it cost Kraft over a half million dollars in tariffs to enter the products we shipped to the DR in 2004. Much of this cost would be passed forward to the DR consumer. Because it is fundamental that the higher the price, the less the consumer buys, there is no question that the present 33 percent effective DR tariff retards sales of Kraft and other imported U.S. food products. Elimination of tariffs would boost sales and could encourage the introduction of new product lines.

Others have already stressed that the U.S. charges no tariffs on nearly all of the food and agriculture products received from the CAFTA-DR countries. From Kraft's perspective, CAFTA-DR would simply level the playing field, and create a more equitable trading relationship.

Solid Prospects for Export Growth in Processed Foods

A recent study by the Grocery Manufacturers of America (GMA) estimated that the potential savings to the processed food industry from the tariff reductions and tariff-rate quota expansions provided for under CAFTA-DR would be nearly $8.8 million in the first year of the Agreement. This figure grows to nearly $28 million annually upon full implementation of the Agreement. Upon elimination of tariffs, food exports could, according to this study, increase from $359 million to $662 million – an 84% increase over current exports to the region, according to the GMA study.

During 2004, the value of shipments of Kraft consumer products from the U.S. into the six CAFTA-DR countries totaled $10.6 million. Well over $2 million in tariffs were paid to enter these goods. Full implementation of the Agreement would, of course, eliminate tariffs on all of our sales to the region. While we expect significantly increased sales associated with implementation of the Agreement, we have not projected expected growth in sales of Kraft products. Ultimately, the greatest benefits to Kraft may come in cheese categories – a sector of the CAFTA-DR market where we now often face insurmountable barriers. The GMA growth forecast could very well be conservative.

Agreement Should Remain Comprehensive – No Exclusions

One of the most important features of the Agreement for Kraft and for the entire U.S. processed food industry is its comprehensiveness. All products are included in the Agreement, including sugar, a key ingredient for Kraft and for many food and beverage manufacturers. The Agreement provides for increased access to lower-priced Central American and DR sugar, but in a very modest way that fully recognizes the sensitivity of this commodity in our country.

Kraft is a strong supporter of trade liberalization and a vigorous advocate for this and most other trade agreements. We believe such agreements create opportunity and are good for our employees, our stakeholders, our industry, and our country.

The food industry believes that no products should be excluded from FTA's negotiated between the U.S. and other countries. We – and most of the U.S. food industry - did not support the U.S.-Australia FTA because sugar was excluded. We're convinced that – as the Australian experience proved – the exclusion of any single commodity from free trade agreements because of our import sensitivities provides our trading partners with an excuse to take their import sensitive issues off the table as well. This downward spiral in ambition jeopardizes the very benefits that our economy derives from free trade. In the case of CAFTA, we would expect that an attempt to re-negotiate sugar would, at a minimum, erode benefits for other U.S. agricultural commodities, possibly dairy and poultry, but more likely this would cause the entire delicately balanced Agreement to unravel.

As a country that enjoys the world's strongest economy, our message to other countries simply can't be that we're only interested in free trade in those goods and services for which we maintain a competitive advantage. I am here today to express Kraft's strong endorsement of this Agreement in its entirety, even though some benefits for U.S. exporters will literally take years to be realized. However, if there were to be a decision subsequent to this hearing that upsets the delicate balance that the negotiators reached in order to forge an agreement by taking specific commodities off the table – including nullification of the current sugar provisions – Kraft would have a very difficult time continuing to support this pact.

As I noted earlier, Kraft is a major buyer and user of sugar. Since a penny change in the U.S. per pound price of sugar means $8 million annually to Kraft, we regard ourselves as a major stakeholder in the sugar program debate. We recognize the need to preserve a viable domestic sugar industry. The current support scheme, however, essentially imposes a regressive tax on U.S. consumers of sugar-containing products. According to U.S. submissions to the WTO, the tax transfers a trade-distorting subsidy of over $1 billion annually to U.S. sugar growers. This is money that comes directly out of consumers' pockets.

Kraft favors safety net assistance to agricultural producers, including sugar. There is broad agreement that CAFTA-DR, provides more protection for sugar than for any other commodity, while at the same time adhering to the principle that every commodity needs to be addressed – even if minimally – in free trade agreements. The overall compromise that the negotiators reached on these difficult issues needs to be preserved.

CAFTA-DR, like all trade agreements, is fundamentally a political agreement. As all of you know, political agreements involve compromise and are rarely perfect from all perspectives. While Kraft supports this Agreement, there are elements of the pact we, too, wish were different. For example, it would take 20 years for CAFTA tariffs on

cheese and other dairy goods – products of keen interest to Kraft – to reach zero. Twenty years is the longest tariff phase-out period in the entire Agreement and the longest tariff phase-out the U.S. has accepted in any trade agreement. On the import side, the increases for sugar are very small and the over-quota tariff on sugar is never eliminated – another feature of this Agreement unique to sugar. Though not perfect, we regard this as a good Agreement for us on balance, and we are determined to do all we can to advocate that it is implemented as negotiated.

Critical Non-Commercial Considerations

While we believe that there are adequate commercial reasons to approve this agreement, there are additional factors that should be considered in evaluating this issue. As I noted earlier, Kraft is already active in these countries. Not only do we have customers in these markets, we have employees and shareholders in the region. We are aware that business and industry leaders in these countries are eagerly looking forward to forging a new and stronger trade relationship with the U.S. Kraft believes that CAFTA-DR would strengthen our mutual competitiveness, enhance political stability and contribute to the security of the entire North American continent.

Leaders of these six nations appear to be fully committed to economic development, including the dismantlement of trade barriers. If the United States is unwilling to support and partner with them, the reality is that they would find other eager partners, ceding these key and growing markets to others and further disadvantaging U.S. businesses, employees, ranchers and farmers.

Finally, we believe that Congress should seriously consider the effect of its decision regarding CAFTA-DR on the credibility of U.S. negotiators. Failure of Congress to approve legislation to implement CAFTA-DR would dash the credibility of our trade negotiators and cast a chill over all ongoing U.S. trade negotiations. The perception of our trading partners would be that commitments made by U.S. negotiators cannot be trusted and that the U.S. is abandoning the leadership position it has held on trade since the end of World War II.

Kraft strongly supports CAFTA-DR. We urge the Committee and the Congress to vote for legislation that would implement this critically important agreement.

This concludes my statement. Thank you for your attention.

STATEMENT FOR SENATOR BUNNING

SENATE COMMITTEE ON FINANCE

The U.S.-Central America-Dominican Republic Free Trade Agreement
13 April 2005

Thank you, Mr. Chairman.

I would like to welcome our guests to the committee today. We appreciate your willingness to share your observations and expertise with us.

Throughout my Senate career, I have been very concerned about the international competitiveness of U.S. businesses, farmers, and manufacturing.

While I have every confidence in the ability of the entrepreneurs, the workers and the business men and women in this country to compete against anyone, anywhere in the world, as their government leaders, we have to provide them with a level playing field. The fight has to be a fair one.

International trade is important to our economy and plays a vital role in its continued growth and expansion.

However, we cannot allow foreign companies to have access to the strong markets of this country while their home governments refuse to allow the exports of American manufacturers and farmers to compete on an even basis in their home markets.

I have spent a lot of time examining the DR-CAFTA agreement, and I have a number of questions for our witnesses.

I am particularly interested in hearing more about the U.S.'s ability to enforce the rules contained in this agreement which are meant to prevent trans-shipment and other forms of cheating. I also am hoping to gain more information about the rules of origin contained in this agreement and how they differ from the rules governing our current textile trade relationship with the CAFTA countries.

I have a number of questions, and I am looking forward to hearing your responses.

Thank you.

STATEMENT OF JOHN J. CASTELLANI

PRESIDENT, BUSINESS ROUNDTABLE

BEFORE THE

COMMITTEE ON FINANCE
OF THE
UNITED STATES SENATE

ON

IMPLEMENTATION OF THE DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE AGREEMENT

APRIL 13, 2005

Mr. Chairman, Members of the sub-committee. Good morning. My name is John Castellani. I am the President of the Business Roundtable. I am please to appear before you today and express support for the U.S.- Dominican Republic-Central America Free Trade Agreement on behalf of the members of the Business Roundtable. I will summarize my key points and ask, Mr. Chairman, that my written testimony be submitted for the record.

The Business Roundtable's members, who include leading U.S. corporations with a combined workforce of more than 10 million employees in the United States, have been long-time supporters of U.S. efforts to reduce barriers to trade. We support the multilateral trade liberalization efforts of the World Trade Organization. And, we have appeared here in support of free trade agreements with Australia, Chile, Singapore and Jordan. Our support of trade liberalization is consistent because our companies know from direct experience how important liberalized trade is to U.S. economic growth overall and to their companies and workers.

I am here today to tell you that approval of the DR-CAFTA agreement will be one of the most important trade policy decisions Congress will make this year. DR-CAFTA is more than just another trade agreement -- it is a symbol of continued U.S. support and engagement in open international markets. If we walk away from DR-CAFTA we will negate the last four years of successful bi-lateral trade negotiations and call into question our commitment to the multilateral negotiations in the Doha Round future agreements with other countries and regions. That is a step the U.S. cannot afford to take. The competitiveness of America's business, farmers, and workers, both at home and abroad, is strengthened by participation in international markets. Removing trade barriers through trade agreements is vital to our participation in those international markets.

I. Testimony Overview

I want to focus on a few key points about the importance of the DR-CAFTA Agreement to the United States and why it should be approved.

- First, approval of DR-CAFTA is vital to signaling continued U.S. support for hemispheric and global trade negotiations and maintaining continued leadership in those negotiations.

- Second, DR-CAFTA is important to American businesses and their workers because its groundbreaking provisions will level the playing field for U.S. companies and their workers by giving U.S. exports the same access to the Central American and Dominican Republic markets that exports from those countries already enjoy in the United States.
- Third, DR-CAFTA will help improve the economies of the Dominican Republic and countries of Central America, and in doing so will help protect and nurture their democracies.

- Fourth, the labor and the environment provisions that are built into the DR-CAFTA are a strong catalyst for promoting improved working and environmental conditions in the region.

II. Approval and Implementation of the DR-CAFTA is Critical to Continued U.S. Leadership of the World Trade Agenda.

As I will discuss later in my testimony, DR-CAFTA will be beneficial to the U.S. and Central American businesses, farmers, workers and consumers. I would like to begin, however, with a look at the bigger picture. By approving DR-CAFTA Congress communicates to our trading partners, and the rest of the world, that the United States continues to believe in liberalized trade and will continue to negotiate and implement agreements that expand trade and stimulate economic growth and development. Sustaining this message is particularly important today as we face a number of important trade negotiations.

Our recent history in trade policy is one of great, and bipartisan, achievement. Since the implementation of the NAFTA in 1994, which created the world's largest free trade area, we have seen the completion of the Uruguay Round and the creation of the WTO; the successful negotiation of FTAs with Jordan, Chile, Singapore, Australia and Morocco. Each of those agreements has expanded markets for U.S. businesses, improved the lives of American consumers by giving them access to a greater variety of competitively priced products, and, perhaps most importantly, these agreements have extended the discipline of trade rules to economies around the globe.

Extension of trade rules has helped to level the playing field for American businesses. Our trading partners in the WTO have lowered barriers to U.S. products and services and must treat U.S. exports in a manner that is fair and consistent with international trade rules. This means that with each expansion of trade rules U.S. companies face less and less unfair competition as a result of government subsidies, discriminatory regulation, and other barriers to free and open trade. And, the WTO agreements provide the U.S. with a means to challenge foreign countries that violate these rules.

Our bilateral free trade agreements go even further than the WTO agreements in opening markets and leveling the playing field for U.S. goods, services and agricultural products. In

addition, those agreements provide important rights and protections for U.S. businesses making investments abroad and critical protections for valuable intellectual property. Finally, those FTAs also include safeguards to ensure that the trade agreements do not result in degradation of worker rights and environmental protections in the United States or abroad.

Continued expansion of market access and trade rules to more countries and more economic sectors is vital to continued economic growth abroad and here at home. DR-CAFTA is the critical next step in securing the continued benefits of trade liberalization.

First, DR-CAFTA will immediately reduce restrictions on 80 percent of U.S. manufactured exports and more than 50 percent of our agricultural exports to the region. Once signed, the agreement will create a Latin American market for U.S. goods and services that is second only to Mexico in size. It will also grow the economies of Central America and the Dominican Republic, reinforcing the newly emerged democracies of that region and creating more robust markets for American goods and services.

Second, approval of DR-CAFTA will send a message to our trading partners in Latin America that the U.S. is serious about a trade liberalization in the western hemisphere. The negotiations for the Free Trade Area of the Americas ("FTAA") have made little progress in recent years; U.S. initiatives to bring free trade to the hemisphere continue to move forward. The U.S.-Andean Free Trade Agreement negotiations are underway and will, like DR-CAFTA, result in additional incentives for investment, reform and strengthening democratic institutions. In this time of world turmoil and terrorism, strengthening the economies of our democratic neighbors in the Western Hemisphere is more important than ever. The DR-CAFTA is an important step toward a hemisphere wide agreement that will improve economies and strengthen democracies here in the Western Hemisphere. It not only signals our serious intentions with regard to Western Hemisphere trade, it will, like our very successful FTA with Chile, provide a concrete example in the hemisphere of the fruits of liberalization.

Third, beyond the hemisphere, CAFTA communicates U.S. dedication to liberalized trade to the international trade community. As we embark on the substantive negotiations of the Doha Round, this message is particularly important. In Doha, our negotiators will be tackling issues of primary importance to American exporters such as liberalization of Agricultural trade -- a sector where American producers are among the most productive and competitive in the world; expansion of services liberalization -- another area of American expertise and competitive advantage; further reduction in tariffs on manufactured goods -- a sector with that provides high-paying export dependent jobs; and agreements on trade facilitation measures -- an accomplishment that will significantly reduce bureaucratic red tape for U.S. businesses selling abroad.

If we turn our backs on DR-CAFTA we not only turn our backs on our trading partners in Central America and the Dominican Republic, we reject America's traditional role as the leader in the march toward liberalized hemispheric and global trade. We can ill afford to abdicate the role of leader at this critical time in the history of global trade relations.

III. DR-CAFTA Will Benefit U.S. Businesses, Farmers and Workers in a Very Important and Growing Market for the United States.

For the past twenty years the United States has enjoyed a unique economic relationship with the Dominican Republic and Central America. The Caribbean Basin Initiative, initiated during the Reagan Administration, opened U.S. markets to goods from the region to improve economic conditions in an impoverished region in America's backyard. By building stronger economies in the region the CBI helped bring political stability to a region where Marxism, military dictatorships and civil wars were once common.

The CBI has been a great success in Central American and the Dominican Republic. As a result of continued bipartisan support from both Republican and Democratic Administrations, CBI has given the economies of the region an important boost. They have developed more diversified economies with competitive manufacturing sectors, and exports to the U.S. have grown from $3 billion in 1987 to $17 billon in 2004. Moreover, CBI has produced some remarkable results outside the economic sphere -- dictatorships have been replaced by stable democracies and every one of the DR-CAFTA countries has free and fair multi-party elections.

On the trade front, however, the CBI was a one-way street. It opened the U.S. market to goods from the DR-CAFTA countries but it did not open those markets to U.S. goods and services. The time has come to make our trading relationship with Central American and the Dominican Republic a reciprocal free trade agreement that opens the DR-CAFTA markets to U.S. goods and services.

The DR-CAFTA promises not only to establish a healthy two-way trading relationship between the United States and Guatemala, Honduras, Costa Rica, Nicaragua, El Salvador and the Dominican Republic, but will lock-in the economic progress and political reforms CBI began.

The DR-CAFTA opens the growing Central American and Dominican Republic markets to U.S. manufactured goods, services and agricultural products. As I mentioned earlier, the DR-CAFTA trading partners already represent the second largest U.S. export destination in Latin America.

In the manufacturing sector DR-CAFTA will provide immediate and tangible benefits. Our leading manufactured exports to the region include products from such important U.S. industries as textiles, apparel and electrical machinery -- industries that support good, well paying jobs in the United States. Upon implementation of the agreement, 80 percent of all U.S. goods exported to the region will become permanently duty free. This elimination of trade barriers will expand consumption of U.S. manufactured products in Central America, expanding markets for U.S. goods and supporting jobs for U.S. workers. In fact, the U.S. International Trade Commission estimates that once the DR-CAFTA is fully implemented U.S. textile, apparel and leather products exports to the region will have grown by $803 million, exports of petroleum, coal, chemicals, rubber and plastics will grow by $406 million, and exports of automobiles and parts will increase by 48 percent or $180 million.

This opening of trade is truly a leveling of the playing field for U.S. manufacturers. Although the U.S. already provides virtually duty free treatment to imports from the DR-CAFTA

countries, those countries do not currently provide similar access to American products. Implementing the DR-CAFTA gives us, American businesses, access to those growing markets.

Beyond manufactured goods, DR-CAFTA provides improved market access in other sectors important to U.S. business. Provision of **telecommunications services** is, for example, a growing market that is important to U.S. companies. DR-CAFTA lowers barriers to telecom services and ensures that U.S. service providers have a level playing field by making regulatory bodies independent from public telecom companies.

Similarly, the DR-CAFTA breaks new ground for U.S. **financial and insurance service** companies. Costa Rica has, for the first time, agreed to liberalize its highly protected insurance market. In addition, the agreement allows U.S. insurance companies to establish branches or subsidiaries in the region and allows cross border provision of certain types of insurance, such as marine, aviation and transportation insurance. Other financial services are similarly opened to U.S. companies, including market access for banking and services firms and cross border trade in financial services.

These are just a few specific examples. In the **services sector generally**, DR-CAFTA goes beyond the multilateral services agreement negotiated in the Uruguay Round. DR-CAFTA promises national treatment for U.S. services irrespective of the individual country's WTO services commitments and guarantees U.S. companies' access to all services sectors except those specifically excluded. This so-called "negative list" approach puts U.S. services providers in a much better position to take advantage of opportunities in the growing regional services sector.

In the area of **E-commerce,** the DR-CAFTA breaks new ground. The agreement ensures that electronically delivered goods and services receive the same treatment as traditional, physically delivered goods and services. Members of the Business Roundtable believe that the E-commerce provisions of DR-CAFTA are state-of-the-art. DR-CAFTA demonstrates that such provisions are possible and should provide a catalyst to inclusion of similar provisions in multilateral negotiations.

The **Government Procurement** provisions of the agreement also significantly expand market access for U.S. companies far beyond that in the WTO agreements. Although none of the DR-CAFTA countries are signatories to the WTO Government Procurement Agreement, the DR-CAFTA includes many of the principles and commitments of the WTO agreement. Not only does it open new markets for U.S. firms, it will provide an important example to other developing countries of the benefits of opening their government procurement market to U.S. firms.

Finally, in the area of **agricultural products** the DR-CAFTA promises significant growth for U.S. exports. Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic are already important markets for U.S. agricultural products. The United States is the single largest source of agricultural imports to the region. But, lately our farmers having been losing market share due to preferential trading arrangements with other countries. Approval of DR-CAFTA will undo this imbalance and make U.S. products more competitive. If DR-CAFTA is not approved U.S. agricultural goods will continue to lose out to foreign

competitors. We saw similar losses in Chile when that FTA was allowed to languish for years. We should not let history repeat itself with this agreement.

Beyond opening markets, the DR-CAFTA helps U.S. business and workers by improving the protections afforded by international trade rules. One of the critical protections achieved in the DR-CAFTA are the provisions relating to patents, trademarks and copyrights. The agreement's **intellectual property protection** provisions clarify or enhance the protections already provided in the WTO's Trade-Related Intellectual Property Rights agreement ("TRIPS"). In addition, DR-CAFTA includes copyright protections specific to the Internet age, including transmission of material over the Internet.

Protection of intellectual property rights is critical to U.S. businesses seeking to sell or invest abroad. Much of the cost of doing business in the modern economy lies with developing new products and procedures. U.S. patent, copyright and trademark laws protect businesses' investment in intellectual property. When other countries fail to provide the same protections those valuable investments can be lost to counterfeiting and piracy. The International Intellectual Property Alliance estimates that U.S. losses in the DR-CAFTA region due to copyright piracy alone totaled about 63 million in 2003. The protections built in to the DR-CAFTA should help eliminate those and other intellectual property losses.

The DR-CAFTA also advances **protections for U.S. companies investing in the region**. This is of particular interest to service providers, who often must open local branches or subsidiaries to provide their services. The U.S. International Trade Commission reports that the DR-CAFTA is likely to attract additional investment from U.S. firms seeking to sell in the Dominican Republic and Central America. With the investment protections found in the agreement those firms can establish facilities in the region with the security that their investments are protected from unfair or discriminatory government actions or regulation.

While I am discussion the protections for U.S. companies provided in the DR-CAFTA, it is important to mention a protection that is not weakened in anyway by this agreement. The agreement does not change **U.S. antidumping or countervailing** duty laws in anyway. Thus, U.S. producers are still fully protected from injurious dumping or government subsidies. In addition, the agreement provides for safeguard mechanisms during the transition period to allow temporary suspension of tariff reductions if increased imports from the region are causing serious injury to a U.S. industry.

Finally, the DR-CAFTA contains provisions to **improve customs administration** that will greatly facilitate the flow of goods to and from the region. The provisions will promote transparent, efficient and predictable Customs operations and ensure that Customs laws, regulations, decision and rulings are not applied in a manner that creates obstacles to trade.

IV. DR-CAFTA will Promote Economic Growth in the Region.

DR CAFTA will also provide important benefits to the Dominican Republic and the countries of Central America.

Although the United States already provides duty free treatment to many products from the region that status is provided under the Generalized System of Preferences and other programs that can change or be removed at any time. The DR-CAFTA institutionalizes U.S. duty free treatment of the vast majority of products from the region. The stability and certainty provided by the agreement will attract foreign direct investment to the countries of the region; both from the U.S. and other sources as those investors will now be able to act with the certainty that the U.S. market is open to exports. In addition, Central American and Dominican Republic investors and business can themselves expand capacity and otherwise grow their businesses with an eye toward the U.S. export market.

Access to the U.S. market is not the only attraction. By creating a free trade area among the countries of Central America and the Dominican Republic the agreement allows companies in one country to sell across borders. This too provides incentives to investment as companies can now take advantage of economies of scale when investing in the region.

The intellectual property and investment protection provisions of the agreement are also expected to draw additional investment to the region. IPR protections may also increase the willingness of certain companies to sell products in the region, thus giving consumers in the region greater access to a wider variety of products, including lifesaving medicines.

Increased investment in and trade with the DR-CAFTA countries is vital to creating employment and economic growth in the region. These countries are still very poor countries. They have struggled to establish stable democratic governments and eliminate poverty in the region. The DR-CAFTA provides an important tool in their fight. The increased employment and economic growth in the region not only ensure that it becomes a bigger and better market for U.S. goods but also ensures that its citizens are lifted from poverty and that its governments continue to be stable and democratic.

V. DR-CAFTA Will Promote Improved Labor and Environment Standards and Condition in the Region.

To date, much of the debate on the DR-CAFTA has focused on labor and environmental issues. As the World Bank and other international organizations have explained, forces for the improvement of labor and environmental standards and conditions are the strongest when developing countries are growing economically. DR-CAFTA is a winner on two counts in promoting improved working and environmental conditions. First, it will help promote economic growth in the region on a reciprocal basis and, second, it reinforces the positive impact of economic growth with strong labor and environmental provisions.

The labor provisions of the agreement protect core labor rights for workers in the United States and Dominican Republic and the countries of Central America. The agreement reinforces the importance of labor law and requires that the labor laws in each of the signatory countries be effectively enforced. It goes beyond previous trade agreements in protecting worker rights by guaranteeing that workers have access to impartial enforcement tribunals and guaranteeing that certain procedural safeguards are build into such tribunals. In addition, DR-CAFTA creates an unprecedented cooperation and capacity building mechanism to improve labor rights in the region. These provisions not only conform to the negotiating objectives specified by Congress

when it granted the President Trade Promotion Authority, these provisions provide protection for workers and a mechanism for improving worker rights throughout the region.

Liberalized trade and investment do not weaken labor standards, and the DR-CAFTA has, in many respects, already started the region moving toward real improvements. Several of the DR-CAFTA countries have improved labor standards in anticipation of the trade negotiations and have increased their budgets for labor law enforcement. In fact, the according to the International Labor Organization the countries of the region already have laws in place that are consistent with the core labor standard of that organization. And recently, a Working Group of the Vice Ministers Responsible for Trade and Labor in the countries of Central America and the Dominican Republic issued a detailed report explaining how each government has and continues to seek to improve labor standards and conditions.

Environmental provisions in the agreement ensure enforcement of environmental laws through an innovative public submission process and a procedure for fines and sanctions of countries that fail to enforce their own laws. The agreement also requires countries to respect multilateral environmental agreements and to agree not to weaken their environmental laws. In addition, CAFTA provides a mechanism for environmental capacity building and creates an Environmental Cooperation Commission. These provisions represent the most advanced environmental provisions ever included in a trade agreement and go beyond the Congressional requirements in the TPA authorization.

Like labor standards, environmental standards improve when standards of living improve. The increased investment, employment and economic growth that will accompany implementation of the DR-CAFTA will not only create public support for a cleaner environment and better protection of natural resources, it will provide governments with the increased revenue necessary to enforce environmental laws and better protect the public health, endangered species and beautiful natural areas of the region.

Thank you again Mr. Chairman. I appreciate this opportunity to express my views, and those of the Business Roundtable about the importance of the DR-CAFTA. When Congress approves this free trade agreement it approves a trade deal that will benefit U.S. business and spur economic growth in the Dominican Republic and the countries of Central America. Beyond that, by approving the DR-CAFTA Congress communicates to all of our global trading partners that the United States is serious about trade liberalization and intends continue its role as a world leader in tearing down the barriers to free trade.

Responses in Italics

QUESTIONS FOR THE RECORD

United States Senate
Committee on Finance

Hearing on
"The U.S. – Central America – Dominican Republic Free Trade Agreement"

April 13, 2005

Questions from Chairman Charles E. Grassley to Mr. Castellani

Mr. Castellani, I'd like you to comment further on the Agreement from the perspective of service suppliers. According to the Business Roundtable, services account for 75 percent of the U.S. economy, 80 percent of U.S. jobs, and over 40 percent of all U.S. exports. Can you compare this agreement to the WTO services agreement, not only with respect to the provisions on market access but also in terms of enhancing transparency and strengthening the rule of law in the region?

I would also like you to comment further on the opportunities under this agreement for U.S. manufacturers to export industrial goods to the CAFTA-DR countries. According to the Business Roundtable, exports account for 25 percent of U.S. economic growth. What does this agreement mean for U.S. manufacturers and their workers?

1. The CAFTA provisions on services and transparency are more comprehensive than those in the WTO services agreement and, as a result, will create more opportunities for economic growth for all the participating countries. In this regard, the Business Roundtable joins with the Coalition of Service Industries and other U.S. business groups in the hope that the CAFTA services provisions will have a positive effect on the ongoing services negotiations in the Doha Round.

With respect to market access, CAFTA use a "negative list" structure. This approach is key to ensuring comprehensive liberalization. For example, under the negative list approach, the market access provisions automatically cover new services. This is an especially important achievement for the services sector because services companies are constantly developing new products for their customers. Under the current WTO services agreement, countries use a "positive list" structure, which requires them to list only the services they are committing to liberalize. As a result, new services often do not fit within the narrower parameters of a country's positive commitment.

Transparency in regulatory regimes is essential for services liberalization because service industries are generally the most highly regulated. The CAFTA's transparency provisions far surpass those in the WTO services agreement. CAFTA requires regulatory authorities to (a) use open and transparent administrative procedures, (b) consult with interested parties before issuing regulations, (c) provide advance notice and comment periods for proposed rules, and (d) publish all regulations. Transparency is a fundamental factor in ensuring the rule of law; and the scope of the CAFTA's transparency provisions is certain to make a major contribution to strengthening the rule of law in the region.

2. *As I explained in my testimony, CAFTA levels the playing field for U.S. manufacturers and their workers. Under the Caribbean Basin Initiative and the Generalized System of Preferences, 80 percent of the products manufactured in the CAFTA countries and Dominican Republic already enter the United States duty free. These countries do not provide reciprocal treatment for U.S. manufacturers and their workers; CAFTA will fix this problem.*

Responses in Italics

For example, CAFTA will eliminate extremely high tariffs on a number of U.S. manufactured products, up to 30% tariff on autos, 23% on certain footwear, 15% on plastics and cosmetics, 15% on air-conditioning and refrigeration, and 15% on building products. Liberalization of this scope will provide new economic growth opportunities for U.S. companies and their workers; and, at the same time, help improve the standard of living in the CAFTA countries by, for example, reducing the cost of consumer products and the supplies needed for infrastructure improvements, such a new housing, roads, power generation, better equipped hospitals and the use of new environmental technologies.

Statement of Senator Mike Crapo
Senate Finance Committee
April 13, 2005

Thank you, Chairman Grassley and Senator Baucus for holding this hearing. I'd like to also thank the witnesses, some of whom have traveled great distances, for being here with us today to discuss the U.S. – Central America – Dominican Republic Free Trade Agreement (DR-CAFTA). I appreciate the opportunity to make a few brief comments and express my continued concerns with this agreement.

Our trade agreements have to achieve mutually beneficial trade. Through current law, DR-CAFTA countries have enjoyed duty free access to the U.S. market for most of their agriculture products. The same is not true for U.S. farmers and ranchers who want to sell to Central America.

While I commend our trade negotiators for the effort put forward to remove restrictive trade barriers, it seems to me that through this agreement our negotiators may have gained much needed market access for some commodities, while harming another – sugar.

So much has been said about the sugar industry expecting too much to request exemption from DR-CAFTA, and that the tariff rate quota for sugar established in this agreement is a generous protection for our "sensitive" product. However, I don't think allowing 109,000 metric tons of duty free sugar in the first year alone into an overly saturated market, which has other substantial sugar access obligations, is a generous protection.

Additionally, so little has been talked about the generous protections established for DR-CAFTA countries through this agreement for not one but three "sensitive" products – fresh potatoes, fresh onions, and white corn. U.S. sugar producers would be set up under this agreement to shoulder 109,000 metric tons of competing DR-CAFTA sugar compared to the mere 300 metric tons of access U.S. would gain into Costa Rica's market for two of the region's most sensitive products – fresh potatoes and onions.

Further, so little has been explained about how the alternative forms of compensation provided for in the agreement to protect the domestic sugar program would actually work. Nor, would there be any guarantee to the sugar industry that this provision would be utilized.

I understand that there are competing views amongst the witnesses here with us today and fellow members of this committee. I look forward to the discussion, and wish I could be sitting here with the belief that we have achieved a great agreement for agriculture, but I am not. While there are questions on the level of impact DR-CAFTA

will inflict on sugar, there is no question that there will be an impact. It is merely speculation at this point as to what degree our sugar producers will be impacted.

Simply put, I believe our farm families and communities deserve more than that. We need strong achievements for agriculture through our trade agreements, not minor strides for some commodities coupled with major falls for others.

Thank you, Mr. Chairman.

April 11, 2005

Statement for U.S. Senate Finance Committee by J. Keith Crisco, President of Asheboro Elastics on the benefits of the proposed DR-CAFTA Free Trade Agreement - April 13, 2005

Asheboro Elastics is a manufacture of knitted and woven narrow fabrics for the apparel, home furnishings, healthcare and industrial industries. We have four manufacturing facilities located in the Asheboro, North Carolina area with eleven distribution locations in the DR-CAFTA region and Mexico. Attached is a listing of our offshore locations.

Since we were founded in 1986 we have grown to be a leader in the manufacturing of various narrow elastic products. Our apparel customers for our elastic waistbands are in many markets. They include Fruit of the Loom, Hanes, VF Corp (Lee and Wrangler), Kellwood, Oshkosh etc. Simply stated we hold up your underwear.

The attached charts show our growth in dollar sales and yards shipped since 1986. A major reason for this growth is the early and consistent way we have aggressively pursued the U.S. apparel firms as they have moved their sewing offshore.

Asheboro Elastics supports the passage of the DR-CAFTA agreement. As we look to the future of the apparel supply chain for companies based in the U.S. it is fundamentally important to have an alternative to Asian manufactures. We need to do everything we can to assure that the economies (sewing industry) of this region are viable. Without the DR-CAFTA agreement and the associated access to the United States markets firms of this region will not be able to compete with Asia. Without the passage of the DR-CAFTA in the near future, Asian manufactures of garments will continue to take market share from Caribbean and Mexican manufactures. The rate of change in garment sourcing has accelerated. You have seen the increases from China just in the first two months of 2005.

Again, I urge you to vote for DR-CAFTA. With this passage, Asheboro Elastics can grow and add jobs in our area. I have with me Ms. Pennie Davidson. Ms. Davidson works at Asheboro Elastics where she "pre-loops" elastic for shipments to our Caribbean customers. Without these customers (Russell Athletic, M.J. Soffe) Ms. Davidson's job would not exist. By the way, we will not be shipping looped elastic to China. Ms. Davidson would be glad to answer any questions you may have.

Asheboro Elastics is an example of a textile firm that has flourished as garment manufactures have moved to Mexico and the Caribbean. These countries are huge markets for us and other U.S. textile and yarn companies. We urge you to pass DR-CAFTA and allow us to continue these long standing positive relationships and participate in the growth of the area. We urge you to pass DR-CAFTA so that economic stability can continue to grow in this region. We urge you to pass DR-CAFTA so that we will have an alternative to Asia as a source of garments made with U.S. manufactured components. Remember, a vote against CAFTA is a vote for China.

Thank you for this opportunity.

J. Keith Crisco

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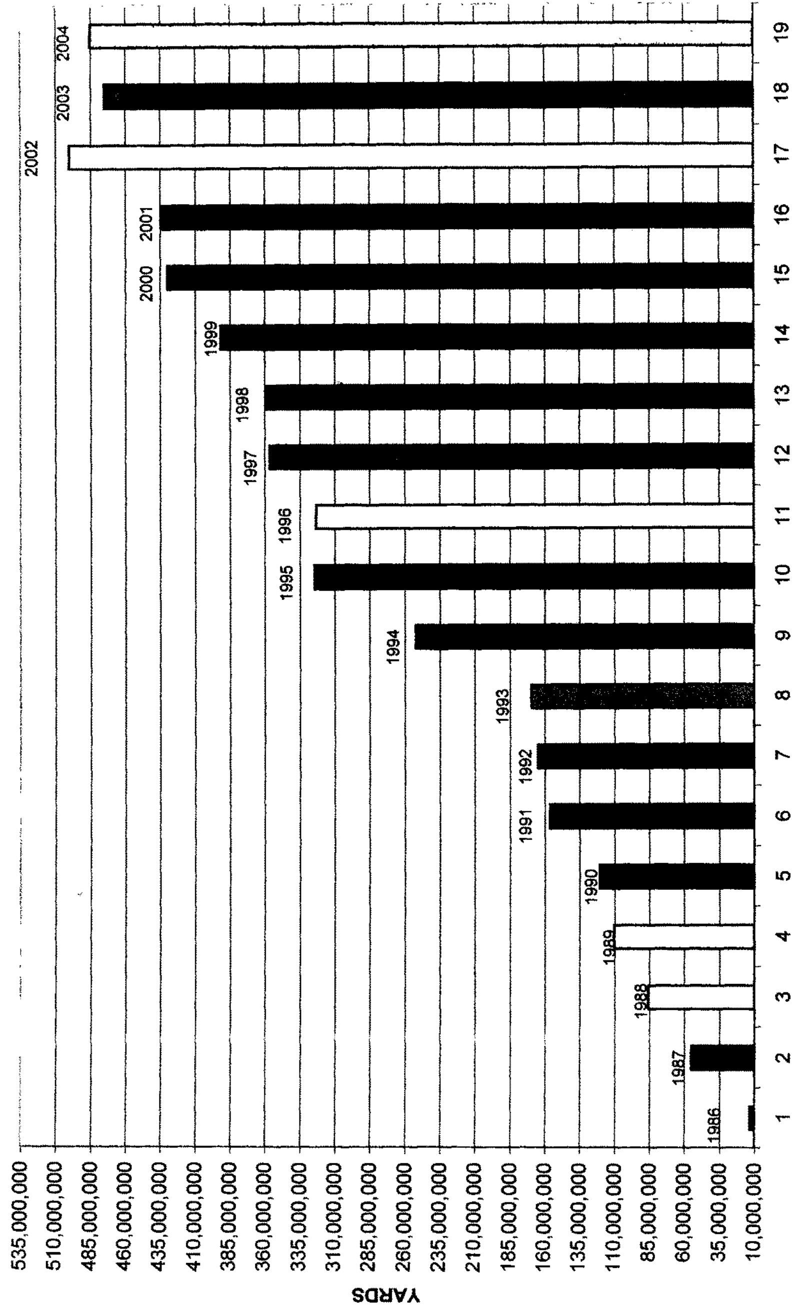

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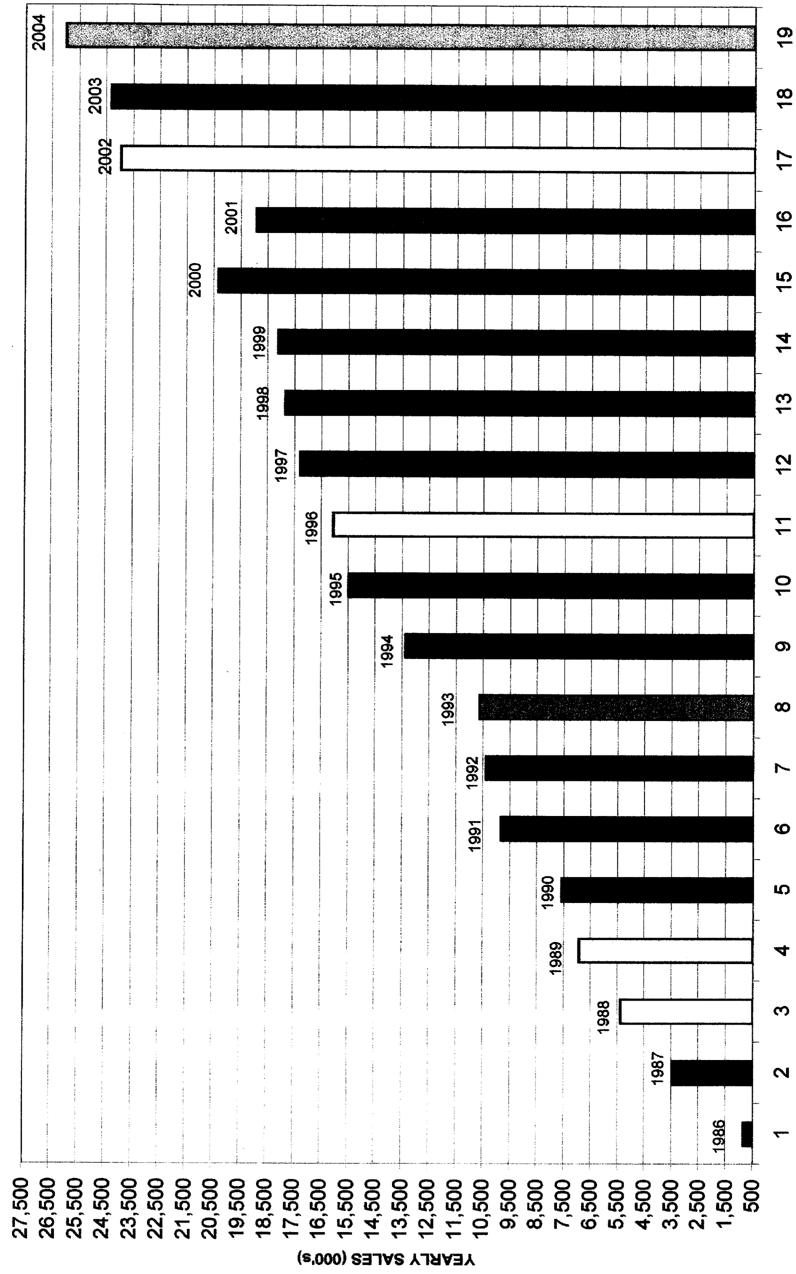
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Responses in Italics

QUESTIONS FOR THE RECORD

United States Senate
Committee on Finance

Hearing on
"The U.S. – Central America – Dominican Republic Free Trade Agreement"

April 13, 2005

Questions from Chairman Charles E. Grassley to Mr. Crisco

I understand that the CAFTA-DR region provides the 3rd largest world market for U.S. textile fabrics and yarns exports. How would not passing the CAFTA-DR in conjunction with the expiration of global quotas on textiles and apparel in January 2005 impact your business?

What percentage of your woven elastic is exported to CAFTA-DR countries? What does this percentage mean to your company's total sales and future growth?

1) How would not passing the CAFTA-DR in conjunction with the expiration of global quotas on textiles and apparel in January 2005 impact your business?

The expiration of global quotas on textile and apparel in January 2005 creates a completely new environment of world trade and sales for Asheboro Elastics. Because we make a relatively minor component (in terms of value added) to most apparel we find ourselves at the mercy of quick movements in apparel manufacturing and sourcing changes by major retailers. It is this "nimbleness" of our market that has caused us to put so much emphasis on distribution rather than manufacturing in the Caribbean and Mexico.

The situation in the few months since the elimination of quotas has been described as a "free-for-all". Because of this situation it is critical that Asheboro Elastics have a more stable and competitive market that we can service. The passage of CAFTA-DR offers the greatest chance to achieve this objective. We and other textile firms have a proven success in selling our product in the Caribbean. We will grow these sales if CAFTA-DR is passed. If it is not passed we will be forced to participate in the sourcing free-for-all described above with very uncertain results.

2) What percentage of your woven elastic is exported to CAFTA-DR countries? What does this percentage mean to your company's total sales and future growth?

First, Asheboro Elastics makes both woven and knitted elastic. We are actually a larger factor in the manufacture of knitted elastic than woven elastic.

Approximately sixty-five percent of our sales are to apparel markets (the balance is for the home furnishing, medical and industrial markets). Of the sales to the apparel market, approximately seventy percent is sewn in the DR-Caribbean region. Therefore, about forty-five percent of our total goes to the CAFTA-DR region. This is a significant portion of our business. In addition, if CAFTA-DR does not pass the remaining 55% of our business will be at risk due to the acceleration of our total move of manufacturing base (our customers) to Asia.

Responses in Italics

Asheboro Elastics has positioned itself (seven warehouses in the CAFTA-DR region) to become a major narrow fabric supplier to the CAFTA-DR region. The passage of CAFTA-DR is critical to the successful implementation of this strategy, our future success and our continued job growth in the United States.

Before the Senate Committee on Finance

Review of the
United States- Central America- Dominican Republic
Free Trade Agreement

Presented by

Lochiel Edwards
on behalf of

Wheat Export Trade Education Committee
National Association of Wheat Growers
National Barley Growers Association
Montana Grain Growers Association
U.S. Wheat Associates

April 13, 2005

Review of the
United States- Central America-Dominican Republic
Free Trade Agreement

Presented by

Lochiel Edwards

April 13, 2005

Good morning Chairman Grassley and Members of the Committee. My name is Lochiel Edwards and I farm on the prairies of Montana. My sister, brother, and children work together with myself to raise high-quality wheat and barley for the people of the United States and for customers in many other countries.

Today I am representing the Wheat Export Trade Education Committee, the trade policy arm of the wheat industry; the National Association of Wheat Growers, which focuses on domestic wheat issues; U.S. Wheat Associates, handling the wheat industry's foreign market promotion; National Barley Growers Association, which covers the national issues important to malt and feed barley growers; and, finally, the Montana Grain Growers Association. This is a long list. Simply summarized, these organizations are comprised of wheat and barley producers such as my neighbors back home.

Exports are critical to our industry. Domestic use of wheat absorbs only half of the United States' production. As you can imagine, our success or failure hinges on our access to world markets. Trade is a vital component for ensuring the financial viability of U.S. wheat and barley farmers. All trade agreements, whether they be with Central America or the WTO, must offer unique potential for expansion of market opportunities for Americans. Ninety-five percent of the world's consumers live beyond our borders; this obviously presents a market opportunity, of which CAFTA is an important part.

Wheat and barley currently have little or no tariff applied in the CAFTA-DR countries, but WTO rules allow the imposition of duties from 60 percent to well over 100 percent. A ten percent tariff is presently applied to wheat flour, with up to 135 percent allowed. This is our interest in the agreement. To establish long-term markets, we must compete with aggressive countries like Canada, Australia, Argentina, and the European Union. These countries, and others, are negotiating agreements in the region, as well.

The Caribbean Basin Initiative and other market preferences currently give the CAFTA countries duty-free access to the United States for virtually all agricultural products (sugar being a notable exception).

CAFTA-DR levels this playing field, providing U.S. exporters market access that is better than, or at least equal to, the access enjoyed by our competitors.

Back home in Montana, wheat and barley are the 2nd and 3rd most valuable commodities, with beef ranking number one. These two grains, especially wheat, are very dependent on export markets, with more than seventy five percent of Montana's wheat crop exported each year. While the total sales of Montana grains to CAFTA countries is small, we know grain sales from anywhere in the United States affect our markets in a positive manner.

Also in Montana, a world-class malting plant is being completed this spring which will give our barley producers a new outlet for their grain. While Coors Brewing and Anheuser Busch will likely use much of the barley malt from this new facility, the Central American market is exactly what is needed to complete the demand for our barley. This market is at least 60,000 metric tons, which translates to 90,000 tons of barley annually. This is significant, and is a market now served by Canada and the European Union. International Malt Company, the owner of the plant, will surely be working to develop competitive freight to Central America out of the Pacific Northwest and the Gulf Coast. This CAFTA agreement is important to projects such as this.

There are some trade-offs in this agreement due to the protections written in on behalf of the U.S. domestic sugar market. We believe the long phase-in of free trade and the exemption of white corn from complete tariff elimination are disappointing precedents to set for our trade negotiators. However, the agreement is positive for U.S. agriculture, and retains the one hundred-plus percent tariff on over-quota imports of sugar into the United States, as well as other sugar protections which should be adequate to satisfy all parties. It is important that no commodities are excluded from this agreement, and we congratulate the negotiators for this. We strongly oppose the amendment of trade agreements to exclude select commodities, an action which would set a poor precedent for the negotiation of trade agreements with additional Central American nations.

This market has been dismissed by some as a small economy, but in these countries we have 40 million consumers with rising incomes and a desire for products we produce. Our market is already largely open to agricultural imports from their countries, so this agreement will result in very little added competition here at home. It is in our best interests to forge this relationship. Trade agreements have a way of taking time to bear fruit, but a good example is our trade with Mexico, which is on the verge of becoming our fourth largest customer for U.S. wheat.

Trade with Central America has larger value, as well. Those we trade with will form societal attitudes of partnership with our country. Rising standards of living and political stability result from increased commerce, and I propose that this is the preferable avenue to achieving these goals in our neighborhood.

The United States' market is already open to imports from these countries. Although gradually in some cases, CAFTA-DR ensures the trade will be on a two-way street. This is good for our nation, and it is good for the people of Central America. This is the right thing at the right time. We ask for your support in the approval of this agreement, and I thank you for this opportunity to present the views of wheat and barley producers.

Testimony of Patricia A. Forkan
President
Humane Society International

United States Senate Committee on Finance
Hearing on the U.S. – Dominican Republic – Central America Free Trade Agreement

April 13, 2005
Washington, DC

Members of the Senate Finance Committee, Ambassador Allgeier, Ladies and Gentlemen – Good Morning.

I appreciate the opportunity to testify today on the U.S. – Dominican Republic – Central America Free Trade Agreement (DR-CAFTA).

INTRODUCTION

It is a long and winding journey that brings me before this committee today. I began my career over thirty years ago working on behalf of animals. Throughout my career, I have worked on the Law of the Sea negotiations, the International Whaling Commission, Tuna-Dolphin, Shrimp-Turtle and other issues concerning the humane treatment of animals.

I was on the streets of Seattle with hundreds of folks in turtle suits, which The Humane Society created, protesting the overreaching, at least in my opinion, of the World Trade Organization (WTO) into U.S. environmental and animal protection laws. In fact, I have never been accused of being a "free trader" or a "globalization supporter."

But, unlike organizations that seem only to criticize and complain, Humane Society International also recognizes when we think the United States has done something positive -- in this case, the environmental provisions of DR-CAFTA.

HUMANE SOCIETY INTERNATIONAL

Humane Society International (HSI) is the international affiliate of The Humane Society of the United States (HSUS), which was founded in 1954 and today is the largest animal protection organization in the United States with over 8.5 million members and constituents and a significant global presence.

HSI and HSUS promote the protection of all animals with a wide range of programs and policies. We have worked on international issues for over thirty years, focusing on programmatic animal-protection activities in Central and South America, Africa and Asia. HSI's international programs have addressed matters such as inhumane practices and conditions affecting companion and farm animals, the economic benefits of humane transport and slaughter, veterinary services in rural communities, illegal trade in wildlife, threats to endangered species, and humane and wildlife education. We also work on international policies at the United Nations and other forums to protect marine mammals, wildlife and their habitat.

We have been involved in international trade policy for over fifteen years and have been a member of the Trade and Environment Policy Advisory Committee (TEPAC) since 1998. In 2003, HSI and HSUS further expanded their international trade program to include trade capacity building and environmental cooperation. HSI's trade capacity

building projects in developing countries focus on a number of environmental and economic areas including: habitat protection, sustainable agriculture, sustainable tourism, strengthening civil society participation and transparency, and advancing sustainable development and economic prosperity.

HSI'S INVOLVEMENT IN CENTRAL AMERICA

HSI became involved in the DR-CAFTA through my membership on TEPAC. In late 2002, HSI volunteered to be part of the capacity building committee of TEPAC to explore ways in which groups could address the environmental and economic needs of the Central American countries prior to the official launch of the DR-CAFTA negotiations in January 2003.

HSI staff met with the United States Trade Representative (USTR) and other U.S. government agencies, as well as with development banks and other NGOs, to discuss approaches to the priorities of the Central American countries as set out in each national action plan. To my surprise, there were a number of environmental, habitat and animal protection priorities listed in those national action plans. HSI saw an opportunity to work with countries that were willing to improve their environment and national policies to protect species and habitat while at the same time promoting economic development, with the intent to provide hope and opportunity to their people.

In my many years of working on animal protection issues, usually the greatest challenge is getting governments to recognize and focus on problems. However, rather than denying the problems or the tough environmental and economic issues facing the region, the Central Americans instead asked how we could work together to solve these problems and improve the situation.

In developing a trade capacity building program in the region, HSI did not attempt to impose its views on Central America. Rather, we listened to their priorities and needs, and together developed programs that fulfilled our mission of promoting the protection of all animals and met the Central Americans' strategy for capacity building. As a result of this approach, HSI is viewed by each of the Central American countries, not as a threat, but as a partner. I and my staff were greatly impressed by how open and inviting the governments and the people of Central America were to us and to improving the environment and protecting animals.

In my opinion, the momentum brought about by the DR-CAFTA has brought the issues of protecting the environment, habitat and species protection, and the need for balancing environmental protections and economic development to the forefront in Central America. The Central Americans are willing to work hard to address the difficult environmental and economic issues facing the region – they are asking for our assistance, our friendship and our support.

HSI'S TRADE CAPACITY BUILDING PROGRAM

HSI has spent the last two and a half years traveling to and working in Central America. With the assistance of a matching grant from the U.S. Agency for International Development (USAID), HSI is working with partners in each of the Central American countries on a number of trade capacity building projects. I would like to share some examples of these projects today to demonstrate how a U.S. NGO can work with local NGOs, the private sector and governments to improve sustainable development, environment, and animal and habitat protection.

- Organic Cacao Project: HSI is working with a private company to assist small cacao farmers in each of the Central American countries to reduce production costs, improve land management and improve efficiency. The long-term goal of the project is for these farmers to obtain organic certification. The costs of certification will be lowered because the farmers will be certified as part of an association. The company will then recognize the added-value of the shade grown cacao and pay the farmers the higher price for the organically certified cacao. We are very interested in the project because shade grown cacao provides a habitat for migratory birds and other wildlife, and reduces the amount of toxic chemicals and pesticides in the surrounding environment.

- Sustainable Agriculture: HSI is working with the livestock and pork associations in Central America to make their industries safer, more environmentally friendly, and in furtherance of HSI's mission, more humane.

- Convention on International Trade of Endangered Species of Wild Fauna and Flora (CITES): HSI and the CITES Secretariat hosted a regional CITES capacity building workshop for the countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, as well as the Dominican Republic and Panama. Participants included government officials responsible for CITES implementation as well as local rescue centers who receive animals confiscated by the governments. The workshop examined basic CITES procedures and served as a platform for each country to begin contemplating regional and national strategies to stop the illegal trade in wildlife. HSI is currently organizing follow up national workshops focused on improved enforcement of CITES in Central America.

- Trade and Environment Outreach Events: HSI, together with the Ministries of Foreign Trade/Economy and local NGOS, organized a series of trade and environment events in the Central American countries. These events have served as an opportunity for the Central American governments, HSI, local NGOs, and U.S. government agencies to promote information sharing and discussion on the text of the Environment Chapter and the Environmental Cooperation Agreement of the DR-CAFTA. These efforts improve the information available to civil society and strengthen transparency in Central America.

DR-CAFTA ENVIRONMENT CHAPTER

The Environment Chapter of the DR-CAFTA is a more complete chapter than that of previous free trade agreements. It includes many important provisions that will help to promote improved governance and stewardship in Central America and the Dominican Republic. The Parties to the Agreement undertake many obligations – perhaps the most important is the obligation to effectively enforce environmental laws and to strive to improve their environmental laws and policies. This obligation is subject to dispute settlement between the Parties and may result in monetary assessments of $15 million. This is not an insignificant amount for countries that include among their members two of the poorest countries in the Western Hemisphere.

Although some criticize the DR-CAFTA on the basis that it does not go far enough, I question this conclusion based on the clear language of Article 17.2 (Effective Enforcement). The Parties undertake to effectively enforce their environmental laws. Now as I understand it, domestic environmental laws also include multilateral environmental agreements (MEAs) ratified by a Party because those laws become part of the domestic law. So CITES, for example, must be effectively enforced by each of the DR-CAFTA countries. Failure to effectively enforce this important MEA could lead to dispute settlement, a public submission and possibly the development of a factual record. No country would relish any of these possibilities and so this obligation is important and in my opinion, has teeth.

Another important aspect of the Environment Chapter of the DR-CAFTA is that it includes a public submission mechanism that allows any group in Central America or the United States to take their government to task for failure to effectively enforce environmental laws. An independent secretariat is designated to receive submissions on enforcement matters and in cases where such a failure is demonstrated, to develop a factual record. These provisions empower Central American and Dominican civil society, NGOs and the private sector to have a voice in their country's environmental polices, programs and enforcement regimes. I want to take a moment to publicly recognize and commend Senator Max Baucus, a Member of this Committee, for his outstanding leadership in developing these innovative provisions with USTR and the Central American and Dominican governments.

In addition, as a member of TEPAC, I particularly recognize the importance of public participation in the development of trade and environment policy. It is crucial for both the governments and for civil society, NGOs and the private sector, to remain engaged in environmental and economic development issues. For this reason, HSI believes the inclusion of the provision in the DR-CAFTA requiring each Central American country and the Dominican Republic to set up advisory committees at the national level to provide advice and guidance on trade and environment issues is also very important.

ENVIRONMENTAL COOPERATION AGREEMENT

Concurrently with the FTA negotiation, the Parties negotiated an Environmental Cooperation Agreement (ECA). The ECA provides a foundation for long-term cooperation and assistance on environmental issues, programs and policies.

Although HSI supports the efforts of the United States to promote enhanced environmental cooperation in Central America, we are concerned about the level of financial commitment to these efforts. For example, ensuring that the public submission mechanism works as intended – including building the capacity of local organizations to participate effectively in the public submission process, strengthening the ability of Ministries to enforce environmental laws (including CITES), training of government officials on how to set up national advisory committee systems, and ensuring transparency and openness by communicating issues to civil society – will all require a great deal of funding and technical assistance. We hope that the United States Congress and the Executive Branch ensure that these programs have adequate and long-term funding at appropriate levels.

CONCLUSION

HSUS and HSI support the far reaching and innovative environmental provisions of DR-CAFTA. We support the continuing partnership and assistance for environmental protections represented by the Environmental Cooperation Agreement. For these reasons and because we have the greatest respect and admiration for our Central American partners and friends, HSUS and HSI support the Environmental Chapter and Environmental Cooperation Agreement of the DR-CAFTA. We share a hemisphere, a history and a future – let us ensure that future is a bright one for all our people.

Thank you very much for the opportunity to be here today. I look forward to your questions.

Responses in Italics

QUESTIONS FOR THE RECORD

United States Senate
Committee on Finance

Hearing on
"The U.S. – Central America – Dominican Republic Free Trade Agreement"

April 13, 2005

Questions from Chairman Charles E. Grassley to Ms. Forkan

I understand that several environmental groups in the United Sates and CAFTA-DR countries have come out in support of the FTA. Do you think the environmental provisions are good models for future agreements?

Based on your 30 years of experience in environmental trade law how would you say the CAFTA-DR stacks up to other international trade agreements?

As I mentioned in my testimony on April 13, Humane Society International believes that the Environment Chapter of the DR – CAFTA is a more complete chapter than that of previous free trade agreements negotiated by the United States. The DR – CAFTA Environment Chapter includes key provisions that are similar to those in other free trade agreements and includes new provisions that have not previously been incorporated into other international trade agreements.

In the view of Humane Society International, the DR – CAFTA's Environment Chapter is a good model for future agreements and includes provisions that should be included in future free trade agreements negotiated by the United States. Such provisions include:

- *a commitment by the Parties to ensure that environmental laws and policies provide for and encourage high levels of environmental protection, and strive to continue to improve those laws and policies;*
- *a commitment by the Parties to effectively enforce their environmental laws;*
- *a commitment by the Parties to establish or consult advisory committees at the national level to provide advice and guidance on trade and environment issues;*
- *a public submission mechanism that allows any group in the countries that are Parties to the free trade agreement to take their government to task for failure to effectively enforce environmental laws; and*
- *meaningful dispute settlement provisions that provide for remedies when a Party has failed to meet its environmental commitments.*

However, the provisions in the DR – CAFTA's Environment Chapter are not enough to ensure that trade, economic, environmental and development policies are mutually supportive in the DR – CAFTA countries. Protecting the environment, habitat and animals (wild, farm and companion) and promoting sustainable programs requires

Responses in Italics

education, resources and a commitment by governments to follow through on programs and projects once they have started. The provisions in the DR – CAFTA's Environment Chapter must be accompanied by appropriate levels of funding from the U.S. government over a long-term period for environmental and sustainable programs and projects. It is only by combining strong environmental commitments with environmental cooperation that real and significant progress can be made in Central America and the Dominican Republic.

U.S.-Central America-Dominican Republic Free Trade Agreement

Testimony of

Terry Harris

On behalf of the

USA Rice Federation

and the

US Rice Producers Association

Before the

Committee on Finance

U.S. Senate

April 13, 2005

INTRODUCTION

Thank you, Mr. Chairman. I appreciate this opportunity to appear before the Committee on behalf of the USA Rice Federation and discuss the importance of the U.S.-Central America and Dominican Republic Free Trade Agreement to the U.S. rice industry.

The USA Rice Federation represents U.S. rice growers, millers, exporters and allied industries such as brokers and transportation firms. I serve as the chairman of USA Rice's Western Hemisphere Promotion Subcommittee. My testimony today has also been endorsed by the US Rice Producers Association.

In addition, this testimony has been endorsed by the Agriculture Coalition for CAFTA-DR, a group made up of 56 agricultural and related organizations that support this agreement. A letter of support signed by these 56 groups is attached to this statement.

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.

On a day-to-day basis, I serve as vice president for Latin America and the Middle East in the rice export division of Riceland Foods, Inc. (Riceland), headquartered at Stuttgart, Arkansas.

Riceland is a farmer-owned cooperative formed in 1921. It serves approximately 9,000 farmer-members in Arkansas, Missouri, Mississippi, Louisiana and Texas. Nearly one-half of all U.S. rice growers are Riceland members. The cooperative markets 25 percent of the rice grown in the southern United States and 20 percent of national production. It also markets soybeans, wheat and corn grown by its farmer-members.

Riceland is a direct exporter, meaning we sell directly to buyers in importing countries. We rarely sell through other U.S. export firms or to international shippers for delivery to the importing country. As a result of this approach, our staff is well schooled in the details of everyday management of logistics and finance related to the export business.

As a result of impetus from formation of the North America Free Trade Agreement in the early 1990s, Riceland, in recent years, refocused its marketing efforts toward Mexico and the countries of Central America and the Caribbean. This past year, Haiti was the top export market for Riceland's milled rice. Mexico is the top U.S. market for rough or unmilled rice.

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 charge 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 are an unfortunate problem facing U.S. rice in many foreign markets, including, unfortunately, 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 I noted at the beginning of my 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 US Rice Producers Association support this trade agreement and urge members of this Committee and Congress to vote for CAFTA-DR.

I would be happy to answer any questions you or other members of the committee may have.

Thank you.

April 4, 2005

Dear Member of Congress:

The undersigned groups representing the U.S. food and agricultural community urge your support for the Free Trade Agreement with Central American and the Dominican Republic (CAFTA-DR). CAFTA-DR is a home run for American agriculture. We are giving up very little to gain very much. Normally in trade agreements, each party expects the concessions it receives to balance the concessions it grants. Uniquely in CAFTA-DR, the agriculture agreement is tilted steeply in the direction of the United States.

Previous trade arrangements approved by Congress gave generous access to the U.S. market for food and agriculture exports from these six nations but provided no reciprocal benefits to U.S. food and agriculture exports to those same six markets. Between the Generalized System of Preferences, which has been in place since 1976, and the Caribbean Basin Economic Recovery Act, or Caribbean Basin Initiative (CBI), which has been in place since 1983, U.S. tariffs on most of the food and agricultural products imported from the CAFTA-DR countries are already zero.

On a trade-weighted basis, over 99 percent of the food and agriculture products we import from the region enter duty-free. On the other hand, the food and agriculture tariffs our products must overcome in the CAFTA-DR countries exceed 11 percent on average, but can range as high as 150 percent or more on sensitive products. This does not include the highly restrictive tariff-rate quotas many of our products face. The result is that we have an agriculture trade deficit with these six nations. In 2004, U.S. imports from these countries exceeded our exports to the region by over three quarters of a billion dollars.

So, a vote for CAFTA-DR is a vote to give American farmers trade reciprocity. It is also a vote to keep our food and agriculture exports competitive with products from other countries. Our market share in the CAFTA-DR nations has fallen from 54 percent in 1995 to around 40 percent because of preferential arrangements negotiated by these six countries with our competitors. The implementation of CAFTA-DR will remedy this problem.

Congress last voted to extend the unilateral benefits under GSP and CBI to these countries and others as part of the Trade Act of 2002. The most recent stand-alone vote on a CBI conference report in 2000 demonstrates the willingness of Congress to provide trade benefits to an important region of the world. In the Senate, CBI passed by a vote of 77-19 with 4 abstentions; in the House, it was approved by a vote of 309-110 with 16 abstentions. The undersigned organizations, representing the vast majority of U.S. agriculture, are simply requesting that Congress provide to American farmers what it has already provided to farmers in the CAFTA-DR countries – improved market access for their exports.

Sincerely,

Altria Group, Inc.
American Bakers Association
American Farm Bureau Federation
American Feed Industry Association
American Frozen Food Institute
American Meat Institute
American Potato Trade Alliance
American Soybean Association
Animal Health Institute
Biotechnology Industry Organization
Blue Diamond Growers
Bunge North America, Inc.
California Canning Peach Commission
California Table Grape Commission
Cargill, Incorporated
Corn Refiners Association
CropLife America
Elanco
Food Products Association
Grocery Manufacturers of America
International Dairy Foods Association
Louis Dreyfus Corporation
National Association of Wheat Growers
National Cattlemen's Beef Association
National Chicken Council
National Confectioners Association
National Corn Growers Association
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
Sweetener Users Association
The Distilled Spirits Council

The Fertilizer Institute
U.S. Dairy Export Council
United Egg Producers
United States Dry Bean Council
US Apple Association
US Hide, Skin and Leather Association
US Meat Export Federation
US Wheat Associates
USA Poultry and Egg Export Council
USA Rice Federation
Washington State Potato Commission
Western Growers Association
Wheat Export Trade Education Committee

Statement of
Mark Levinson, Chief Economist, UNITE HERE,
Before the
Senate Finance Committee
on the
Dominican Republic – Central America Free Trade Agreement
April 13, 2005

I appreciate this opportunity to testify on the Dominican Republic – Central America Free Trade Agreement on behalf of the 450,000 members of UNITE HERE. Our members work in the apparel, textile, laundry distribution, hotel, gaming and food service industries. They live in all parts of our country and are a cross section of the U.S. workforce: native born, minorities and new Americans who have come to our shores from just about every country in the world.

Many of our members came to the United States from the Dominican Republic and Central American countries. Many maintain close contact with the region, have family living there, send remittances and visit the lands of their birth. We work with unions throughout the area. So we too, feel a special obligation to help these countries improve their economic circumstances. Furthermore, we are aware of the importance of the region to our nation's well being.

The Illusory Claims of DR-CAFTA

DR-CAFTA promoters claim that it will not only eliminate trade barriers among our countries, but also spur economic growth, create good jobs in the U.S. and Central America, lessen poverty, and strengthen democracy. These are impressive claims. They are also familiar ones.

Every time Congress is faced with a new trade agreement, promoters promise that it will stimulate growth, job creation and development. Unfortunately, the result has often been exactly the opposite. DR-CAFTA, rather than recognizing and addressing the flaws in these prior trade deals, simply expands upon them. The most likely result of passing *this* DR-CAFTA – an agreement based on the failed models of the past – is a deteriorating trade balance and more lost jobs in the U.S.; continued repression of workers' rights, intractable poverty and inequality in Central America and the Caribbean. We can't continue to apply the same prescription and hope for a different result.

We share the lofty goals articulated by DR-CAFTA's promoters: robust growth, more and better jobs, sustainable development and healthy democracies. But passing DR-CAFTA will not bring us closer to these goals. In fact, it may make it even more difficult to reach them.

It is time for policymakers to take an honest look at our trade policy and the impact it has had on workers and communities at home and abroad, and start revising the rules that

govern trade. The American labor movement, along with our brothers and sisters in Central America, has made substantive and thoughtful proposals on what changes need to be made to our trade policies.[1] We recognize that trade has the potential to spur growth and create jobs – but to deliver on these promises, we need to get the rules right. Unfortunately, DR-CAFTA negotiators ignored our proposals.

As a result, we are forced to oppose DR-CAFTA. We are working together with unions, environmentalists, family farmers, bishops, women's groups and many others in the U.S. and Central America to stop DR-CAFTA and to build a better way to trade. Only by rejecting DR-CAFTA can we begin a real dialogue on the new kinds of trade rules we need to create good jobs, stimulate equitable and sustainable economic development, and support strong democratic institutions.

DR-CAFTA Based on a Failed Model

DR-CAFTA is largely based on the North American Free Trade Agreement (NAFTA), which was implemented in the U.S., Canada and Mexico in 1994. Like NAFTA, DR-CAFTA is not just a trade agreement; it is a template for the economies of the region. DR-CAFTA governs not only market access, but also investment, intellectual property, government procurement, and services – and these rules are based on those in NAFTA.

These rules are designed primarily to facilitate and protect foreign investment by large multinational corporations. The commercial rules of NAFTA and DR-CAFTA constrain the ability of governments to regulate foreign investors, to favor public service providers over private ones, to promote social and economic policies through procurement rules, and to limit intellectual property protections in the public interest. They grant foreign investors broad new rights to directly challenge federal, state and local measures that diminish their profits – including laws passed to protect the environment and public health and safety – and to demand public compensation for these measures.

These rules make large corporations more mobile, and, at the same time, less accountable to local communities and governments. They dramatically shift the balance of power away from democratically elected governments and towards private companies. They also increase the bargaining power of employers vis-à-vis their own workers. While companies gain powerful new rights, the basic human rights of workers are largely unprotected. DR-CAFTA, like NAFTA before it, fails to afford workers' rights anything close to the protections afforded to corporate rights. As a result, wealthy and mobile companies are able to pit workers against one another in a desperate race to the bottom in wages and working conditions.

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[1] See "Labor Movement Declaration Concerning The United States-Central America Free Trade Agreement," San Jose, Costa Rica, November 18, 2002. This declaration was signed by the labor federations of the United States, Guatemala, Nicaragua, Costa Rica and El Salvador. It is reprinted in, "The Real Record on Workers' Rights in Central America," AFL-CIO, April 2005.

It is because of this imbalance in rights and protections that NAFTA failed to deliver on the promises of its supporters. NAFTA was sold as a straightforward trade deal that would open markets and increase exports. Because Mexico's import tariffs were so much higher than those in the U.S. – and thus would fall so much further under NAFTA – it was argued that the agreement would increase U.S. exports to Mexico more than it would raise Mexican exports to the U.S., and our trade balance overall would improve, creating more jobs for American workers.

But just the opposite occurred. Our trade deficit with our NAFTA partners stood at $9 billion in 1993, the year before NAFTA was implemented. Last year this deficit hit $111 billion – twelve times what it was before NAFTA opened our markets. As imports soared above exports, more and more U.S. workers lost their jobs. The Economic Policy Institute found that NAFTA trade deficits cost U.S. workers nearly 900,000 jobs and job opportunities through 2002, and the deficit has only grown since then.[2]

Those workers whose jobs were not eliminated also suffered. Employers used the leverage of their new mobility and rights under NAFTA to crush union organizing drives and win concessions at the bargaining table, driving down wages and working conditions for American workers. According to researchers at Cornell University, the incidence of employers' threats to close and relocate factories grew under NAFTA. And these intimidation tactics are very effective: workers are half as likely to succeed in organizing a union when their employers threaten to move jobs abroad.[3]

NAFTA was also sold as an agreement that would raise wages and alleviate poverty in Mexico. As Mexico climbed the ladder of economic development, we were told, they would automatically improve their compliance with workers' rights norms and raise working conditions. In addition, rising living standards in Mexico would reduce the flow of undocumented migrants into the U.S.

Again, the opposite has occurred. Real wages in Mexico today are actually lower than they were when NAFTA began. The poverty rate today is higher than before NAFTA began, particularly in rural areas. More than a million small farmers in Mexico have lost their land to floods of agricultural imports and become economic refugees. They are forced to seek work in factories along the border zones or in the U.S.. Undocumented immigration from Mexico to the U.S. has continued to increase under NAFTA. The most basic rights of these migrant workers are systematically violated in

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[2] Robert Scott, "The High Price of 'Free Trade," Economic Policy Institute Briefing Paper, November 2003.

[3] Kate Bronfenbrenner, "The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize," Dallas, Texas: North American Commission for Labor Cooperation; 1997. Kate Bronfenbrenner, "Uneasy Terrain: The Impact of Capital Mobility On Workers, Wages, and Union Organizing," Commissioned research paper for the U.S. Trade Deficit Review Commission; 2000.

the U.S., resulting in regular abuse and exploitation in industries ranging from meatpacking to landscaping, from agriculture to construction.[4]

NAFTA has clearly failed to deliver on its promises to workers in the U.S. and Mexico. In the U.S., good jobs that formed the backbone of our middle class have been destroyed. Workers seeking to improve their work lives are threatened by highly mobile employers that enjoy disproportionate bargaining power. When these jobs move to Mexico, they pay poverty wages, and workers who seek to organize and bargain for a fair share of the wealth they are producing face threats, intimidation, and dismissal. Now, as these factories close their doors and move to China, workers' bargaining power is undermined even further. Prospects for building a broad-based middle class in Mexico are no brighter today than they were before NAFTA began. The democratic advances that once gave so many hope for Mexico now appear to be on the retreat, with the leading opposition candidate for President threatened with disqualification on legal technicalities, and the populace deeply distrustful of the rule of law.

DR-CAFTA fails to remedy the fundamental weaknesses of the NAFTA model. Like NAFTA, it empowers wealthy corporations, constrains democratically elected governments, and leaves basic workers' rights vulnerable and unprotected. Yet today we hear the same promises about DR-CAFTA we once heard about NAFTA: rising exports, new jobs, declining poverty, and thriving democracies and development will all follow if DR-CAFTA is ratified. The record of NAFTA requires us to view these promises with skepticism. Why would trade and investment rules that have failed in Mexico suddenly work in Central America?

In fact, the particular challenges that Central America and its workers face – the high inequality, widespread poverty, abysmal record on workers' rights, and legacy of violence – make the free trade model of NAFTA and DR-CAFTA even less appropriate, and the rosy promises even more far-fetched.

DR-CAFTA Does Not Address Central America's Economic Problems

Poverty and inequality are unacceptably high in Central America. According to the World Bank, GDP per capita in the region ranges from just $745 in Nicaragua to $4,375 in Costa Rica. More than 40 percent of workers in the region labor for less than two dollars a day, placing them below the global poverty line. Social and political tensions between, on the one hand, the vast numbers of poor and marginalized Central Americans who labor in the countryside and urban areas, and, on the other, the the small group of elites who own most of the land and capital and run the political institutions, are high. These underlying inequalities were in many cases the catalyst for years of civil strife and violence in Central America. The legacy of violence is still visible in Central America, and many workers in the region continue to face threats and intimidation when they attempt to exercise their most basic rights on the job.

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[4] See "Blood Sweat and Fear: Worker Rights in U.S. Meat and Poultry Plants," Human Rights Watch. 2004.

Governments in the region struggle to address these issues with very limited resources in a cultural and social context where rule of law is routinely flouted and corruption and cronyism flourish. Many of the DR-CAFTA countries are saddled with high external debt burdens that make adequate investments in public administration and basic human needs nearly impossible. Nicaragua is considered a highly indebted poor country by the international community, and is thus the only country in the region eligible for partial debt relief measures. In 2003, the Dominican Republic suffered its worst financial crisis in nearly a century, and the government is still struggling to recover. Guatemala, El Salvador and Honduras have all been required to institute fiscal austerity programs in the past decade under the guidance of the International Financial Institutions.

DR-CAFTA does nothing to address this fundamental challenge that governments face. DR-CAFTA contains no measures to address unsustainable debt burdens. DR-CAFTA does nothing to enable Central American countries to better regulate speculative investments and avoid financial crises. In fact, it prohibits governments in the region from imposing the kinds of capital controls that have been instrumental in preventing and mitigating such crises in other developing nations. These crises are not only devastating for the country directly impacted – they often also lead to major devaluations in currency and floods of cheap exports to the U.S. market, further disrupting our trade balance and displacing more American jobs. The peso crisis Mexico suffered just after NAFTA's implementation is the classic example of this kind of crisis, yet DR-CAFTA does nothing to reduce the risks of a similar crisis in Central America. Finally, DR-CAFTA countries will also face a significant loss in revenue as a result of tariff reductions under DR-CAFTA. The agreement provides no safety net or pledge of resources form the U.S. to help governments manage this transition.

Worker Rights in Central America

Labor laws in Central America uniformly fail to protect basic workers' rights, and deficiencies in the laws have been repeatedly criticized by the International Labor Organization (ILO), the U.S. State Department, and independent human rights organization for many years.[5] Despite this criticism, these flaws persist today. The ILO, in its 2003 and 2004 reports on Central American labor laws, identified no less than 27 key deficiencies in the laws with respect to freedom of association and the right to organize and bargain collectively. Amazingly, the U.S. Trade Representative and Central American countries continue to cite these reports as evidence that laws in the region largely meet ILO standards – a gross mischaracterization of the reports themselves. And even these reports, with all the deficiencies they identify, omit some flaws that the ILO

[5] Such reports include: "Fundamental Principles and Rights at Work: A Labour Law Study - - Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua," International Labor Organization, 2003; "Fundamental Principles and Rights at Work: A Labour Law Study - - Dominican Republic," International Labor Organization, 2004; "2004 Country Reports on Human Rights Practices," U.S. Department of State, 2005; "2004 Annual Survey of Violations of Trade Union Rights," International Confederation of Free Trade Unions, 2004; and "Deliberate Indifference: El Salvador's Failure to Protect Workers' Rights," Human Rights Watch, 2003. A summary of these reports is available in "The Real Record on Workers' Rights in Central America," AFL-CIO, April 2005.

itself had identified with regard to these countries in earlier observations because of the reports' limited scope.

A quick review of the ILO reports and other ILO observations, along with U.S. State Department reports and independent analyses of human rights groups, reveals a wide array of loopholes, gaps, and deficiencies in labor laws in the region. On issues including penalties for anti-union discrimination, employer interference with workers' organizations, obstacles to union registration, restrictions on the right to organize above the enterprise level, restrictions on the rights of temporary employees, onerous requirements for trade union leadership, limits on the activities of federations and confederations, and limits on the right to strike, labor laws throughout the region fail to meet the minimum standards enumerated by ILO core conventions. The only country to actually reform any of its laws in these areas during the DR-CAFTA negotiation process was Nicaragua; but some gaps in the law remain even there. In every other country major deficiencies identified by the ILO remain on the books today. In fact, some countries have actively weakened their labor laws during the DR-CAFTA negotiations: Guatemala's Constitutional Court overturned key elements of major labor law reforms, while the Costa Rican government introduced legislation to weaken worker protections.

Employers take advantage of these weaknesses in the labor law to harass, intimidate, and fire workers who dare to organize an independent union. Employers refuse to bargain with legitimate worker representatives, and have most strikes declared illegal. Even where employers are flagrantly in violation of the law, they enjoy near total impunity in many of these countries. The result is a climate of fear, insecurity, and even physical danger for workers in the region who try to exercise their most basic rights on the job.

As violation after violation of workers' rights accumulate, and as governments refuse to improve their laws or enforce those that do exist, the very institutions of independent trade unions and collective bargaining founder. Trade union density in Central American countries is minimal: 7 percent in Honduras, 5 in El Salvador, 3 in Guatemala. In El Salvador, no independent trade unions have been registered in the past four years. The most recent denial came this year, when the Ministry of Labor found that port workers did not meet the legally required minimum number to form a union, as a result of the fact that their employer had fired most of the founding members of the union in direct retaliation for their organizing activities. There are only two collective bargaining agreements in force in Guatemala's maquilas – zero in El Salvador's. In Costa Rica from 1999 to 2004, for every employer that negotiated a collective bargaining agreement with a legitimate trade union, more than fourteen employers negotiated direct arrangements with employer-dominated solidarity associations. In Guatemala, 45 incidents of threats against trade unionists were reported to the government in 2004 – only one conviction was achieved.

DR-CAFTA is a Step Backward on Worker Rights

In the face of these inadequate labor laws, DR-CAFTA only requires that countries enforce the labor laws they happen to have. Obligations to improve one's labor laws, to meet ILO standards, and not to derogate from or waive laws in the future are all completely unenforceable under DR-CAFTA. Thus a country can maintain its laws far below ILO standards, weaken its laws even further in the future, and face no consequences under DR-CAFTA. As the discussion above demonstrates, this is not just a theoretical possibility in Central America – it is the reality that workers live with every day.

DR-CAFTA's failure to include an enforceable requirement that labor laws meet ILO standards represents a step backwards from the labor rights provisions of the U.S.-Jordan Free Trade Agreement. The Jordan agreement enjoyed broad support from labor unions in the U.S. and Jordan, and passed the U.S. Congress unanimously in 2001. The Jordan agreement allows each one of its labor rights obligations to be brought up under the agreement's dispute settlement and enforcement mechanism, including provisions committing countries to meet ILO standards. In contrast, DR-CAFTA excludes the vast majority of its labor rights obligations from the accord's dispute settlement and enforcement mechanisms, and only the requirement that countries enforce their own labor laws is subject to dispute settlement and enforcement.

DR-CAFTA also backtracks from the Jordan agreement by giving labor rights second-class status within the agreement's dispute settlement and enforcement apparatus. In the Jordan FTA, the dispute settlement and enforcement measures that apply to the agreement's labor provisions are identical to those that apply to the agreement's commercial provisions, and can include fines or sanctions. Under DR-CAFTA, only violations of the agreement's commercial provisions can lead to sanctions or punitive fines sufficient to compensate the harm caused by the violation. Violations of the agreement's labor obligation must be remedied through the assessment of a non-punitive fine, and that fine is capped at $15 million regardless of the harm caused by the violation.

Perhaps most disturbing is the fact that DR-CAFTA's rules on workers' rights are actually weaker than the current labor conditions that apply to Central American countries under our unilateral trade preference programs, the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI). DR-CAFTA's labor chapter backtracks from the labor standards in GSP and CBI, and the agreement eliminates enforcement tools currently available in the unilateral programs.

- The GSP requires countries to have taken or be "taking steps to afford internationally recognized worker rights," while the CBI instructs the president to consider "the extent to which the country provides internationally recognized worker rights" when granting preferential market access under the program. These rules enable workers to complain about the inadequacy of national labor laws, not just about the government's failure to enforce the law. DR-CAFTA, on

the other hand, only requires countries to enforce the labor laws they happen to have, no matter how weak those laws are now or become in the future.

- The GSP includes a public petition process for the removal of trade benefits. The AFL-CIO and other labor rights advocates have used the process, in conjunction with unions in Central America, to bring public pressure on Central American governments to improve labor rights. Even when the U.S. government exercises its discretion to reject meritorious GSP petitions, the public forum provided by the petition process can help focus public attention on workers' rights abuses and pressure governments to reform. DR-CAFTA contains no direct petition process for workers – enforcement can only happen through government-to-government disputes.

- The GSP and CBI directly condition market access on respect for international labor rights. While preferential benefits are rarely withdrawn under the programs, the credible threat of reduced trade benefits has successfully changed government behavior. In addition, petitioners have been able to tailor request for withdrawal to specific sectors and producers responsible for workers' rights violations, helping to create a specific incentive for employers to respect workers' rights. DR-CAFTA, on the other hand, makes it extremely difficult to withdraw trade benefits for workers' right violations. Even if a government has been found in violation of DR-CAFTA's labor provisions, it can continue to enjoy full market access under the agreement as long as it pays a small, capped fine to finance labor enforcement activities. The fine in no way penalizes producers for violations of workers' rights, and exerts little pressure on governments, who can reduce their labor budgets by an amount equal to the fine and avoid spending the fine on projects with political sensitivity such as labor law reform.

The only tool that has helped create the political will to reform labor laws in Central America in the past is our unilateral system of trade preferences. While the labor rights provisions of these programs are not perfect, they have led to some improvements in labor rights in the region. In fact, nearly every labor law reform that has taken place in Central America over the past fifteen years has been the direct result of a threat to withdraw trade benefits under our preference programs.

Even the United States Trade Representative (USTR) touts the reforms that have been made to Central American labor laws as a result of GSP petitions. USTR argues that the reforms demonstrate Central American governments' commitment to workers' rights, and thus argue for approval of DR-CAFTA. Quite to the contrary, the reforms demonstrate that governments in the region rarely undertake labor law improvements without outside pressure – pressure that will no longer be applied if DR-CAFTA is ratified.

- The U.S. government accepted a GSP workers' rights petition against Costa Rica for review in 1993, and Costa Rica reformed its labor laws later that year.

- The Dominican Republic reformed its labor laws in 1992 in response to a GSP petition on workers' rights.

- El Salvador was put on continuing GSP review for workers' rights violations in 1992, and the government reformed its labor laws in 1994.

- Guatemala reformed its labor laws in response to the acceptance of a 1992 GSP petition, and when their case was reopened for review in response to a 2000 petition they again reformed their labor laws in 2001.

- Nicaragua's GSP benefits were suspended in 1987 for workers' rights violations, and it reformed its labor laws in 1996.

The GSP process has also been helpful in addressing enforcement and rule-of-law problems in the region. Too often, these patterns of violation are the result not just of limited resources, but of insufficient political will on the part of Central American governments. GSP cases have helped create that political will. As the result of a 2004 petition on El Salvador, for example, the Salvadoran government finally enforced a reinstatement order for union activists that had been locked out for three years. All appeals to national mechanisms in the case had been fruitless, and the employer was in outright defiance of a reinstatement order from the nation's Supreme Court. The last independent union granted legal registration in El Salvador was only registered after appeals to the Salvadoran Supreme Court, the ILO, and a GSP petition.

Central American countries need a trade regime that will improve compliance with fundamental workers' rights. As long as independent trade unions are thwarted, collective bargaining avoided, and the right to strike repressed, workers will be unable to win a voice at work and negotiate with their employers for decent working conditions and wages that reflect the true value of their production. Trade rules must ensure that governments protect fundamental workers' rights, and require that the companies who take advantage of the new rights and mobility that trade agreements provide be held accountable for their treatment of workers.

DR-CAFTA fails this test. Rather than tie the incentives that additional market access provides to required improvements in workers' rights, DR-CAFTA does exactly the opposite. While granting expanded market access to Central American countries, DR-CAFTA actually reduces the labor rights conditions those countries are required to fulfill under current trade programs. This failure is particularly egregious in the Central American context – in countries where labor laws fall far short of minimum international standards, where governments have a record of indifference towards workers' rights and hostility towards trade unions, and where the only tool that has proven successful in improving workers' rights has been the threat of the withdrawal of trade benefits.

The Expiration of Apparel and Textile Quotas

The apparel and textile industries in the U. S. are in crisis. Since January 2001, 381,000 apparel and textile workers have lost their jobs. Hundreds of plants have closed devastating communities. To make matters worse, 103 days ago all apparel and textile quotas ended. In the first 90 days of 2005 17,200 apparel and textile workers have lost their jobs.

For the first time workers in the apparel and textile sector in the U.S. and around the world are in direct, unregulated competition with China. Hundreds of thousands of jobs are at risk in the United States and millions of jobs are at risk in developing countries around the world.

Categories where import quotas have already been phased out offer a glimpse of what is to come. For the products removed from quota in 2002, China increased its exports to the U.S. by $4.1 billion while the rest of the world's declined by $1.3 billion. In the apparel categories where quotas disappeared in 2002, China's share of U.S. imports jumped from 10% to 73%. At the same time the countries from Central America and the Caribbean saw their share decline form 10% to 3%. And in the last three months since all quotas have expired, imports from China in important categories such as trousers and shirts have soared (in some cases over 1,000%) while imports from DR-CAFTA countries have either declined or remained flat.

UNITE HERE along with a number of industry associations have filed 7 China safeguard petitions to supplement the 3 petitions that were initiated by the Administration. These actions are endorsed by the Global Alliance for Fair Trade in Textiles (GAFTT) representing 96 trade groups from 54 countries and the International Textile Garment Leather Workers Federation (ITGLWF) representing apparel and textile unions from around the world.

The U.S. government can help workers in the U.S. and in DR-CAFTA countries by implementing the safeguards immediately. Because the safeguard mechanism expires at the end of 2008 the U.S. government should also urge the WTO to undertake an urgent review of the impact of the quota phase-out and to develop new permanent instruments to prevent the textile and clothing sector from being monopolized.

DR-CAFTA is not an adequate response to the ending of apparel and textile quotas. Central America cannot lower its wages to Chinese levels, and shouldn't aim to. The only alternative for the region is to occupy a different niche in the global economy. Central America can position itself as a supplier with proximity to the U.S. market, high skills and productivity, sound infrastructure, and high labor standards that comply with internationally recognized labor rights.

The U.S. has not only a moral responsibility to help DR-CAFTA countries take the high road on labor; we have a direct economic interest in doing so. U.S. workers and firms cannot hope to increase exports to the region if Central American workers are mired in poverty. Eliminating tariff barriers will be of little consequence if consumer demand in the region is ultimately constrained by abysmally low wages. At the same

time, American workers placed in more direct competition with Central American workers will not be able to compete on a fair playing field if countries in the region refuse to take a high road on labor. As long as workers' rights in Central America are violated with impunity, the rights of workers in the U.S. are at risk. And as long as wages in the region fall far below the poverty level, wages in the U.S. will be under downward pressure.

An Alternative DR-CAFTA

Along with many allies throughout the region, we are urging that DR-CAFTA be rejected. Only then can we begin to construct a new way to trade that recognizes the failures of the current model, and finds solutions for working families in all countries involved.

We support economic integration that will produce equitable and sustained economic development. Enforceable workers' rights provisions are necessary, though not sufficient, to make a trade agreement with Central America a successful model for economic integration. An adequate agreement would also include enforceable protections for the environment and market access rules that allow for protection against import surges. NAFTA style commercial provisions that protect corporate rights at the expense of public health and safety, the environment, essential human services and equitable economic development must be rejected. An alternative DR-CAFTA would have the following provisions:

Worker Rights: Promoting respect for internationally recognized rights of workers is an important means of ensuring that the workers within developing countries benefit from access to U.S. markets. The capacity to form unions and to bargain collectively to achieve higher wages and a better working conditions is essential for workers to attain decent living standards. The denial of internationally recognized worker rights in developing countries tends to perpetuate poverty, to limit the benefits of economic development and growth to narrow privileged elites, and to sow the seeds of social instability. If workers' rights are vigorously enforced, then impoverished workers may improve their standard of living and generate new domestic demand in a virtuous cycle of equitable development, while providing new markets for overseas investors and workers.

Debt and Finance: Debt relief is needed to allow Central American countries to adequately fund education, health care, and infrastructure needs and reduce the financial instability caused by mounting debt burdens. Countries should also be allowed to regulate the flow of speculative capital in order to protect their economies form the kind of excessive volatility that has led to financial crises in Mexico and Argentina.

Investment: Governments should be allowed to regulate corporate behavior to protect the public interest. Government regulations pertaining to environmental protection, public health and safety, consumer protection, the regulation of anti-competitive practices, and the protection of human rights and workers' rights – including protections

necessary to fulfill a governments obligations under ILO conventions and international human rights instruments – should not be subject to challenge.

Services: An alternative DR-CAFTA would not create any pressure to deregulate and privatize services. National, state and local governments should be allowed to regulate private service providers in the public interest.

Procurement: Trade agreements should not constrain procurement rules that serve important public policy aims such as environmental protection, local economic development and social justice, and respect for human rights and workers' rights. Governments should have a right to invest their tax money in local firms and to use procurement policy to pursue broader social goals.

Intellectual Property Rights: All countries should have the right to license life-saving pharmaceuticals to respond to public health crisis. Public health must take precedent over patent rights.

A DR-CAFTA that honored these principles could gain broad support from workers, farmers and small producers in the U.S. and Central America, and form the basis of a lasting economic partnership to promote growth, raise living standards, and reduce poverty.

The negotiators of DR-CAFTA chose a different path. The result is a broad and diverse opposition to DR-CAFTA in the United States as well as throughout the DR-CAFTA countries. Trade unions, small farmers, people of faith, doctors, students, environmentalists, parliamentarians and many others are outspoken in their opposition to the agreement. Tens of thousands have taken to the streets in Central America to protest DR-CAFTA. Thousands more have organized sign-on statements, petition drives, and popular education campaigns around the agreement.[6]

Workers and civil society organizations, in all countries covered by the agreement, understand that when income, dignity and conditions of work are undercut in one country it will eventually be cut in others as well. That understanding, which is the reason for opposing DR-CAFTA, is also the foundation for creating a global economy that works for all.

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[6] See "Central Americans Speak Out Against DR-CAFTA: Major Issues and Mobilizations," Alliance for Responsible Trade, March 2005.

Responses in Italics

QUESTIONS FOR THE RECORD

United States Senate
Committee on Finance

Hearing on
"The U.S. – Central America – Dominican Republic Free Trade Agreement"

April 13, 2005

Questions from Chairman Charles E. Grassley to Mr. Levinson

You state that the CAFTA-DR will hurt workers in those countries. If that is the case, why would the democratically elected governments of those countries seek to enter into an FTA with the United States?

A recent ILO assessment found the CAFTA-DR countries' laws to be in close compliance with international core labor standards. In fact, Costa Rica, Guatemala, Honduras, and Nicaragua have ratified all eight ILO core labor conventions, and El Salvador has ratified six of the eight ILO core labor conventions, while the United States has only ratified two. Further, last week I met with the CAFTA-DR Labor Ministers after they endorsed the Inter-American Development Bank "White Paper" recommendations to strengthen the compliance of their labor laws. So as the CAFTA-DR countries are striving to improve their labor regimes and bolster their democracies, why do you want to shut the door in their face?

1. *It is not unusual for countries to enter into trade agreements that may not be in the interest of workers. Take for example NAFTA, upon which CAFTA is based. NAFTA proponents argued that the American market was already more open to Mexican products therefore our workers and producers would come out on top if all trade barriers were eliminated. But since NAFTA was implemented our trade deficit with NAFTA partners has increased 1,200%, from 9 billion in 1993 to $111 billion in 2004. Imports from our NAFTA partners grew more than $100 billion faster than our exports to them, displacing almost one million jobs here at home. At the same time real wages in Mexico have fallen and the number of poor people has grown. Many in Mexico who supported NAFTA 11 years ago have turned into ardent opponents. CAFTA of course does benefit some people. CAFTA strengthens protections for multinational corporations, forcing draconian changes in intellectual property, giving corporations new rights to sue governments over regulations they deem too costly of inconvenient, and limiting the ability of future legislators to place conditions on government procurement. CAFTA, like NAFTA will boost the power and profits of multinational corporations, while leaving workers, family farmers, small businesses and the environment more vulnerable than ever.*

2. *I disagree with all three parts of your question: the laws in CAFTA-DR countries are not in close compliance with international core labor standards, these countries are not striving to improve their labor regimes and we do not want to shut the door in their face. As indicated in my testimony, without exception, the national legal systems of the Central American countries fail to meet -- in fact don't even come close to meeting -- international standards on freedom of association and the right to organize and bargain collectively. The labor rights records of the CAFTA-DR countries have been repeatedly criticized by the ILO, the U.S. State Department, the International Confederation of Free Trade Unions and Human Rights Watch. For a detailed*

Responses in Italics

listing of the many violations of core labor standards in the CAFTA-DR countries see "The Real Record on Workers' Rights in Central America," AFL-CIO, April 2005. Also the CAFTA-DR countries have done little to improve their laws. Again, as I pointed out in my testimony, the only country to actually reform any of its laws during the CAFTA-DR negotiation process was Nicaragua, but some gaps in the law remain even there. Finally, we are not shutting the door on the CAFTA-DR countries. In solidarity with workers, environmentalists, civil society organizations and farmers we support a development strategy and a trade policy that will benefit all, not just multinational corporations.

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

Senate Finance Committee
Hearing on the Proposed U.S. Free Trade Agreement with the Dominican Republic and Central America (CAFTA)

April 13, 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 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 respectfully suggests that this Committee 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.

  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.

  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 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 600,000 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. And new figures from LMC International show that the 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 13). ("Retail and Wholesale Prices of Sugar around the World,"* LMC International Ltd, Oxford, England, April 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 600,000 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 dangers of the CAFTA to the U.S. economy outweigh the risks. We respectfully urge that this Committee 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

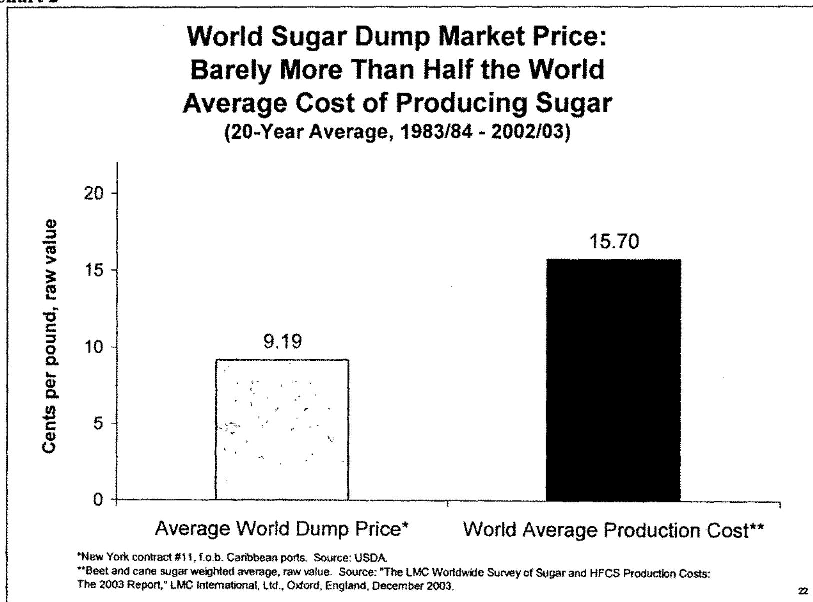


Chart 3

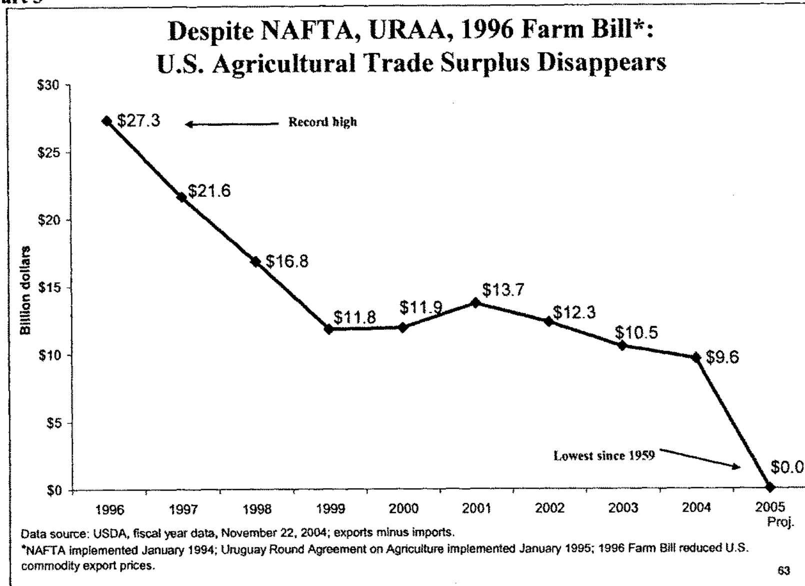
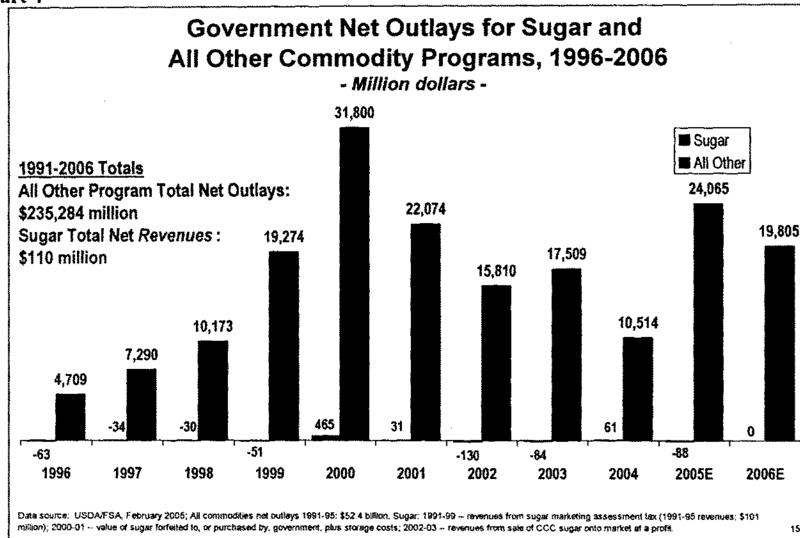


Chart 4



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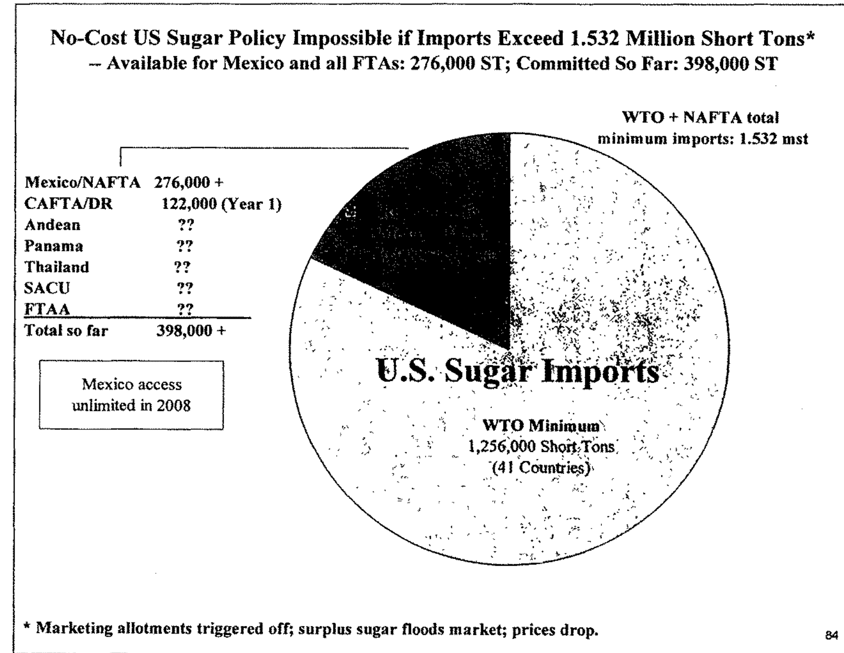

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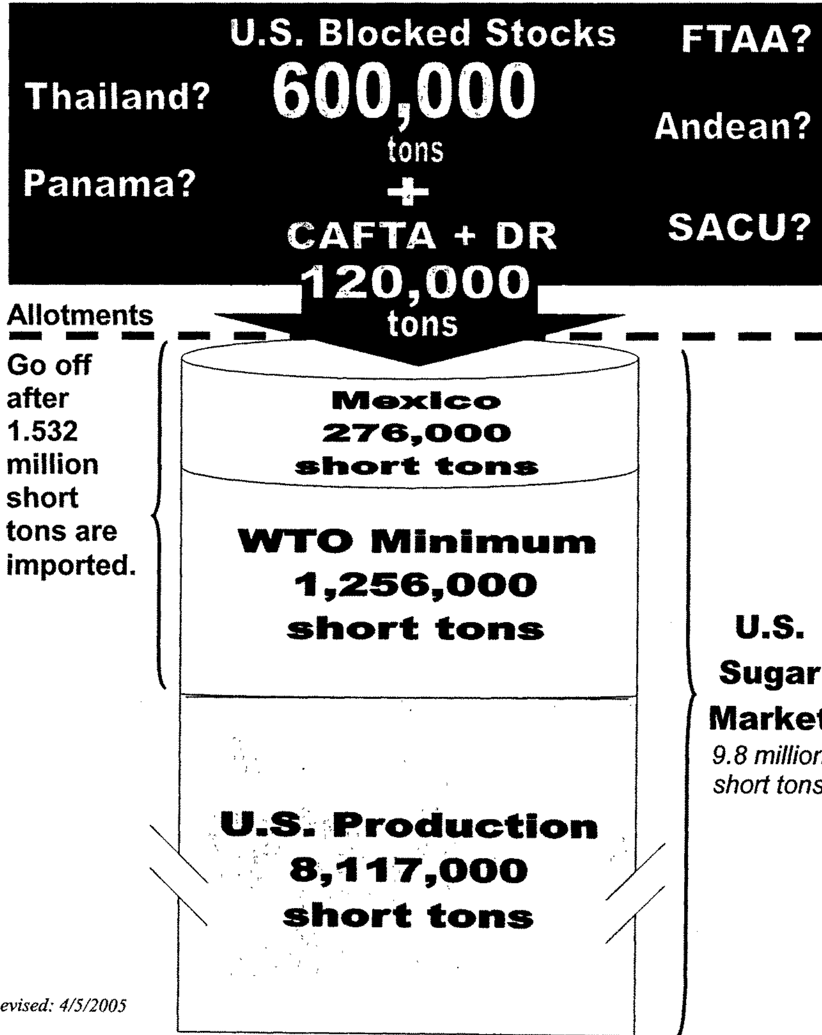

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Chart 7

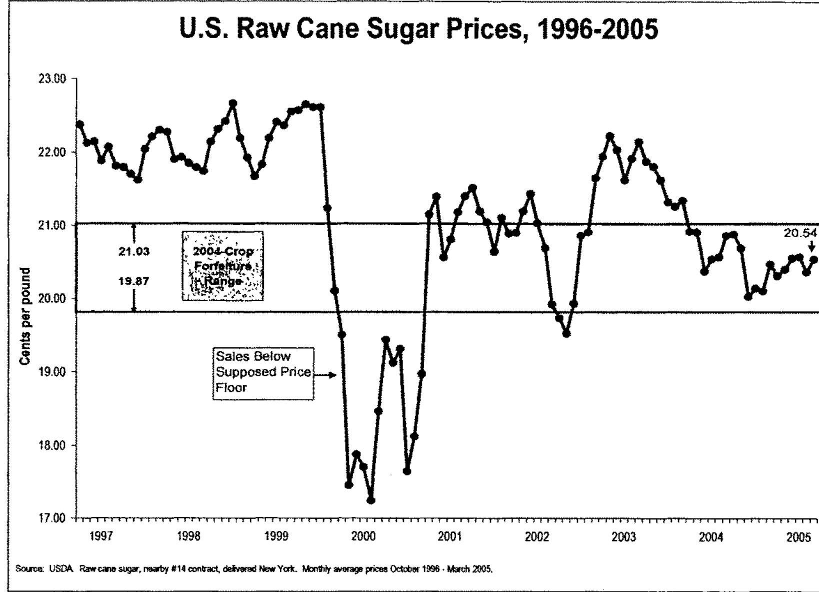

Chart 8

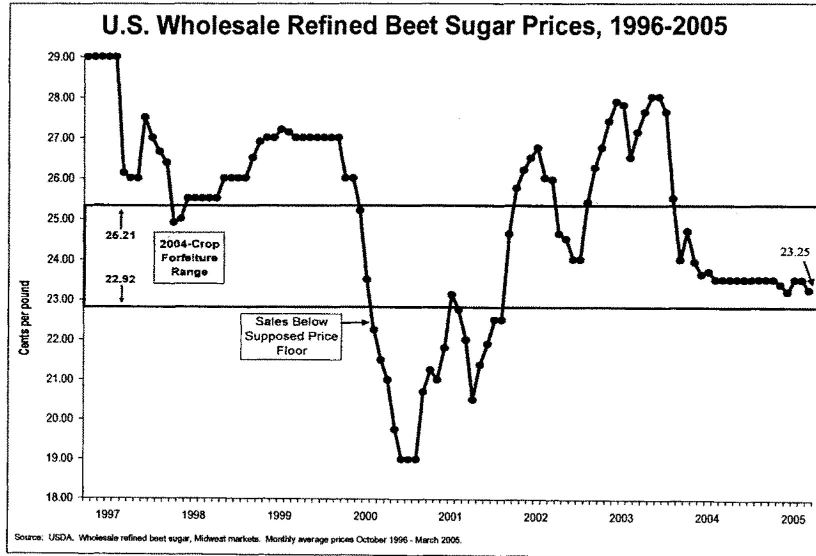

Chart 9

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

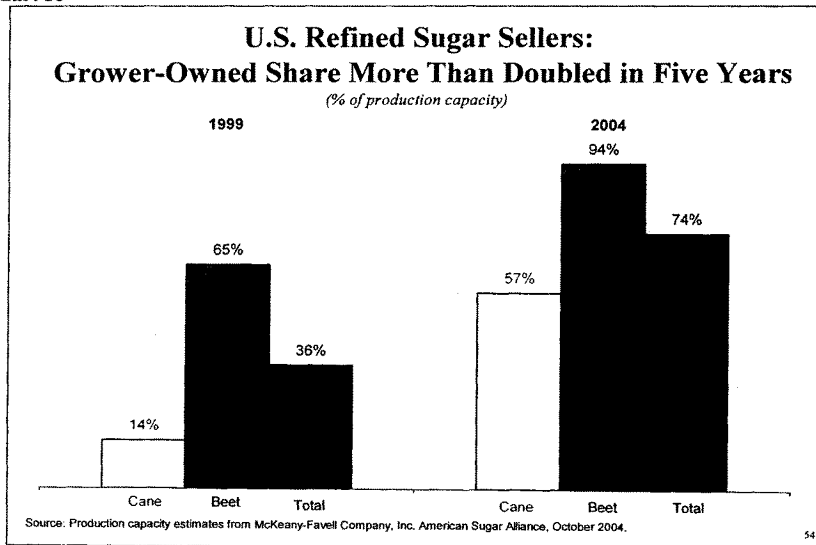

Chart 11

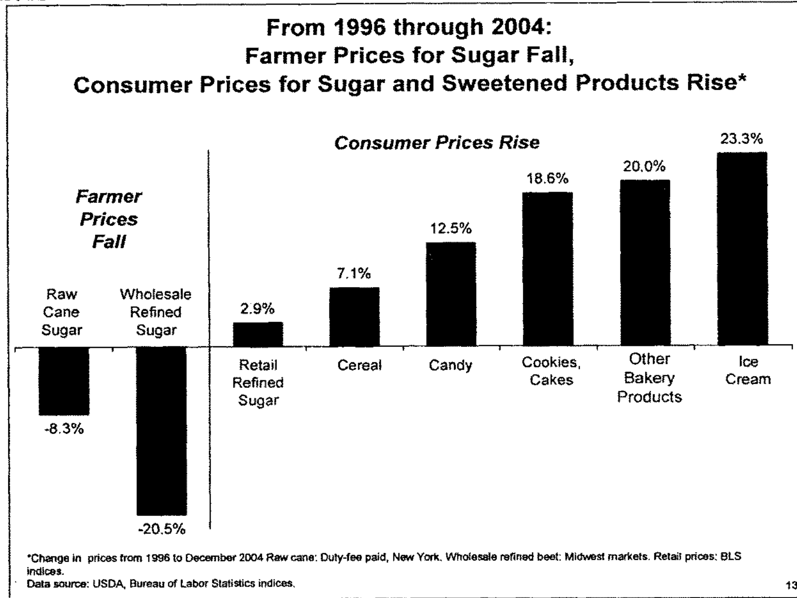

Chart 12

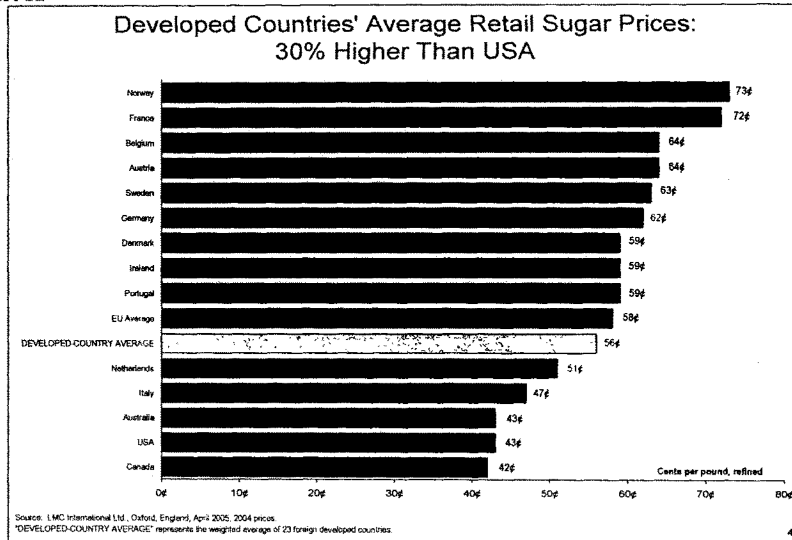

Chart 13

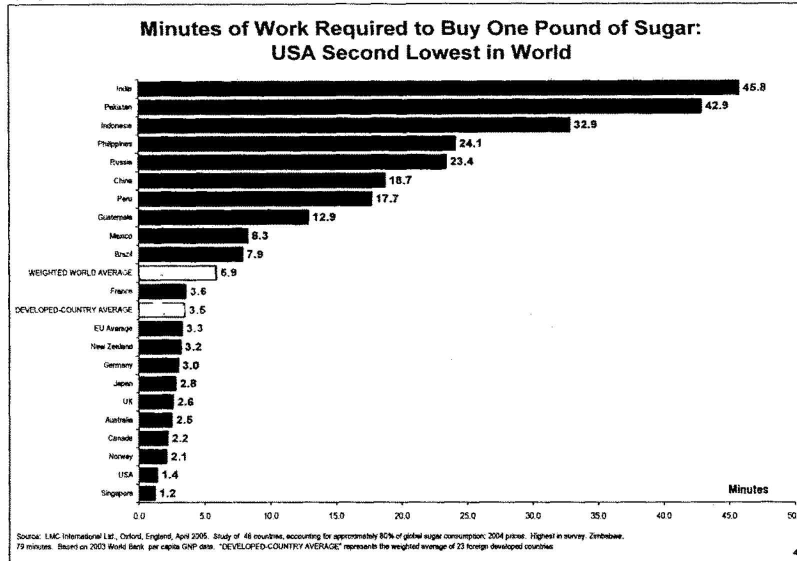

Chart 14

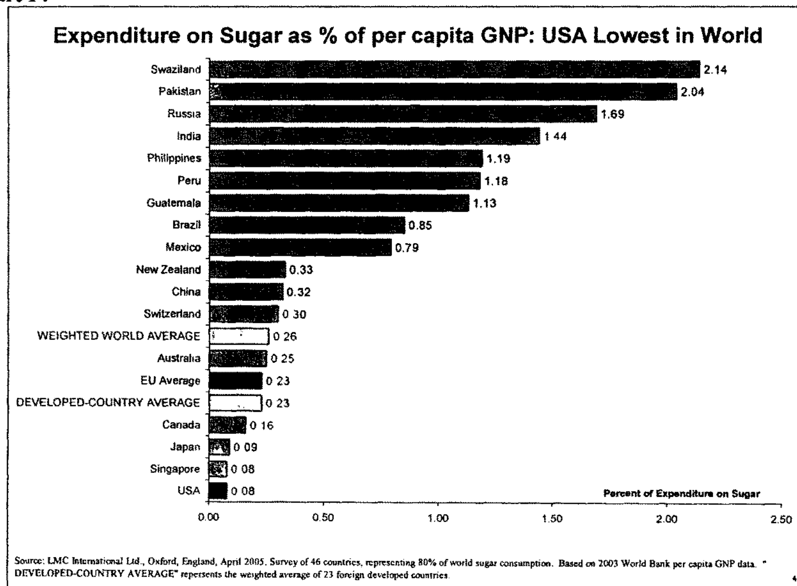

Chart 15

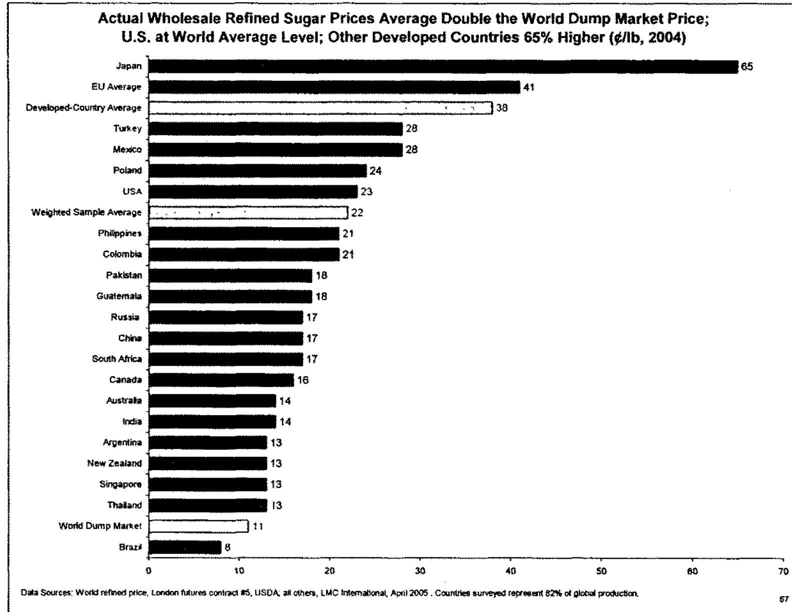

Chart 16

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	$2,400	$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, April 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

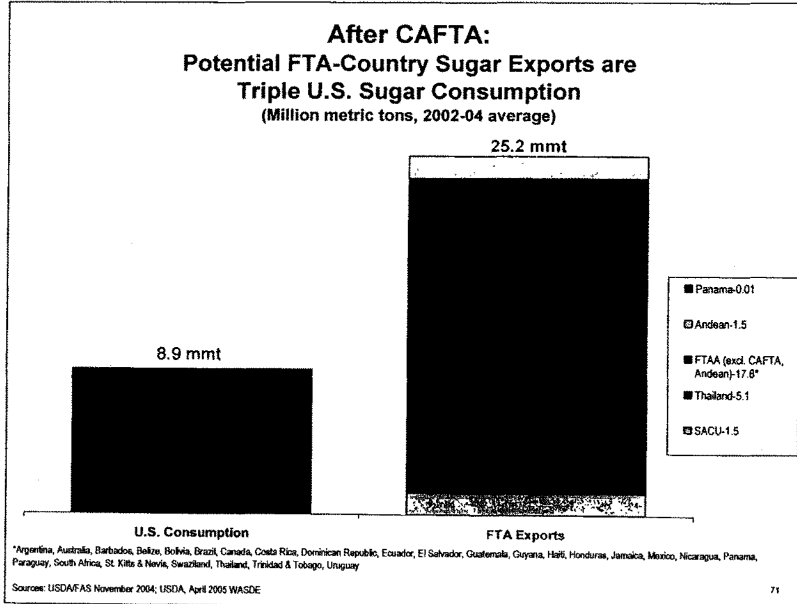


Chart 19

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.

Senator Rick Santorum
Committee on Finance
United States Senate
Statement for the Record for Hearing on CAFTA-DR
April 13, 2005

Mr. Chairman, I thank you for convening this hearing, and I appreciate the seriousness with which you have approached this important free trade agreement. This is an agreement that will benefit both American exporters and American consumers. I support CAFTA-DR, and I support your efforts to take up the implementing legislation as soon as is practicable.

It is important to remember that nearly 80% of Central American products already enter the U.S. duty-free due to unilateral preference programs such as the Caribbean Basin Trade Partnership Act (CBTPA) and the Generalized System of Preferences (GSP). CAFTA-DR will level the playing field for U.S. workers and businesses that export to Central America. The Agreement will provide immediate, duty-free access to the region for more than 80% of U.S. consumer and industrial groups.

Currently, 99% of food and agriculture products from the region receive duty-free treatment in the U.S. At the same time, U.S. farm products exported to these countries face significant tariff barriers. The American Farm Bureau Federation estimates that when fully implemented, CAFTA-DR will result in a net gain of $1.44 billion in agricultural exports. Under CAFTA-DR, over half of U.S. agriculture products will enter the region duty-free immediately upon implementation of the Agreement, with the remaining duties on sensitive products phased out over 15 years.

With respect to the Commonwealth of Pennsylvania, CAFTA-DR will strengthen an already vibrant linkage, particularly in the areas of textiles/apparel and agricultural products. Pennsylvania's exports to the CAFTA-DR countries were $353 million in 2004, making it the Commonwealth's 12th largest export market. Also noteworthy, Pennsylvania's exports to the region have increased by nearly $130 million or 58% since 1999.

For Pennsylvania, the U.S. Chamber of Commerce estimates that CAFTA-DR, nine years after implementation, will result in $504 million in increased output across all industries and the creation of 3,062 new jobs in the Commonwealth. Leading exports from Pennsylvania to the region include: non-apparel textile products; apparel manufactures; chemical manufacturing; food, beverage and tobacco products; and electrical equipment & appliance manufacturing. CAFTA-DR will strengthen the ability of American exporters to send additional products to these countries because of the improved market access aspects of the Agreement.

Exports of Pennsylvania farm products helped support 13,383 jobs both on and off the farm in food processing, storage, and transportation. In 2003, Pennsylvania's farm cash receipts were $4.2 billion, and agricultural exports were estimated at $1 billion, putting its reliance on agricultural exports at 24%. I am aware of over 50 agricultural groups that have expressed support for CAFTA-DR.

Pennsylvania's top manufactured export category to the CAFTA-DR countries is fabric. In 2004, Pennsylvania exported $55 million in textiles to the region. Apparel made in these CAFTA-DR countries will be duty-free and quota-free under the Agreement if they use U.S. fabric and yarn. The Agreement contains a special textile safeguard, allowing the U.S. to impose tariffs on certain goods when injury occurs due to import surges.

I look forward to working with you and others on the Committee to review the CAFTA-DR implementing language to be submitted by the Administration, and I support the Committee's expeditious consideration of the language that will support CAFTA-DR.

COMMUNICATIONS

SENATE FINANCE COMMITTEE

HEARING ON

THE U.S.-DOMINICAN REPUBLIC-CENTRAL AMERICAN FREE TRADE AGREEMENT

APRIL 13, 2005

TESTIMONY

SUBMITTED FOR THE RECORD

BY

THE ADVANCED MEDICAL TECHNOLOGY ASSOCIATION (AdvaMed)

Bringing innovation to patient care worldwide

The members of AdvaMed join other companies in their strong endorsement of the U.S.-Dominican Republic-Central American Free Trade Agreement (CAFTA). This FTA will benefit the United States economy, the economies of our friends in the Dominican Republic and Central America, and our member companies that export and produce in this region.

AdvaMed represents over 1300 of the world's leading medical technology innovators and manufacturers of medical devices, diagnostic products and medical information systems. Our members manufacture nearly 90% of the $83.4 billion in health care technology products purchased annually in the U.S., and nearly 50% of the $175 billion in medical technology products purchased globally. Exports in medical devices and diagnostics totaled $22.4 billion in 2003, but imports have increased to $22 billion - indicating a new trend towards a negative trade balance for the first time in over 15 years.

The medical technology industry is fueled by intensive competition and the innovative energy of small companies – firms that drive very rapid innovation cycles among products, in many cases leading new product iterations every 18 months. Accordingly, our US industry succeeds most in fair, transparent, global markets where products can be adopted on their merits.

Global Challenges

Innovative medical technologies offer an important solution for nations that face serious health care budget constraints and the demands of aging populations. Advanced medical technology can not only save and improve patients' lives, but also lower health care costs, improve the efficiency of the health care delivery system, and improve productivity by allowing people to return to work sooner.

To deliver this value to patients, our industry invests heavily in research and development (R&D), and US industry is a global leader in medical technology R&D. The level of R&D spending in the medical device and diagnostics industry, as a percentage of its sales, more than doubled during the 1990s, increasing from 5.4% in 1990, to 8.4% in 1995, to 12.9% in 1998. In absolute terms, R&D spending has increased 20% on a cumulative annual basis since 1990. This level of spending is on par with spending by the pharmaceutical industry and more than three times the overall US average.

However, patients benefit little from this R&D investment when regulatory policies and payment systems for medical technology are complex, non-transparent, or overly burdensome, causing significantly delays in patient access. They can also serve as non-tariff barriers, preventing U.S. products from reaching patients in need of innovative health care treatments.

Utilize Regional Forums to Eliminate Tariff and Nontariff Barriers to Trade that Unnecessarily Increase the Cost of Health Care

AdvaMed supports international trade initiatives, including bilateral, regional and global trade negotiations, such as the Free Trade Area of the Americas (FTAA) and the Doha Development Agenda in the World Trade Organization (WTO). We encourage Congressional and Administration efforts to eliminate significant tariff and nontariff barriers to trade for medical technology maintained by many countries, particularly developing countries. Such barriers represent a self-imposed and unnecessary tax that substantially increases the cost of

health care to their own citizens and delays the introduction of new, cost-effective, medically beneficial treatments. For example, the medical technology sector continues to face tariffs in Latin America of 15-20% in Mercosur countries and 9-12% in Peru and Colombia.

We strongly endorse the Administration's effort to gain Congressional approval for legislation implementing the CAFTA. Under this free trade agreement, our trading partners in the Dominican Republic and Central America will grant U.S. exports of medical devices duty-free treatment upon entry into force. This would immediately eliminate tariffs of around 10-15% applied to medical devices in these nations. Since the United States already grants imports of almost all products from these countries duty-free entry under the Caribbean Basin Initiative, we view the CAFTA as a way to level the playing field for U.S. exports.

Congressional approval of CAFTA legislation would pave the way for progress on other international trade agreements. Under the WTO negotiations, AdvaMed, working with other trade associations, is seeking the elimination of tariffs on medical devices and other related health-care products. The result would be substantially expanded access for our products in many developing countries, where tariffs are still quite high. Lowering tariffs on health-care related products would reduce the cost of those products to patients in developing countries and improve their access to products that enhance, prolong, and save lives.

International trade agreements, such as CAFTA, provide a vehicle for Administration negotiators to address other trade-related issues. FTAs create a council which generally allows the parties to raise a range of trade-related issues. AdvaMed believes the USTR, Department of Commerce and Congress should monitor regulatory, technology assessment and reimbursement policies in foreign health care systems and push for the creation or maintenance of transparent assessment processes and the opportunity for industry participation in decision making. We look to the Administration and Congress to actively oppose excessive regulation, government price controls and arbitrary, across-the-board reimbursement cuts imposed on foreign medical devices and diagnostics. The councils established by a free trade agreement could provide a forum to address these types of issues, which are usually not explicitly contained in the FTA themselves.

Conclusion

AdvaMed appreciates the shared commitment by the President and the Congress to expand international trade opportunities and encourage global trade liberalization. We look to the President and his Administration to aggressively combat barriers to trade throughout the globe, and support the adoption of the U.S.-Dominican Republic-Central American Free Trade Agreement. AdvaMed is fully prepared to work with the President, the office of the USTR, the Department of Commerce, and the Congress to monitor, enforce and advance regional, multilateral, and bilateral trade agreements – including those with our current key trading partners.

April 29, 2005

The Hon. Charles Grassley
Chairman
Senate Finance Committee
219 Senate Dirksen Office Building
Washington, DC 20510

Dear Chairman Grassley:

I am pleased to provide these comments in connection with the hearing on the U.S.-Central America/Dominican Republic Free Trade Agreement (CAFTA-DR) you held before the Senate Finance Committee on April 13, 2005.

Let me be clear that the American Apparel & Footwear Association – the national trade association of the apparel and footwear industries and their suppliers – enthusiastically supports this agreement. We consider it a matter of national priority to secure swift enactment and implementation of this agreement.

We have attached a document we recently published that debunks eight common myths related to the impact of this agreement on the U.S. textile and apparel industry. I would like to ask that this document and letter be included in the hearing record.

Focusing on textiles and apparel, I'd like to provide you three very specific reasons why this agreement must be enacted soon.

First, the Central American region is vitally important for the U.S. textile industry. CAFTA-DR will promote one of the best and fastest growing markets for U.S. yarns and fabrics by creating fresh incentives to make and source garments in the region. Twenty-five percent of all U.S. fabrics and 40% of all U.S. yarns go to CAFTA-DR countries. Moreover, between 1999 and 2004, U.S. yarn and fabric exports to this region grew by $2 billion. Not only is this important for the commercial health of the U.S. textile industry but CAFTA-DR also has important national security ramifications for our industry as well. By promoting a vibrant market for U.S. textiles, CAFTA-DR will help secure the warm industrial base for our domestic contractors who rely upon U.S.-sourced yarns, fabrics, threads, findings, and trimmings for the clothing and uniforms they make for the U.S. military.

Second, the textile (and to a lesser extent, footwear) industry is vitally important for the Central America region. CAFTA-DR will promote stability in the region by preserving the jobs of more than 500,000 Central Americans employed in the textile and apparel industry in the region. Anchoring these jobs is key to supporting economic growth and democratic institutions in the region. A majority of textile and apparel workers in the region are women and support a family. Textile and apparel is the second largest source of private sector employment in the region and one of the largest sources of foreign exchange and export earnings.

1601 North Kent Street, Suite 1200, Arlington, VA 22209 www.apparelandfootwear.org p (703) 524-1864 (800) 520-2262 f (703) 522-6741

Third, a vibrant hemispheric supply chain will attract apparel and footwear sourcing to this region. CAFTA-DR will provide incentives for apparel importers and retailers to maintain and build commercial relationships in this region, rather than focusing most of their sourcing operations in Asia. In so doing, it will create opportunities for the U.S. and Central American textile and apparel industries to collaborate and compete in a world no longer restrained by import quotas (which were eliminated globally on January 1, 2005).

In addition to these very important textile and apparel reasons, CAFTA-DR creates an alternative sourcing mechanism for footwear while protecting those footwear categories that have been deemed most sensitive by the International Trade Commission in other agreements. Currently, more than 80 percent of our footwear is imported from China. CAFTA-DR promotes more flexibility for all but 17 Harmonized Tariff System (HTS) lines which provides real incentives to source footwear in this hemisphere that is no longer made domestically. This rule not only creates viable alternatives to Asia, but also provides renewed opportunities for domestic footwear component suppliers to sell components to companies in this hemisphere.

In general, CAFTA-DR improves on the current trade program because it is:

- **Permanent**: The current program expires in 2008. Access and enforcement mechanisms of CAFTA-DR are permanent.

- **Reciprocal**: The current program is a one way unilateral program covering U.S. imports. CAFTA-DR provides access for U.S. exports in addition to U.S. imports.

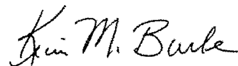
- **Broader**: The current program excludes yarns, fabrics, home textiles and certain types of apparel. CAFTA-DR covers these items.

- **Flexible**: The current program contains overly restrictive origin requirements that impose limits on the use of U.S. inputs and create disincentives for textile, apparel, and footwear manufacturing operations and retail sourcing in the region. CAFTA-DR eliminates these restrictions.

- **Simple**: The current program imposes burdensome and expensive record keeping and compliance requirements that make it difficult to use and often negates the cost benefit of duty-free treatment. CAFTA-DR relies upon electronic record-keeping requirements to ease compliance and enforcement activities and reduce costs.

In closing, let me reiterate my very strong support for this important agreement. I urge its immediate passage.

Sincerely,



Kevin M. Burke
President and CEO

Attachment

CAFTA-DR is Vital to the Health of the U.S. and Central American Textile and Apparel Industries

April 2005

De-bunking Eight Common Myths About CAFTA-DR

Myth 1: *CAFTA-DR is not needed since textile and apparel articles are already imported duty free from the region.*

FACT: Although Congress granted some duty preferences for the Caribbean Basin in 2000, that program is only limited to garments (i.e., it excludes yarns, fabrics, and non-apparel textile articles, like towels, sheets, and pillow cases). The current program is generally viewed as containing overly restrictive origin requirements and burdensome documentation procedures, both of which act as disincentives to its use and the use of U.S. textile inputs. Moreover, by law, it is set to expire in a little over three years (October 1, 2008).

As a result, despite this duty free access for garments, Central America and the Dominican Republic have continued to lose market share in the U.S. apparel import market. In fact, the region's market share has dropped 3 percentage points since 1997. And most of that loss occurred while China and other Asian powerhouses were still under quota restraints. Now that those countries can ship quota-free to the U.S. market, most studies predict Central American market share will plummet, unless there is a significant change in the current situation.

This current one-way preference program is poorly equipped to permit Central American textile and apparel companies – the principal customers of U.S. textile companies – to survive. Even though the program has been in place for more than four years, utilization rates barely exceed 70 percent, meaning that almost a third of the trade is currently conducted outside the trade program and has no incentive to use any U.S. inputs. In contrast, the better-designed Andean trade program, which has only been in place for about two years, already boasts a utilization rate of 85 percent. Utilization of the Africa trade program, which contains fewer input requirements, exceeds 92 percent.

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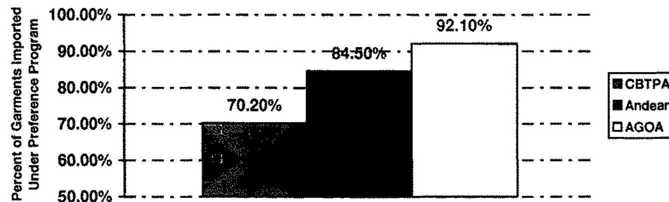


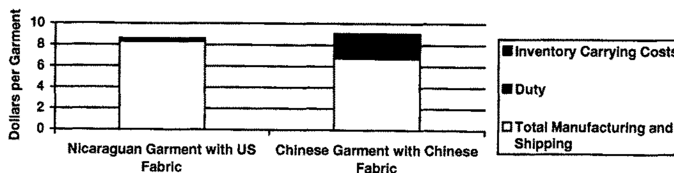
Source: U.S. Department of Commerce

CAFTA-DR creates a predictable environment that enables Central American textile and apparel factories to remain competitive in the post-quota world, building on their natural advantage of proximity to the U.S. market. It significantly improves the rules of origin to better enable regional producers and U.S. textile mills to work together to make competitive garments. The CAFTA-DR will do away with existing restrictions on the use of U.S. inputs, and will remove limitations on regional inputs as well. CAFTA-DR also updates an unwieldy short supply system and creates opportunities to combine U.S. inputs with very limited quantities of third country inputs. Textile articles that are currently prohibited from receiving duty free treatment, even if they are made entirely with U.S. inputs, will now be eligible for full benefits. Further, CAFTA-DR will streamline the currently burdensome documentation requirements, reducing costly time and resources formerly devoted to paperwork. The net result is that there will be more opportunities to produce textiles and apparel under the CAFTA-DR, in most cases using primarily U.S. inputs.

Myth 2: *CAFTA-DR will not help the Central American region compete against China.*

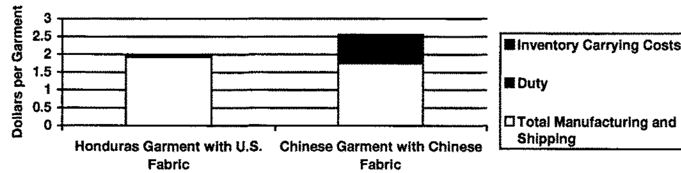
FACT: Doing nothing will definitely keep the Central American countries from competing with China.

A recent study by Harvard professors Frederick Abernathy, Anthony Volpe, and David Weil[1] detailed how permanent free trade arrangements like CAFTA-DR will enable Central America and the Dominican Republic to compete against countries like China and capitalize on other advantages like proximity to market. Using two examples, Men's Jeans and a Ring Spun Cotton T-shirt, Abernathy et. al. showed how China's natural competitive advantage over countries like Nicaragua and Honduras, is eliminated because China has to pay duties, while garments from Central America are duty-free. The region's proximity over China confers additional advantages by reducing inventory-carrying costs.



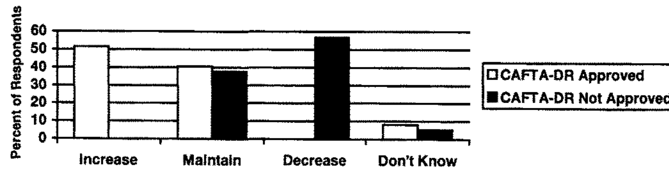
Source: Abernathy, Volpe and Weil, Harvard Center for Textile and Apparel Research

[1] See Abernathy, Wolpe, and Weil: Harvard Center for Textile and Apparel Research http://www.hctar.org/pdfs/GS09.pdf



Source: Abernathy, Volpe and Weil, Harvard Center for Textile and Apparel Research

Moreover, in a March 2005 survey of sourcing executives at more than three dozen major apparel and retail companies[2], 73 percent of respondents said approval of CAFTA-DR will affect their sourcing decisions with respect to Central America and the Dominican Republic. More than 51 percent of all respondents indicated they would increase their sourcing in the region, while another 40 percent of the respondents said they will maintain their sourcing in the Central American region if the CAFTA-DR is approved in the next six months. Conversely, 56.8 percent indicated they will decrease their sourcing in the region if the CAFTA-DR is not approved during that time period. Not surprisingly, none of the respondents indicated they will decrease their regional purchases if the agreement is approved and none indicated they will increase their business in the region if the agreement is rejected. The bottom line is that CAFTA-DR is necessary for the region to grow and stay competitive.



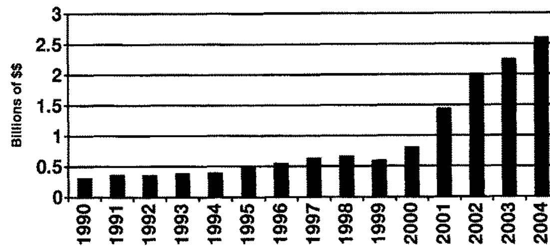
Source: 2005 AAFA/NRF Survey of Apparel and Retail Companies

Myth 3: *The domestic U.S. textile industry does not need CAFTA-DR to survive.*

FACT: Nearly 25 percent of U.S. fabric exports and 40 percent of U.S. yarn exports are sent to Central America and the Dominican Republic. As a result, Central America is the 2nd largest market for U.S. fabric and the single largest market for U.S. yarns. Since 1999, U.S. yarn and fabric exports to the region have increased by about $2 billion – a more than four fold increase. This growth accounts for almost all of the export growth of the U.S. yarn and fabric industries during this period.

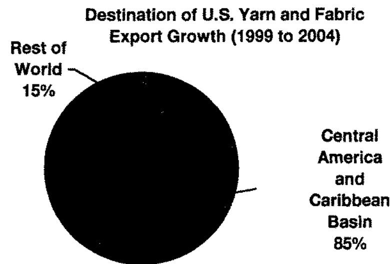
[2] Survey conducted by National Retail Federation and AAFA of sourcing executives. 89.2 percent of respondents indicated they source some or all of their current production in Central America and the Dominican Republic. 10.8 percent indicated they source no product in the region.

U.S. Yarn and Fabric Exports to the Caribbean Basin



Source: U.S. Department of Commerce

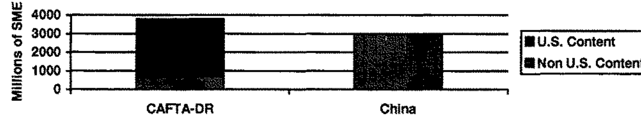
Moreover, this growth has occurred as the domestic customers of U.S. yarn and fabric industries have declined. Since 1990, U.S. textile and apparel companies have lost more than a million employees while U.S. domestic production in both industries has declined as well. U.S cut part exports to the Central American and Mexican regions have dropped dramatically in recent years. Successful yarn and fabric companies have increasingly turned to global markets, particularly those in Central America, to fuel their growth and competitiveness.



Source: U.S. Department of Commerce

Most garment imports from Central America contain high percentages of U.S. inputs. U.S. value added for Central American garment exports can be as high as 70 to 90 percent. In contrast, garments imported from Asia may contain between 1 to 2 percent U.S. content, at best. Another measure of U.S. content shows that 82.07 percent of U.S. apparel imports from CAFTA-DR countries were imported under a preference program requiring the use of U.S. inputs or components. In contrast, only 0.17 percent of all U.S. apparel imports from China during that year contained U.S. inputs or components.

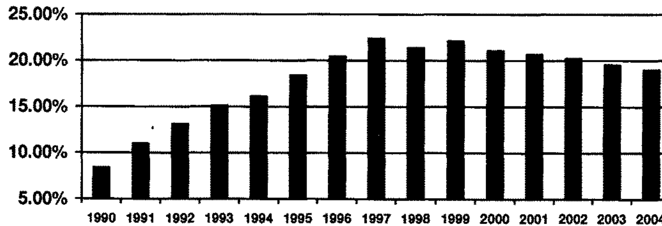
Allocation Between Apparel Imports that Contain U.S. Content and Pure Apparel Imports CAFTA-DR and China - 2004



Source: Derived from U.S. Census Bureau Figures by Sandler Travis & Rosenberg
Note: U.S. Content equals apparel imported under 9802 and 9820 import programs.

But while U.S. textile companies have succeeded in conquering the Central American market, that market is becoming weaker every day. U.S. import volumes from the region have stagnated while import shares have dropped. As dominant as U.S. textiles are in Central America, only 7 in 10 garments enter the United States under the current duty free trade preference program.[3] That means 30 percent of the business right now has little or no incentive to use U.S. inputs. The recent elimination of quotas, which makes previously restrained Asian competitors stronger, will only put increased pressure on Central America.

CAFTA Share of U.S. Apparel Import Market



Source: U.S. Department of Commerce

CAFTA-DR creates fresh incentives to use U.S. inputs to capture that additional 30 percent and grow the business thereafter. And for the first time, U.S. apparel and textile exports will be duty free when exported to the region. As a result, the U.S. International Trade Commission has predicted that CAFTA-DR, when fully implemented, will generate about $800 million in additional U.S. textile and apparel exports.[4]

Myth 4: *CAFTA-DR is full of "loopholes."*

FACT: CAFTA-DR contains the textile industry supported "yarn forward" rule of origin that requires the yarns, fabrics, and, in some cases, fibers contained in textile and apparel articles to originate in the United States or Central America and the Dominican Republic. This is the same rule of origin contained in the North American Free Trade Agreement (NAFTA), which was supported by the textile industry, as well as most other FTAs, including the four that were recently approved by Congress – Singapore,

[3] This number rises to 8 in 10 when partial duty reduction programs such as 9802, which provides a duty reduction for the value of U.S. components, are included.
[4] U.S. International Trade Commission.

Chile, Australia, and Morocco. Some provisions of CAFTA-DR are even more restrictive than those FTAs. Sewing thread and elastic strips, for example, have to originate in the United States or the region even though they are not part of the essential character of most textile articles. No other FTA contains these restrictions.

Other provisions create opportunities to co-mingle U.S., regional, and very limited quantities of "third country" inputs. Some CAFTA-DR critics instantly assume that "third country" inputs mean China. In truth, many third country inputs come from other Asian countries or Europe. In fact, third country inputs can even originate in the United States. Provisions that permit use of third country inputs contain numerous restrictions and limitations. More than half of the allowance to use third country inputs requires those inputs to come from Mexico or Canada, two countries with which the United States already has a free trade agreement. This provision can only be utilized once these countries implement strong anti-transshipment measures approved by the United States and once they grant reciprocal access to goods containing U.S. inputs. Moreover, this provision contains an additional requirement that directly links growth of this program to growth in the use of originating inputs.

When added together, these third country provisions equal only about 10 percent of current trade. In comparison, about 30 percent of current trade is already conducted outside the duty-free origin rules. These provisions do not contain a "backdoor" to China as some critics contend. Rather, they create incentives to use U.S. inputs that are currently not allowed under existing trade preference rules of origin. The table below illustrates several examples of production combinations for textile and apparel articles that are disallowed duty free access even though they use U.S. inputs. By creating more flexibility, CAFTA-DR recaptures those lost opportunities and ensures that more, not less, textile and apparel production can occur in the region using U.S. textiles.

Examples of Production Combinations That Use U.S. Inputs But Are Not Allowed Duty Free Access Under Current Rules

Product	Fiber	Yarn	Sewing Thread	Fabric	Cutting	Sewing	Market
Pillowcase	U.S.	U.S.	U.S.	U.S.	U.S.	El Salvador	U.S.
Cotton Woven Trousers	U.S.	U.S.	U.S.	U.S. and Guatemala	U.S or Guatemala	Guatemala	U.S.
Wool Coat	U.S.	Chile	U.S.	U.S.	U.S.	Costa Rica	U.S.
Blue Jeans	U.S.	U.S.	U.S.	Mexico	U.S. or Dominican Republic	Dominican Republic	U.S.
Woven Shirt	U.S.	U.S.	U.S.	U.S.	U.S.	Guatemala	Canada
Knit shirt	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	Costa Rica
T-shirt**	U.S.	U.S.	U.S.	Honduras	Honduras	Honduras	U.S.

** over quota.

Source: AAFA

Myth 5: *CAFTA-DR is an "outsourcing" agreement.*

FACT: About 96 percent of the apparel and 98 percent of the footwear that we consume in the United States today is imported. CAFTA-DR will not determine whether clothing and shoes we wear are

imported or produced in the United States. Rather, CAFTA-DR will determine whether some of those clothes and shoes are made in Central America using U.S. inputs or made entirely in Asia using Asian inputs.

The U.S. International Trade Commission (ITC) predicts that imports of these products will increase from CAFTA-DR countries. Further, the ITC predicts that the import increase will be larger than the overall import increase from all sources[5]. Why? Because CAFTA-DR will enable the region to take market share away from countries that do not use U.S. inputs in the products they sell back to us. Because CAFTA-DR will result in more, rather than less, use of U.S. fabrics and yarns, it will create and sustain U.S. jobs that make those exported inputs.

Moreover, CAFTA-DR will create new opportunities to sell additional products – either finished items or inputs – to Central America and the Dominican Republic. The current program provides duty free access only for U.S. imports from the region. CAFTA-DR provides, for the first time, duty free access for U.S. exports AND provides opportunities to sell garments made in Central America, utilizing U.S. inputs, into local markets in the region.

Myth 6: *CAFTA-DR will lead to transshipment of Chinese fabric through Central America and Mexico.*

FACT: Central American factories have among the highest U.S. customs compliance records in the world and the U.S./Central American customs cooperation partnership remains strong.

However, the U.S./Central American customs partnership is grounded in a one-way trade preference program that expires in a little over three years. When that program expires, U.S. customs agents lose the right and the ability to conduct textile product verification visits to guard against transshipment, just as they have with other non-preference and non-free trade agreement countries since the expiration of the quota system.

CAFTA-DR will strengthen the current partnership by creating permanent opportunities for U.S. and Central American customs officials to effectively collaborate and verify shipments to prevent transshipment. Companies that violate these procedures may have their shipments detained or lose the ability to trade under CAFTA-DR entirely. Moreover, CAFTA-DR will make the rules more clear so they become easier to enforce and easier to meet. Finally, to gain access to the limited cumulation provisions, Mexico will have to agree on tangible improvements of its own customs cooperation regime with the United States. The net result is that U.S. Customs agents will be able to focus more resources – be they in Central America, Mexico or elsewhere – on individuals seeking to evade Customs rules.

Myth 7: *CAFTA-DR will weaken labor practices in the Central American apparel industry.*

FACT: CAFTA-DR contains provisions that require each country to enforce its own trade laws. According to the International Labor Organization (ILO), these laws encompass core ILO principles and are built directly into the Central American legal framework. Failure to enforce these laws can result in significant fines and penalties. Further, the agreement prevents any efforts to abrogate current law. Moreover, the CAFTA-DR process, through negotiations and through capacity building, has led to on-going improvements in Central American labor standards and enforcement. Recently, the Central American trade ministers tabled a "white paper" detailing an action plan of further improvements. The bottom line is that the CAFTA-DR represents a significant improvement over the current temporary program under which the Dominican Republic and Central America are only required to "take steps" to improve their labor practices.

[5] U.S. International Trade Commission (U.S.-Central America- Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects (TA-2104-13): August 2004

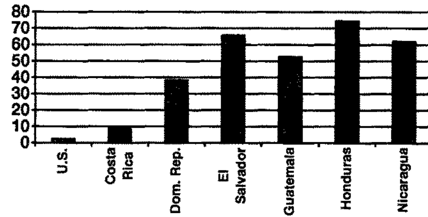
Nearly every apparel factory in the region is now inspected by one or more inspection and factory verification programs, such as the Worldwide Responsible Apparel Production (WRAP) program[6]. Viewing good working practices as a competitive advantage and a means to improve worker productivity, factory managers and labor inspectors throughout the region are constantly working to improve workplace conditions.

Without CAFTA-DR, the more than 500,000 textile and apparel workers in the region, many of whom are women and are the sole wage earners for their families, will lose access to a key market and the basis for their livelihoods. Not only will CAFTA-DR ensure that those workers' rights are respected in lawful, humane, and ethical workplaces, but it will ensure that those workers have the means to stay employed and enjoy those rights.

Myth 8: *The textile and apparel industry is not important for the CAFTA-DR region.*

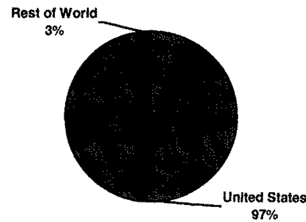
FACT: By virtually all measures, the regional textile and apparel industries are critical to the health of these countries. These industries are the major source of foreign exchange, employment, and exports for most of the countries in Central America and the Dominican Republic. In several countries, these industries represent the largest part of the private sector outside agriculture. In many instances, the majority of the workers are women who support families.

Percent of Exports Devoted to Textiles and Apparel -- 2003



Source: UN Comtrade Database

Destination of Central American Apparel Exports, 2001



Source: U.S. International Trade Commission

[6] For more information, see www.wrapapparel.org

Not only are those apparel exports important for Central America, but 97 percent of those exports go to the United States, making access to the U.S. market critically important.

Conclusion

Despite the claims of some critics, CAFTA-DR is vital for the health of the U.S. textile industry and the Central American and Dominican textile and apparel industry. Many U.S. textile firms depend upon their customers in Central America and the Dominican Republic and those customers in turn depend upon access to the U.S. market. Without CAFTA-DR, this access will erode under the new global realities of a quota-free world, making it uncompetitive to produce textile and apparel in the Central American and Dominican region, which will, in turn, undermine the viability of some of the U.S. textile industry's best customers.

CAFTA-DR will help the current trade relationship prosper by making it permanent, reciprocal, flexible, broad, and simpler to use. In short, CAFTA-DR will create the predictability necessary to promote trade and investment and foster the agility that is critical for such a fashion conscious and consumer oriented industry.

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

April 13, 2005

The American Farm Bureau Federation would like to express to the committee our support for the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR).

As a general agriculture organization we have looked at the impact of this agreement on all sectors of U.S. agriculture. We have provided as an attachment to this statement a copy of our full economic analysis that covers the effects this agreement will have on our livestock, crop and specialty crop sectors as well at the effects on our sugar industry. In total we believe that this agreement will overwhelmingly provide a win-win opportunity for U.S. agriculture.

U.S. agriculture currently faces a trade deficit with this region of the world of approximately $700 million. While this market holds potential for U.S. agricultural exports our products are faced with high tariffs, at the same time these countries agricultural products receive duty free access to the United States. The General System of Preferences (GSP) trade preferences and 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. The key aspect to CAFTA-DR is that U.S. agriculture has already paid for the agreement.

Unless this agreement is passed, U.S. agriculture will continue to face applied tariffs of between 15 and 43 percent. These tariffs have put U.S. agriculture at a disadvantage when competing in the market. The CAFTA-DR, if enacted, will eliminate these barriers. This agreement provides balance in allowing U.S. agriculture the same duty free access to the CAFTA-DR countries as they have to our market. Many of our competitors in the region, such as Chile, already receive preferential access afforded to them by their own trade agreements with the Central American countries. When enacted this agreement would give us access equal or greater than that of our competitors. Our analysis shows that U.S. agriculture should 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 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 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. 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 CAFTA-DR 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, CAFTA-DR 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 CAFTA-DR'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.

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 affects 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 want to import to the United States above their new sugar quotas will still face a high tariff. This tariff is set at an amount that would discourage these countries from shipping any additional sugar over their quota to the United States. Secondly, the countries involved agreed to a compensation provision that the United States can use to shut off any additional imports of sugar from this region if they 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 from the CAFTA-DR country negotiating side. The CAFTA-DR countries had a list of roughly a dozen commodities they wanted excluded from the agreement, these products included U.S. beef, pork, poultry and rice.

U.S. agriculture has much to gain from this agreement. In looking at the variety of U.S. commodities that would experience positive outcomes because of 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. In the Central America-Dominican Republic Free Trade Agreement, the gains for agriculture most certainly outweigh the losses.

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 $1.1 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	**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)

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)
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)

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)
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

	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)
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					

CAMARA NACIONAL DE LA INDUSTRIA TEXTIL (CANAINTEX)

STATEMENT SUBMITTED TO

U.S. SENATE

COMMITTEE ON FINANCE

HEARING ON

" U.S.-CENTRAL AMERICA-DOMINICAN REPUBLIC FREE TRADE AGREEMENT"

APRIL 13, 2005

Camara Nacional de la Industria Textile (Canaintex)
Plinio No. 220, Col. Polanco
11510 Mexico, D.F.

Camara Nacional de la Industria Textil (Canaintex) appreciates this opportunity to provide our views regarding the economic and commercial implications of the U.S. free trade agreement with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic (CAFTA/DR).

Canaintex is the national association representing more than 400 manufacturers of textiles (yarns, fabrics and non wovens) in Mexico. The fiber, textile, and apparel sector accounts for 6% of Mexico's manufacturing GDP and employs more than 600,000 Mexicans.

The Mexican textile industry has a significant stake in the CAFTA agreement.

Most fundamentally, the future health of the textile industry in Mexico depends on a robust community of suppliers and customers in the U.S., Central America and the Dominican Republic. This agreement will significantly strengthen the competitiveness of the hemispheric textile and apparel industry.

More specifically, Mexico will benefit from cumulation provisions in the agreement that will allow a limited amount of Mexican inputs to be used in Central American/Dominican apparel that will still qualify for duty free benefits when imported into the United States. Reciprocally, Mexico will allow the importation of apparel manufactured in the Central America and the Dominican Republic that use US fabrics.

Our statement will focus specifically on the impact of these provisions.

Limitations

It must be noted that the cumulation provisions of the CAFTA/DR agreement are subject to several limitations:

- There is an overall cap of 100 million square meters equivalent (SME), further divided into specific product caps of 1 million SME on wool; 20 million SME on blue denim, and 45 million SME on cotton and man-made bottom weights. (To put these numbers into perspective, 100 million SME amounts to 0.7% of U.S. textile production and 2% of Mexican and Canadian textile exports to the U.S.)

- Before cumulation provisions of the agreement can be implemented, Mexico must provide reciprocal benefits to U.S. and Central American textile and apparel exports and implement additional

customs enforcement and verification measures specific to these products.

Textile and apparel markets

Cumulation provisions of the CAFTA/DR agreement will have strong positive economic implications for U.S. and regional textile producers, on several levels:

- ***Bilaterally***—Mexico is an important -indeed for many products, ***the most important***—export market for U.S. textile and fiber suppliers. Mexico purchases 20% of all U.S. cotton sales, making it the single largest overseas buyer of U.S. cotton. Mexico also buys:
  - 50% of all U.S. exports of cotton yarn
  - 66% of all U.S. exports of cotton woven fabric
  - 75% of all U.S. exports of woven fabrics of synthetic filament
  - 87% of all U.S. exports of quilted textile products in pieces.

  The clear point made by these statistics is that the health of the U.S. textile industry, as well as that of U.S. cotton producers, is inexorably tied to the health of the textile industry in Mexico. To the extent that cumulation provisions open up new market opportunities for Mexican textile suppliers in the CAFTA/DR region, they can be expected to produce concomitant increases in U.S. sales opportunities in Mexico.

- ***Regionally***--Cumulation provisions of the CAFTA/DR agreement represent a necessary step toward building a liberal, market-oriented "total package" capability that will offer U.S. apparel buyers a viable option for sourcing within the hemisphere. In this respect, it represents a "down payment" on a textile regime in the Free Trade Area of the America's (FTAA) that would eliminate trade barriers and associated costs in the textile chain.

- ***Globally***—The ending of global textile quotas in January 2005 has forced textile suppliers in the U.S., Mexico and Central America into an unequal competition with textile and apparel producers in China and elsewhere in Asia. The sourcing flexibility provided by cumulation can improve the ability of regional suppliers to meet Asian competition. However, to the extent that cumulation provisions contain limits—whether overall volume or product specific caps—these may also establish a ceiling on potential efficiency improvements.

A recent report by the National Association of Manufacturers (NAM) makes these points even more starkly:

> ***"the FTA's apparel provisions would provide the flexibility that Central America and the Dominican Republic need to remain competitive after worldwide quotas are removed on January 1, 2005 while opening new markets for U.S. textile manufacturers. Without the flexibility provided by the FTA, the region's apparel industry will decline significantly, taking with it the second largest export market for U.S. textile manufacturers."***

Implementation

While it is now clear that the opportunity for implementation of cumulation provisions prior to the elimination of quotas has been lost, Canaintex believes that the startling increase in Asian imports since the beginning of the year brings new urgency to the need for expeditious implementation of CAFTA textile provisions.

For its part, the Government of Mexico has made it clear that Mexico is fully prepared to provide reciprocal treatment to U.S. and Central American textile products. (See attached letter from Fernando Canales, Secretary of Economia to USTR Robert Zoellick.) Mexican representatives have been working closely with USTR to ensure that the Mexican Congress can act on the necessary legislation in a timely manner.

The North American textile industries face a common threat in the form of illegal imports from Asia that enter our markets circumventing import duties. In this context, we wish to draw the attention of the Committee to significant steps the Government of Mexico has taken to improve customs enforcement in the textile industry in particular.

- In May 2003 President Fox installed the Comisión Mixta para el Combate a la Economía Ilegal (Commission to Combat the Illegal Economy). This Commission created a high-level task group, with the participation of all agencies responsible for detecting and prosecuting illegal trade in textile and apparel.

- In October 2003, the Federal Agency of Investigation, the Mexican equivalent of the U.S. Federal Bureau of Investigation, established a special unit dedicated to prosecuting illegal textile traders. This unit, which is on a par with those dedicated to crimes involving narcotics trafficking and kidnapping, has successfully prosecuted several major

cases and obtained jail sentences for some of the most important *contrabandists.*

- The Ministry of Economy has put in force new regulations for temporary entries and has established a monitoring system to avoid fraud in the PITEX and Maquiladora programs.

- Mexican customs authorities have strengthened mechanisms for origin and value verifications, significantly improving their ability to detect false declarations.

Finally, in March 23rd 2005, NAFTA Presidents established as part of the Security and Prosperity Partnership of North America Security Agenda, the need to work together to "develop and implement a comprehensive North American strategy for combating transnational threats to the United States, Canada, and Mexico, including terrorism, organized crime, illegal drugs, migrant and **contraband, smuggling and trafficking** ". Canaintex will be actively involved in working with our industry colleagues in the U.S. and Canada to support this effort.

Canaintex believes that the product specific enforcement and verification procedures required by the CAFTA/DR cumulation provisions can be integrated into the existing system without undue delay.

In conclusion, Canaintex urges this Committee to consider the very important contribution that the CAFTA/DR agreement, and the cumulation provisions in particular, will make to promoting the competitiveness of the textile and apparel industry in the United States, in Mexico and in the hemisphere. We respectfully submit that cumulation as provided in the CAFTA/DR agreement offers a pro-market, pro-competitiveness response to the challenge of Asian competition in the textile and apparel sector.

Canaintex wishes to thank the Committee for this opportunity.

Mexico City, December 9, 2003

THE HONORABLE ROBERT B. ZOELLICK
United States Trade Representative
600 17th Street, NW
Washington, D C. 20508

Dear Ambassador Zoellick:

As the CAFTA negotiations enter the final round next week, I wanted to once again express the strong interest of the Government of Mexico in ensuring that the textile and apparel rules of origin provide for cumulation of Mexican textiles in apparel which enters the U.S. duty free under the agreement.

I remain convinced that the long-term solution to the competitive challenges we face is the creation of an integrated industry in the hemisphere. Cumulation of Mexican textiles in the CAFTA agreement is supported by the U.S. apparel industry, a number of U.S. textile producers and the U.S.-CAFTA Business Coalition, and is an important step toward creating a regional textile industry that can compete successfully with China.

If the CAFTA negotiations prove successful, and cumulation for Mexican textiles is appropriately included and implemented into U.S. law, we stand ready to work with our Central American partners to provide for full reciprocity.

We are prepared to provide preferential treatment for apparel products originating in CAFTA countries when these items include U.S. fabric, and would seek duty free treatment for apparel originating in Mexico when they include U.S. fabric in a manner consistent our WTO commitments.

Mexico shares your ultimate objective of creating an open, liberal trading system for the hemisphere. We view the expansion of the rules of origin for textiles and apparel to include our FTA partners as an important step in that direction, and we look forward to working closely with you to realize this objective.

Sincerely,

LIC. FERNANDO CANALES CLARIOND
Secretary

Alfonso Reyes No. 30 Piso 10, Colonia Condesa, C.P. 06140, México, D.F.

06/09/05 11:08 FAX 002

JIMMY CARTER
June 8, 2005

To Senator Charles Grassley

As you prepare for your initial consideration of the Central American Free Trade Agreement (CAFTA) with the nations of Central America and the Dominican Republic, I want to express my strong support for this progressive move. From a trade perspective, this will help both the United States and Central America.

Some 80 percent of Central America's exports to the U.S. are already duty free, so they will be opening their markets to U.S. exports more than we will for their remaining products. Independent studies indicate that U.S. incomes will rise by over $15 billion and those in Central America by some $5 billion. New jobs will be created in Central America, and labor standards are likely to improve as a result of CAFTA.

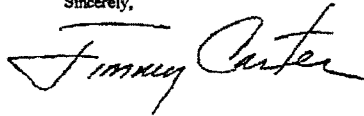
Some improvements could be made in the trade bill, particularly on the labor protection side, but, more importantly, our own national security and hemispheric influence will be enhanced with improved stability, democracy, and development in our poor, fragile neighbors in Central America and the Caribbean. During my presidency and now at The Carter Center, I have been dedicated to the promotion of democracy and stability in the region. From the negotiation of the Panama Canal Treaties and the championing of human rights at a time when the region suffered under military dictatorships to the monitoring of a number of free elections in the region, Central America has been a major focus of my attention.

There now are democratically elected governments in each of the countries covered by CAFTA. In negotiating this agreement, the presidents of each of the six nations had to contend with their own companies that fear competition with U.S. firms. They have put their credibility on the line, not only with this trade agreement but more broadly by promoting market reforms that have been urged for decades by U.S. presidents of both parties. If the U.S. Congress were to turn its back on CAFTA, it would undercut these fragile democracies, compel them to retreat to protectionism, and make it harder for them to cooperate with the U.S.

For the first time ever, we have a chance to reinforce democracies in the region. This is the moment to move forward and to help those leaders that want to modernize and humanize their countries. Moreover, strong economies in the region are the best antidote to illegal immigration from the region.

I appreciate your consideration of my views and hope they will be helpful in your important deliberations.

Sincerely,



The Honorable Charles E. Grassley
135 Hart Senate Office Building
Washington, DC 20510-1501

Chamber of Commerce of the United States of America

Association of American Chambers of Commerce in Latin America

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Testimony before the
Senate Committee on Finance

on the

U.S.-Dominican Republic-Central America
Free Trade Agreement (DR-CAFTA)

on behalf of the

Chamber of Commerce of the United States of America

and the

Association of American Chambers of Commerce
in Latin America (AACCLA)

April 13, 2005

The Chamber of Commerce of the United States of America (U.S. Chamber) and the Association of American Chambers of Commerce in Latin America (AACCLA) are pleased to present the Senate Committee on Finance with this testimony regarding the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). Our organizations strongly support Congressional approval of this landmark trade agreement, and we urge the Senate to do so as soon as possible.

The U.S. Chamber is the world's largest business federation, representing more than three million businesses of every size, sector and region. AACCLA represents 23 American Chambers of Commerce in 21 Latin American and Caribbean nations, and its 20,000 member companies manage over 80% of all U.S. investment in the region.

International trade plays a vital part in the expansion of economic opportunities for our members. As such, the U.S. Chamber and AACCLA have helped lead the business community's effort to make the case for new free trade agreements. We do so because U.S. businesses have the expertise and resources to compete globally — if they are allowed to do so on equal terms with our competitors.

From this perspective, DR-CAFTA is an outstanding trade agreement. It will slash trade barriers for U.S. exports, enhance protections for U.S. investment overseas, and strengthen the competitiveness of American companies — both big and small — throughout the world. We believe the agreement is worthy of your support.

Opening Trade, Generating Growth

America's international trade in goods and services accounts for nearly a fifth of our country's GDP. As such, it is difficult to exaggerate the importance of the leadership demonstrated by Congress in renewing Presidential Trade Promotion Authority (TPA) two and a half years ago. As we predicted, this action by Congress has helped reinvigorate the international trade agenda and has given a much-needed shot in the arm to American businesses, workers, and consumers.

When TPA lapsed in 1994, the United States was compelled to sit on the sidelines while other countries negotiated numerous preferential trade agreements that put American companies at a competitive disadvantage. As we pointed out to Congress during our aggressive advocacy campaign for approval of TPA, the United States was party to just three of the roughly 150 free trade agreements in force between nations at that time.

The passage of TPA allowed the United States to complete negotiations for bilateral free trade agreements with Chile, Singapore, Australia, and Morocco, all of which won bipartisan approval in Congress. These agreements are already bearing fruit; for example, the Department of Commerce reports that U.S. exports to Chile rose by an astonishing 33% in 2004, the first year of implementation of the U.S.-Chile Free Trade Agreement. Free trade agreements with roughly 20 additional countries are now in various stages of completion.

Why is DR-CAFTA so critical? First, the agreement is good for workers, consumers, and businesses in the United States. And second, the agreement is good for workers, consumers, and businesses in Central America and the Dominican Republic.

Big Markets, Big Opportunities

The commercial benefits of DR-CAFTA for the United States are expected to be highly significant. While these six democracies look small on a map, they are excellent customers for American business. Purchasing $15.7 billion in U.S. exports in 2004, Central America and the Dominican Republic buy more U.S. goods than Australia, Italy, or Sweden.

These existing trade flows make DR-CAFTA the largest free trade agreement in more than a decade. In fact, the 45 million citizens of Central America and the Dominican Republic purchase more U.S. goods than the 1.5 billion citizens of India, Indonesia, and Russia – combined.

What is the United States selling to these countries? About one-third of all U.S. exports to Central America and the Dominican Republic are made by the U.S. textile and apparel industries. Computers, electronics, and information technology products represent almost another third. And farm products, ranging from soup to nuts, account for a large share of American sales to the six countries.

This success story began 20 years ago, when a tremendous bipartisan coalition created the Caribbean Basin Initiative. By a vote of 392 to 18, the House of Representatives decided in July 1983 to do away with most tariffs on imports from Central America and the Caribbean in an effort to help the region with "trade, not aid." The Senate followed suit with a similarly significant favorable vote.

The Caribbean Basin Initiative eliminated tariffs on nearly all imports from Central American and the Caribbean. In 2003, 77% of Central American and Dominican industrial products (including 99% of non-apparel industrial products) and 99.5% of agricultural products entered the United States duty-free.

Making Trade a Two-Way Street

More than any previous free trade agreement, DR-CAFTA is about reciprocity. It will level the playing field for the thousands of U.S. workers and businesses that rely on exports to Central America and the Dominican Republic. It will provide immediate, duty-free access to the six-country market for more than 80% of U.S. consumer and industrial goods and more than half of all U.S. agricultural exports to the six countries, with further openings phased in.

To gauge the commercial value of the agreement, the U.S. Chamber of Commerce has released a series of state-by state economic impact studies that found substantial economic gains for American workers and the economy from DR-CAFTA. We used a widely respected input-output economic model known as RIMS II that has been used for years by economists at the U.S. Department of Commerce and elsewhere, and we proceeded with some very conservative assumptions about the growth of exports. For instance, we assumed that U.S. exports to the six

countries would grow at only half the rate of growth of exports to Chile in 2004, the first year of implementation of the free trade agreement with that country.

The results are extremely promising. In the first year of DR-CAFTA's implementation, the agreement would generate $3.9 billion in new sales across all industries and $866 million in new earnings for workers in the 12 states profiled. In would also create over 26,000 new jobs in its first year. This table summarizes our findings:

Summary of Findings of State-by-State Economic Impact Studies
The full studies are available at: www.uschamber.com/goto/drcafta

AFTER ONE YEAR	Increased sales in all industries	Increased earnings of employees in all industries	New jobs created in all industries
Alabama	190,000,000	40,000,000	1,490
California	221,000,000	51,000,000	1,287
Florida	985,000,000	232,000,000	7,008
Georgia	262,000,000	52,000,000	1,516
Illinois	79,000,000	24,000,000	693
Louisiana*	339,000,000	77,000,000	2,769
New Jersey	71,000,000	14,000,000	342
New York	149,000,000	32,000,000	794
North Carolina	736,000,000	163,000,000	5,404
Pennsylvania	94,000,000	20,000,000	608
South Carolina	167,000,000	27,000,000	912
Texas	683,000,000	134,000,000	3,326
TOTAL	**$3,976,000,000**	**$866,000,000**	**26,149**

* "CAFTA: Potential for Louisiana's Prosperity," by Dr. James A. Richardson, Alumni Professor of Economics, Louisiana State University, March 2004. This study used the U.S. Department of Commerce's Bureau of Economic Analysis Regional Input-Output Modeling System (RIMS II) in the same fashion as the U.S. Chamber studies. However, the figures cited in this table are based on a projected increase in exports from Louisiana to the other DR-CAFTA countries of 16%. The U.S. Chamber studies use a figure of 17% for the first year. For comparison, U.S. exports to Chile rose by 33% in 2004, the first year of implementation of the U.S.-Chile Free Trade Agreement.

Nine years after implementation, DR-CAFTA would boost sales by over $20 billion in the 11 states for which data are available. In the same period, the agreement would raise workers' earnings by $4.5 billion and create more than 130,000 new jobs in the 11 states.

AFTER NINE YEARS	Increased sales in all industries	Increased earnings of employees in all industries	New jobs created in all industries
Alabama	1,021,000,000	214,000,000	7,901
California	2,486,000,000	573,000,000	13,132
Florida	5,200,000,000	1,200,000,000	36,982
Georgia	1,405,000,000	283,000,000	8,691
Illinois	445,000,000	97,000,000	2,402
New Jersey	381,000,000	79,000,000	1,801
New York	802,000,000	173,000,000	4,215
North Carolina	3,900,000,000	876,000,000	28,913
Pennsylvania	504,000,000	107,000,000	3,062
South Carolina	701,000,000	144,000,000	6,273
Texas	3,600,000,000	718,000,000	17,127
TOTAL	**$20,445,000,000**	**$4,464,000,000**	**130,499**

As noted above, the vast majority of Central American and Dominican exports already enter the U.S. marketplace duty-free, so the risk of job losses due to enhanced competition from imports is extremely limited. In sectors where imports from Central America and the Dominican Republic are not entering the United States duty-free, the U.S. average tariff is significantly lower than that faced by our exports to these countries. While U.S. rates average 3.6%, Guatemala's average applied industrial tariff is 7.1%, Honduras's is 6.7%, El Salvador's is 6.5%, Nicaragua's is 4.9%, Costa Rica's is 4.6% and the Dominican Republic's is 10.7% (2001 figures).

Support from Farms to Factories

The Chamber is far from alone in recognizing the potential of DR-CAFTA; studies prepared by other organizations have also projected impressive gains. A study by the American Farm Bureau Federation, which is the nation's largest association of farmers and ranchers, projected that the agreement will boost U.S. agricultural exports by $1.5 billion, which explains why over 50 leading agricultural commodity groups have endorsed the agreement.

In the textile and apparel sectors, the agreement will promote even stronger partnerships between companies in the United States, Central America, and the Dominican Republic. This will enable this hemisphere to compete more effectively in the face of rising international competition in these sectors since the demise of the global system of quotas on textiles on January 1, 2005. Most experts predict that Asian textile and apparel manufacturers will be the principal beneficiaries of the end of quotas -- at the expense of apparel producers in Central America and the Dominican Republic, and their textile suppliers in the United States.

For years, the U.S. textile industry has benefited from an integrated supply chain and market with the DR-CAFTA nations, which constitute a key sourcing location for U.S. apparel

and retail companies. Unlike other garment production centers, Central America and the Dominican Republic have emerged as the dominant consumers of U.S. textile products. Since the passage of the U.S.-Caribbean Basin Trade Partnership Act in 2000, the region has become one of the largest and fastest growing export markets for U.S. cotton growers, yarn spinners, and fabric mills.

As a result, garments imported from Central America and the Dominican Republic have U.S. content exceeding 50% while garments imported from Asia typically have less than 1% U.S. content. Without DR-CAFTA, apparel operations in Central America and the Dominican Republic will not be able to compete with Asian manufacturers, who have been ramping up sales since the global quota regime on textiles ended in January. If apparel manufacturers in Central America and the Dominican Republic cannot compete with Asia, a domino effect will hit cotton growers, yarn spinners, and fabric mills in the United States as their best customers go under.

On a more general level, the evidence is overwhelming that trade is a powerful tool to strengthen the U.S. economy. As former U.S. Trade Representative Robert Zoellick has pointed out, the combined effects of the North American Free Trade Agreement (NAFTA) and the Uruguay Round trade agreement that created the World Trade Organization (WTO) have increased U.S. national income by $40 billion to $60 billion a year. This helped lead to the creation of millions of new American jobs in the past 15 years. Many of these jobs were created in the export sector where, on average, jobs pay 13 to 18% more.

In addition to the increased wages, the lower prices generated by NAFTA and the Uruguay Round on imported items, mean that the average American family of four has gained between $1,000 to $1,300 in spending power – an impressive tax cut, indeed.

Benefits for Central America and the Dominican Republic

The U.S. Chamber and AACCLA are speaking in favor of DR-CAFTA to advance the interests of U.S. businesses, workers, and consumers. However, it's clear that the agreement will also be beneficial for workers, consumers, and businesses in Central America and the Dominican Republic – some of our closest neighbors.

Consider what Central America and the Dominican Republic were like 20 years ago. Several of these countries were at war, internally, and with violence spilling across their borders. Contrast that with the peaceful and democratic elections we have seen just in the past 18 months in El Salvador, Guatemala, and the Dominican Republic. It's worth recognizing that the outgoing administrations all supported DR-CAFTA strongly – and so do the new ones. These countries made some tough choices, and they've been rewarded with economic growth and progress in the fight against poverty.

Consider the example of El Salvador, which in the 1990s brought inflation under control, fought corruption, and moved toward a more free market economy. As a result, per capita incomes in El Salvador grew 10 times faster in the 1990s than in the 1980s.

Again, if things are going so well, what do we need DR-CAFTA for? The agreement is strong medicine, and it represents an opportunity to make sure the progress of the past two decades doesn't slip away. The agreement will enhance democratic institutions, business transparency, and economic reform — all while locking in a strong partnership with the United States. Consider the following:

1) DR-CAFTA will guarantee transparency in government procurement, with competitive bidding for contracts and extensive information made available on the Internet — not just to well-connected insiders;

2) DR-CAFTA will ensure a level playing field in the regulatory environment for services, including telecoms, insurance, and express shipments; and

3) DR-CAFTA will shore up legal protections for copyrights, patents and trademarks, so that creative artists who produce movies and television shows, researchers who create new medicines, and companies that create software will be protected. Pirates and counterfeiters will be put on notice that these countries will protect intellectual property with the full force of the law.

Fighting Poverty, Helping Workers

Finally, DR-CAFTA will help in the fight against poverty. Despite significant progress in the past 20 years, many Central Americans continue to live on just a few dollars a day. By enhancing opportunities for economic growth, the agreement will help provide jobs at all levels of the Central American and Dominican economies, while providing governments with additional resources for much-needed education, health care, and basic infrastructure projects.

Some critics charge that the agreement doesn't do enough to protect workers' rights, even though it does more in this regard than any trade agreement in history. The agreement builds on the fact that five of these countries have ratified all eight of the core conventions of the International Labor Organization; the sixth country, El Salvador, has ratified six of the conventions and is already upholding the final two based on provisions in its own constitution.

The *Washington Post* summarized the situation in an editorial: "It is a bad idea to oppose trade deals on the grounds that labor protections are advancing, but not quite fast enough ... This neglects the truth that the best way to boost workers' bargaining capacity is to boost job creation, so that labor is in strong demand. Trade deals that create jobs are good for workers' rights as well as workers' incomes." We agree.

What the Chamber is Doing

The U.S. Chamber and AACCLA are conducting an ambitious educational strategy to build support for Congressional approval of DR-CAFTA. In concert with our partners in the Business Coalition for U.S.-Central America Trade, the Chamber and AACCLA have organized hundreds of face-to-face meetings with members of Congress to make the case for the agreement. We have also met with members of Congress in their districts throughout the country as part of our ongoing "TradeRoots" program to educate business people and workers

about the benefits of open trade. We have found broad support for the agreements, both in the Congress and in the business community.

As part of this "TradeRoots" effort, the U.S. Chamber and AACCLA have published a "Faces of Trade" book to highlight small businesses in the United States that are already benefiting from trade with Central America and the Dominican Republic – and that stand to benefit even more from free trade with these two markets. We invite you to review these success stories and see the face of American trade today (electronic copies of the book are available at www.traderoots.org). It isn't just about multinational corporations, which can usually find a way to access foreign markets, even where tariffs are high. DR-CAFTA will first assist the hundreds of thousands of small companies that are accessing international markets – and that are meeting their payroll, generating jobs, and growing the American economy.

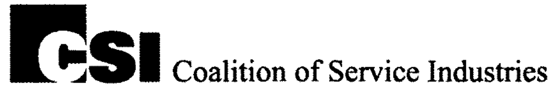
The U.S. Chamber and AACCLA are also making the case for the agreement in a nationwide tour with the Central American and Dominican ambassadors to meet with local business people, farmers, and journalists in their home towns. We've organized major events in more than a dozen cities with the ambassadors, and people from all walks of life are excited to learn about how DR-CAFTA will create new opportunities for business and employment.

This is just the tip of the iceberg. We've generated a wealth of information about the potential benefits of these agreements and our efforts to make them a reality. In the interest of brevity, I would simply urge you to contact the Chamber if you need more information. Our websites are a good place to start: www.uschamber.com and www.aaccla.org. Another great source of information is the website of the Business Coalition for U.S.-Central America Trade at www.uscafta.org.

Conclusion

Trade expansion is an essential ingredient in any recipe for economic success in the 21st century. If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as DR-CAFTA will be critical. In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level. All we are asking for is the chance to get in the game.

The U.S. Chamber and AACCLA appreciate the Senate Finance Committee's leadership in reviving the U.S. international trade agenda, and we ask you to move expeditiously to bring DR-CAFTA to a vote. Thank you.



Coalition of Service Industries

Written Submission for the Senate Committee on Finance

The U.S. - Central America - Dominican Republic Free Trade Agreement

April 13, 2005

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INTRODUCTION

The Coalition of Service Industries (CSI) is pleased to have this opportunity to submit comments for the record on the US-DR-CAFTA Free Trade Agreement.

CSI strongly supports the US-DR-CAFTA trade agreement, and we hope that Congress will approve it promptly. The Agreement provides for meaningful liberalization of trade and investment in services between the United States and the DR-CAFTA countries, and will open up new markets and opportunities for U.S. companies across a range of service industries. It will also demonstrate to other developing countries, in this hemisphere and elsewhere, that commitments to liberalization and internal economic reform are necessary for economic development, higher standards of living, and global competitiveness.

The Agreement does not meet industry objectives in all respects; for example, the lack of temporary entry provisions. Notwithstanding, both the United States and the Central American nations stand to gain significantly from this Agreement, and it unquestionably merits Congressional approval.

BACKGROUND: THE IMPORTANCE OF SERVICES TO THE US ECONOMY

The DR-CAFTA Agreement and its merits should be viewed against the role services play in the US economy. Services account for the overwhelming share of US employment and economic output, and a large and growing share of our foreign trade. As Congressmen Kolbe and Cardin pointed out in a March 18, 2005 Dear Colleague letter, services "are key to the future growth of the American Economy."

Services jobs represent approximately 80% of all non-farm, non-government workers in the US. Between 1993 and the 2003, the service sector added 17 million new US jobs, and of the 19.2 million new American jobs forecast to be created by 2012, 90% will be in the service sector. Moreover, the service sector generates 78% of US private sector GDP. Efficient, high-quality services are crucial inputs into the production of virtually all products. The price and quality of services influences the costs and productivity of all sectors, including manufacturing and agriculture.

The magnitude of US services trade is under-appreciated. Last year, U.S. crossborder exports of services were $338 billion, up from $307 billion the previous year, and represented about 40% of the value of U.S. merchandise exports. The $49 billion services trade surplus that the U.S. ran last year partially offset our merchandise trade deficit. An even larger share of U.S. services trade is delivered through the foreign affiliates of U.S. parent companies. In 2002, the services sales of U.S. foreign affiliates worldwide reached slightly over $400 billion. These foreign operations are crucial to U.S. companies' competitiveness in global markets. Thus, expanded market access under DR-CAFTA will help U.S. companies become even more competitive in the global marketplace.

The U.S. is extremely competitive across the range of services sectors, from banking and financial services to insurance, computer and related services, entertainment and audio visual services, express delivery, architecture and engineering, and others. The liberalization of these areas, as provided for in the Agreement, thus plays to a U.S. strong suit.

During negotiations, every effort was made to ensure that CAFTA's services coverage was comprehensive, with minimal reservations taken. Under CAFTA, services trade and investment will be liberalized on a "negative list" basis, which requires that a country list in detail the activities which will be excluded from liberalization. This approach is absolutely crucial to ensuring truly comprehensive coverage. The negative list has the further major advantage that new services are automatically free, which is particularly important in the services sector where new services are regularly being created. This was a significant achievement on the part of U.S. negotiators, given the reluctance of the CAFTA countries to negotiate on that basis at the outset of the talks. Moreover, important concessions have been obtained in the context of political controversy in some of the CAFTA countries. For example, the liberalization of insurance and telecommunications services in Costa Rica were particularly sensitive issues in that country.

The agreement contains important provisions for services-related investment, regulatory transparency, and for trade in key service sectors. These are discussed below.

CSI represents the interests of the dynamic American service economy, which employs 80% of the U.S. workforce and generates a similar proportion of national economic output. CSI was formed in 1982 to ensure that US trade in services, once considered outside the scope of U.S. trade negotiations, would become a central goal of future trade liberalization initiatives. CSI has been actively engaged in, and a strong supporter of, services negotiations in the WTO, as well as in our regional and bilateral free trade agreements, including the DR-CAFTA Agreement.

The broad range and diversity of the U.S. service economy is reflected in CSI's membership, which includes major international companies from the banking, insurance, telecommunications, information technology, travel and tourism, transportation, and diversified management service sectors. CSI members conduct business in more than 100 countries, have global sales of about $800 billion, and employment of about 2.3 million.

INVESTMENT

The Agreement will help promote a secure and predictable legal framework for U.S. investors in Central America and the Dominican Republic. Such provisions are particularly important to service providers, for whom a local presence is often required to supply services.

The Agreement reduces barriers to U.S. investment. It assures U.S. investors greater opportunities to establish, acquire and operate investments in each of the Central American countries in all sectors. Such investors are to be accorded equal treatment with local investors and may not be subjected to special or discriminatory requirements for the use of local inputs, export obligations, or to extend licenses to local companies. Rights to manage and direct such investments with personnel other than from the host country are also provided.

The Agreement ensures the protection of U.S. investment. It includes a broad definition of investment, the guarantee of prompt, adequate and effective compensation for expropriation, fair and equitable treatment, full protection and security, the free transfer of capital, no performance requirements, as well as the national treatment and most-favored nation provisions. Very importantly, the Agreement includes the investor-state dispute settlement mechanism that is vital to afford U.S. investors the opportunity to ensure that their investments are protected against arbitrary, discriminatory and unfair government actions.

At the same time, the Agreement protects the legitimate exercise of each government's regulatory authority to protect "public welfare objectives, such as public health, safety, and the environment."

TRANSPARENCY

The Agreement provides for a high standard of transparency in administrative, licensing, and adjudicatory proceedings. Transparency in regulatory processes is absolutely essential for services industries, because they generally are the most highly regulated. A government's regulations governing financial services, energy services, and professional services, for example, can vitiate or nullify trade agreements that would otherwise provide full market access and national treatment.

The overarching provisions in the introductory chapter on transparency require the essentials: the designation of a contact point for inquiries, the requirement for prompt publication; the requirement that "to the extent possible" measures that each Party proposes to adopt are published in advance, and that persons of both Parties have a reasonable opportunity to comment. Further, the chapter provides that parties at interest to proceedings receive reasonable notice of such proceedings, and that they are allowed to present their case prior to final administrative actions. Each Party must establish independent tribunals or procedures for prompt review of administrative actions, and has the right to a decision based on evidence. The provisions in the cross border services chapter provide further assurance that administrative decisions related to licensing are prompt and fair. This chapter also provides for the Parties to reach agreements mutually recognizing their qualifications and standards for professional practice. The transparency provisions set out in the financial services chapter are consistent with the other transparency provisions in the Agreement but are tailored to the needs of this sector.

BENEFITS FOR KEY SERVICE SECTORS

The CAFTA-DR Agreement is comprehensive and provides for new liberalization and market access across a broad range of service industries. Some of Agreement's benefits for key sectors are listed below.

Dealer Protection: The Agreement addresses restrictions on distribution in Central America created through restrictive dealer protection regimes. Such regimes have placed substantial burdens on the distribution of U.S. exports to the region by locking U.S. companies into inefficient, exclusive and effectively permanent relationships, oftentimes regardless of the performance of the local dealer. The Agreement will allow U.S. exporters and their dealers freedom to contract the terms of their relationships. These provisions will substantially help promote more efficient and improved distribution for U.S. companies within the region.

Accounting Services: The Agreement provides for US accountants to obtain local qualifications and licenses on a reciprocal basis.

Architecture: The Agreement's provisions on the development of professional standards, and temporary licensing and review, provide for equity and reciprocity in this sector. Further provisions provide access to the Central American markets while promoting capacity building within the profession.

Asset Management Services The Agreement provides legal certainty that US asset management firms will be afforded national treatment, non-discrimination and the right of establishment. It also permits cross-border provision of portfolio management services by asset managers of mutual funds. The financial services transparency commitments in the agreement also would benefit the asset management industry.

Audiovisual Services: The Agreement provides for strong intellectual property protections, and strengthened enforcement. The FTA demonstrates that a trade agreement can harmonize two important objectives -- trade liberalization and the promotion of cultural diversity. It avoids the "cultural exceptions" approach, while demonstrating that a trade agreement has sufficient flexibility to take into account countries' cultural promotion interests. The Agreement includes important provisions to ensure market access for US films and television programs over a variety of media including cable, satellite, and the Internet. It provides for zero tariffs on audio visual products, reaffirms that customs duties are based on the value of carrier media and not the value of the movie or other content. It provides commitments to non-discriminatory treatment of digital products including DVDs and CDs, and agreement not to impose customs duties on such products.

Computer and Related Services: The Agreement ensures full market access and national treatment for computer and related services. The Agreement covers all modes of delivery, including electronic delivery. The "negative list" approach ensures that rapidly evolving

computer services, driven by continual advances in technology, will automatically be covered by the Agreement.

Electronic Commerce: The Agreement includes important language on electronic commerce. As with previous FTAs, the Agreement establishes the concept of "digital products"; prevents the application of customs duties on electronically-delivered digital products; assures the non-discriminatory treatment of digital products; addresses the valuation of physically delivered digital products; and provides commitments to cooperate on electronic commerce policy.

Energy Services: The Agreement's provisions on regulatory transparency and investment provide a framework that can provide opportunities for U.S. energy services firms and facilitate the provision of energy services between the United States and Central America.

Express Delivery Services: The Agreement includes important provisions for the sector, including an appropriate definition of express delivery services (EDS). The Agreement recognizes EDS as a unique service sector and contains important commitments to maintain market access for the industry and to facilitate customs clearance, which is critical to the efficient operation of express carriers. The Agreement includes significant language proscribing monopoly abuse by postal administrations when they compete in the supply of express delivery services.

Financial Services (other than insurance and asset management): The Agreement contains important provisions relating to branching, pension management and regulatory transparency.

Healthcare Services: the Agreement breaks new ground concerning the temporary licensing of physicians and surgeons that will be helpful for US hospitals engaged in international medical care to gain market presence.

Insurance: The Agreement's insurance commitments are comprehensive and provide good treatment for insurance. While these countries already have fairly open insurance markets, in most cases these insurance commitments are significant improvements over current WTO obligations. Perhaps most significantly, Costa Rica's insurance sector, which is currently dominated by a monopoly, will be opened for the first time under this agreement. All major aspects of insurance are covered, including life, non-life, reinsurance, intermediation and services auxiliary to insurance. Similarly, key cross border insurance products and services are covered (marine, aviation and transport (MAT), reinsurance and intermediation).

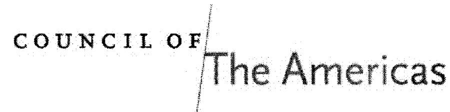
Legal Services: The Agreement preserves the ability of U.S. lawyers to serve as foreign legal consultants or otherwise to provide advice and assistance respecting the law they are authorized to practice in the United States.

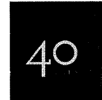
Telecommunications: The Agreement includes new international cost-oriented interconnection obligations for fixed traffic (although mobile services, unfortunately, are excluded from this obligation). The Agreement also contains commitments to provide access to and use of telecommunications networks, and commitments for fixed services, including competitive safeguards, interconnection, universal service, licensing, independent regulator, and allocation of scarce resources. "WTO-Plus" obligations are incurred for major suppliers with respect to resale, provisioning of leased circuits and collocation. The Agreement includes new market access commitments, including cross-border obligations.

Vessel Repair: the Agreement provides for the elimination of the 50% U.S. tariff on vessel repairs performed in the Central American countries, thus eliminating a significant burden on U.S. shipping companies that require repair work when servicing foreign markets.

CONCLUSION

The DR-CAFTA Agreement provides for substantial new market access for a broad range of US services industries to a growing market of nearly 45 million consumers. It thus opens up significant new opportunities for U.S. services trade and investment, and deserves prompt approval by the Congress.





TESTIMONY SUBMITTED FOR THE RECORD
IN THE SENATE FINANCE COMMITTEE
HEARING ON THE U.S.-CENTRAL AMERICA-DOMINICAN REPUBLIC FTA
APRIL 13, 2005

The Council of the Americas, a leading voice for business in the Western Hemisphere, strongly supports Congressional approval of the U.S.-Central America-Dominican Republic Free Trade Agreement ("CAFTA-DR"). First and foremost, the CAFTA-DR represents reciprocity for a generation of unilateral market access provided by the United States with the strong, bipartisan support of Congress to the nations of Central America and the Caribbean. CAFTA-DR puts this relationship for the first time on a two-way basis.

The economic merits of CAFTA-DR are clear. This comprehensive agreement opens all market sectors to U.S. producers, farmers and service providers. Immediately upon implementation, 80% of U.S. industrial goods and 50% of U.S. farm products enter the region duty-free, with remaining tariffs going to zero over a defined period of time. Moreover, the trading disciplines required by the agreement in areas such as government procurement, investment, intellectual property rights, and services, ensure that U.S. companies will be accorded transparent, consistent and non-discriminatory treatment in Central America and the Dominican Republic.

The CAFTA-DR applies not only between the individual countries and the United States, but also among all partners, unifying the region in a single, open market, where economies of scale and cross-border production processes will make the entire region more attractive for U.S. exporters and make the region more competitive in the global economy. By linking the countries of Central America in the pursuit of mutual prosperity, the CAFTA-DR will be a force for continued peaceful, democratic stability in a region that until very recently was torn by civil and intra-regional conflict. Further, the governmental disciplines required by the agreement are not simply conducive to trade and investment, they are fundamental tools of democratic governance, namely transparency in government behavior, and accountability of government officials. At a time when the United States is promoting democracy around the world, this is a critical consideration for the support and enhancement of nascent democracies close to home.

From the standpoint of U.S. strategic interests, the CAFTA-DR is a tangible measure of our ability to keep our word to the region, and therefore critical to U.S. credibility. CAFTA-DR is one very important step in an ongoing process of economic and political engagement of the region by the United States that includes the Caribbean Basin Initiative, reconstruction aid, and other assistance provided to the region over the last several decades. Such engagement has been supported by Congress in a bipartisan manner. It would be a setback of historic proportions if such bipartisan support broke down just at the point it is most needed to shore up U.S. interests.

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Benefits of the Central American Free Trade Agreement

by Governor Pete du Pont,

Chairman of the Board, National Center for Policy Analysis

12770 Coit Road, Suite 800, Dallas, TX 75251

Statement for the Record

The U.S.-Central America-Dominican Republic Free Trade Agreement

April 13, 2005

Congress is considering the most significant trade liberalization agreement since passage of the North American Free Trade Agreement (NAFTA) more than 10 years ago. The Central America Free Trade Agreement (CAFTA) was signed last year by the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. These six nations make up the second largest market for U.S. goods exports in Latin America, behind only Mexico. They purchased $15.1 billion worth of U.S. exports in 2003, an increase of 11 percent from 2000. Meanwhile, U.S. imports from the region totaled $16.8 billion in 2003, up 4 percent from 2000, making it the 15th-largest supplier to U.S. consumers and businesses.[1]

CAFTA is the first major test of the Trade Promotion Authority sought by President Clinton and finally granted to President Bush. It would eliminate tariffs on most goods and services and substantially reduce other trade barriers.

Unfortunately, passage of CAFTA is in doubt. Its defeat would be a setback for wider efforts to expand trade and thereby improve economic conditions in poor developing countries. More than 100 Democrats voted for NAFTA, but apparently CAFTA does not enjoy similar bipartisan support. There is also weakness among some Republicans.

Both opponents and supporters of freer trade have complaints about CAFTA: Free traders are disappointed that it exempts two domestic industries that are protected from overseas competition — sugar and textiles — and delays the elimination of some trade barriers by a decade or more. Opponents of liberalized trade claim that increasing imports will harm U.S. workers, and some of them claim (somewhat contradictorily) that increased exports from the region will harm workers in those countries.

Mutual Gains from Trade. Setting aside the objections of rent-seeking economic interests that support trade barriers simply because tariffs and regulations limit their competitors, opposition to trade liberalization is based on a fundamental

[1] *CIA World Fact Book.*

misunderstanding about the nature of trade. Both buyer and seller benefit from any exchange, whether it is a purchase from a local convenience store or a worker exchanging his or her labor for a wage. In fact, exchange is the principal way in which humans create wealth and raise their living standards. Similarly, the economies of both importing and exporting countries benefit from the international exchange of goods and services.

None of us asks of prices charged at the 7-Eleven: "Is it fair? Is it just?" We ask: "Is it too high?" Or, "Is it a bargain?" And of course, if the price is lower than that charged by competing stores, we don't ask, "Shouldn't I pay more?" Yet there is a presumption among misguided opponents of international trade that unless trade is "fair" or "just," someone loses out. None of us says to the clerk at 7-Eleven: "I will not buy your products unless you patronize my business." Yet with respect to international trade, some claim we should only buy from other countries exactly as much as they purchase from ours.

The gains from trade are mutual, but they are seldom equal. In the case of CAFTA, because the six developing countries that have entered into the agreement with United States are poorer and have more protectionist trade policies than we do, they have more at stake. It is true that U.S. producers and workers will benefit from lower trade barriers in these six countries, and U.S. consumers will benefit from their imports. But it is the poor in developing countries who will benefit the most.

Benefits of Economic Growth. The reduction in trade barriers in the six CAFTA countries will benefit the poor in those countries by raising rates of economic growth. Empirical economic research has established that nations that trade more enjoy higher rates of economic growth and hence higher living standards, measured in per capita gross domestic product.

Tariff rates in most of the CAFTA partners are two to three times higher than in the United States. They already have duty-free access to the U.S. market under the Caribbean Basin Trade Partnership Act (CBTPA) program. In fact, most of the products on which U.S. tariffs fall to zero immediately under CAFTA are already afforded duty-free access under the provisions of the CBTPA. Under CAFTA, however, there will be fewer restrictions and lower compliance costs to qualify for preferential access. The difference between the CBTPA and CAFTA is that CAFTA will grant American goods that are currently subject to tariffs duty-free access to Central American markets. On average, 75 percent of the tariff product categories will be duty-free for U.S. exports to the region upon enactment of the agreement.

There is a link between openness to trade and economic growth. According to the World Bank, tariff rates in almost all of the CAFTA countries are significantly higher than United States' average of 2.6 percent.[2] Specifically, the most recent data available show weighted average tariffs of 10.1 percent in the Dominican Republic, 5.8 percent in Costa Rica, 6.1 percent in El Salvador, 5.8 percent in Guatemala, 7.3 percent in Honduras and 2.3 percent in Nicaragua. These countries are also relatively poor, with per capita GDPs (in terms of local purchasing power) ranging from $2,200 in Nicaragua to $9,000 in Costa Rica, compared to about $38,000 in the United States.

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[2] *World Development Indicators 2004*, World Bank.

Larger nations with bigger economies have faster growth than smaller ones because larger economies experience higher growth.. This puts smaller economies at a disadvantage. However, smaller economies can tap into the economic robustness of larger economies through trade. According to economists Alberto F. Ades and Edward L. Glaeser, the initial size of the economy in open, or trading, nations has a minimal role in determining the rate of GDP growth.[3] The initial size of the economy has a larger role for a relatively closed economy, in which trade accounts for less than 22 percent of GDP. Thus, they conclude that contrary to protectionists' beliefs, free trade benefits poorer nations.

The CAFTA countries have already made progress due to trade liberalization spurred by CBTPA and the democratization that has occurred in these countries. Between 1991 and 2001 the average ratio of imports to GDP for the six countries rose from 33 percent to 49 percent. Moreover, on a range of social indicators, all six countries have made progress.

According to the World Bank, literacy rates for men and women 15 and older have risen significantly in every one of the CAFTA-plus countries since 1980.[4] In fact, between 1980 and 2001, the average literacy rate in the region increased from 67 percent to above 80 percent; the percentage of children aged 10 to 14 in the workforce has steadily declined; and the average share of children in the labor force has dropped from 17.4 percent in 1980 to 10.0 percent in 2002. Expanding trade with the United States would accelerate this progress.

Conclusion. CAFTA would substantially liberalize trade and investment and encourage further economic liberalization among America's trade partners. It would open economic opportunities for the United States, Central America, and the Dominican Republic and set the stage for economic growth and social development.

[3] Alberto F. Ades and Edward L. Glaeser , "Evidence on Growth, Increasing Returns, and the Extent of the Market," *Quarterly Journal of Economics,* August 1999.

[4] *World Development Indicators 2004,* World Bank.

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~Central Province
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Hospital Sisters of the
~Third Order of St. Francis
Missionary Oblates of
~Mary Immaculate
Order of Friars Minor
~Sacred Heart Province
Poor Handmaids of Jesus Christ
School Sisters of Notre Dame
School Sisters of St. Francis
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Sisters of Mercy,
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Sisters of St. Benedict,
~Rock Island, IL
Sisters of the Presentation,
~Dubuque, IA
Sisters of the Humility of Mary
~Villa Maria, PA
Wheaton Franciscans

Dear Members of the United States Senate,

8th Day Center for Justice and its constituents are concerned with the Central America Free Trade Agreement (CAFTA) and we ask you to vote against this agreement. Our organization supports the development of our southern neighbors and we certainly support our country engaging in free trade agreements with developing nations that would benefit and serve the poorer members of our global society by opening markets to their goods. Unfortunately we feel that CAFTA does not offer these benefits.

8th Day Center shares with you the following concerns:

- CAFTA's tariff adjustments promote large U.S. agro-business over and against small U.S. and Central American farmers.
- CAFTA's strict intellectual property rights will prevent access to affordable life saving medicines.
- CAFTA's Investor-State dispute mechanism will undermine the democratic process in all nations involved with CAFTA.
- CAFTA will have privatization rules will deregulate essential social services.
- CAFTA does not adequately protect labor or environmental laws.

Attached with this letter please find the details to these concerns under the heading "CAFTA areas of concern." Because of these concerns we feel that workers, small business and farmers, the environment, and the poor and low income families in all nations involved with CAFTA will stand to lose from this trade agreement.

As an organization of Catholic Religious Communities we reflect on our social tradition to help guide our positions on developing trade agreements. One principle of our tradition informs us that:

The preferential option for the poor does not, by itself, yield a trade policy; but it does provide a frame of reference... We need to examine, for example, the extent to which the success in the U.S. market of certain imports is derived from exploitive labor conditions in the exporting country. Conditions that in some cases have attracted the investment in the first place.

(Economic Justice for All #267-270)

In solidarity with the marginalized members of society who we believe will be hurt from these agreements we again ask you to please vote against this agreement.

Sincerely,

John Gonzalez, Passionist staff
8th Day Center for Justice

CAFTA areas of concern

1. **Labor and Worker Rights**
2. **Agriculture and Environmental Rights**
3. **Rights to Public Services**
4. **Rights to Political Participation (Democracy)**

1. Labor and Worker Rights:

U.S. negotiators for the Central American Free Trade Agreement (CAFTA) have proposed weak worker rights provisions based on those contained in the recently-negotiated trade agreements with Chile and Singapore. At a negotiating session in mid-May in Guatemala, Bush Administration negotiators proposed to their Central American counterparts that CAFTA signatories be required to do no more than enforce their own labor laws, whether or not their labor laws fall short of international standards.

The proposal represents a significant step backwards from worker rights protections currently provided under the Generalized System of Preferences (GSP) and other unilateral U.S. trade programs which set as their standards "internationally-recognized worker rights." These are defined as the right to organize, right to collective bargaining, no forced labor, no child labor, and acceptable conditions with respect to wages, hours, and working conditions.

For nearly 20 years the United States has included worker rights provisions in the Generalized System of Preferences (GSP) program and in subsequent trade preference programs, including the Caribbean Basin Initiative, the Caribbean Basin Trade Partnership Agreement, and the Andean Trade Partnership and Drug Eradication Agreement. These provisions have been included because of government's failures to respect or enforce labor laws.

GSP programs represent small but significant steps in the right direction of Recognizing the standards established by the International Labor Organization (ILO) and creating viable global enforcement instruments. Since CAFTA would supercede the GSP program for Central American countries, these provisions would be lost.

Various mechanisms have been proposed to ensure the effective global implementation of internationally recognized labor standards. Some of these are: including enforceable labor rights provisions in all trade agreements; creating a transparent petition process, as in the GSP; penalizing companies that violate labor laws; and/or strengthening the ability of the ILO to oversee and enforce internationally recognized labor rights.

It is clear that the current position of the U.S. Trade Representative -- to seek only a commitment from Central American countries to enforce their own labor laws -- is inadequate. It is especially inappropriate for regions like Central America that have relatively weak labor laws and a tradition of non-enforcement, as clearly documented in the 2002 U.S. Department of State Country Reports on Human Rights.

The international community must take concerted action to create strong and effective oversight and enforcement mechanisms to protect labor and social rights. Special attention should be given to ensuring the protection of women, members of indigenous groups and farm laborers in their role as workers.

(The above information was compiled from information from the Washington Office on Latin America and US LEAP.)

2. Agricultural and Environmental Rights:

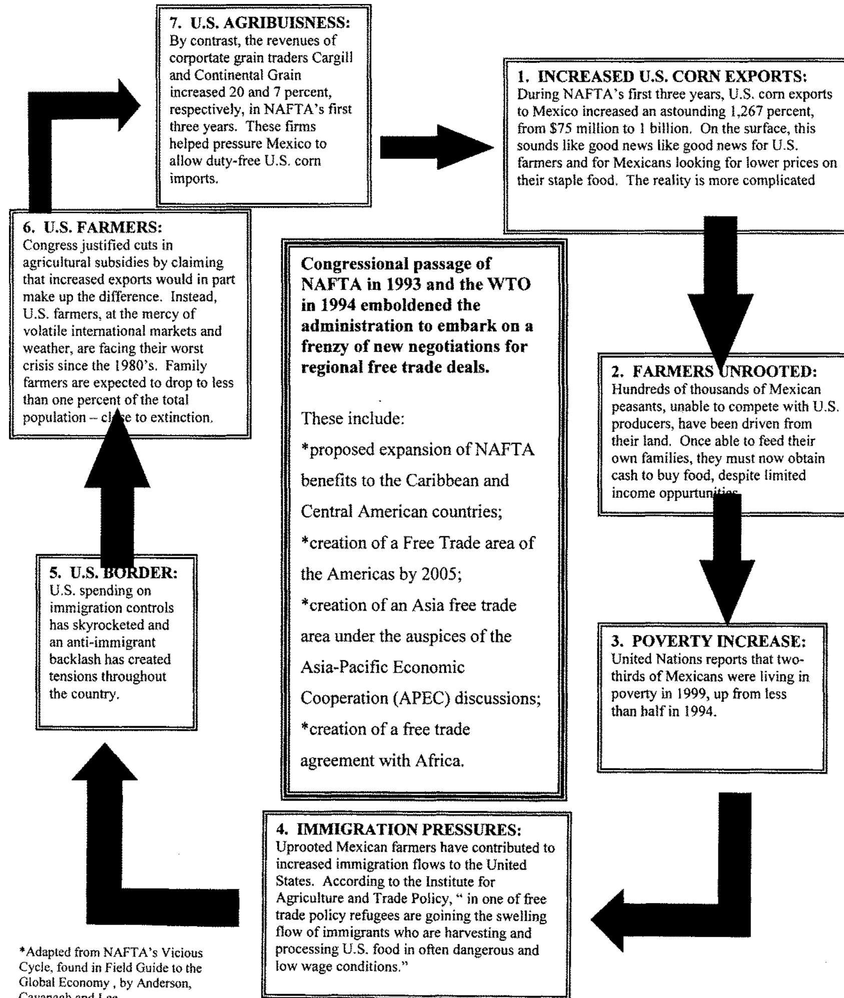
The Central American Free Trade Agreement (CAFTA) is modeled on the North American Free Trade Agreement (NAFTA) signed between Mexico, the U.S., and Canada in 1994. Successful CAFTA negotiations will accelerate negotiations for a hemispheric agreement, the Free Trade Agreement of the Americas (FTAA). NAFTA styled free trade has had a negative track record on the small farming community of nations involved with these agreements. Consider the chart following this page.

Years after NAFTA we have seen the dismal results it has had on the agricultural sector. In a congressional delegation to Mexico to see the effects of NAFTA Congresswomen Kaptur stated that, "NAFTA is not a template for expanding trade." After the delegation met with Mexican farmers Kaptur reported, "The farmers told us that they can't compete with the dumping of US corn products. It is wasting Mexican small farmers and the Mexican countryside is in crisis. 1.8 million farmers have left the land already and 300,000 more leave each year." The impact on Central American countries can be expected to be similar through the CAFTA agreement.

These free trade agreements also impact the small and family farmers here in the U.S. causing their collapse and "Family farmers (in the US) are expected to drop to less than one percent of the total population –close to extinction." (1) Meanwhile, large agribusiness are benefiting from such trade agreements. These patterns will continue under CAFTA.

This will have devastating environmental effects. Central America is one of the most biologically diverse areas in the world, containing thousands of diverse and unique species of plants and animals. Laws protecting the environment could be gutted, declared as an impediment to the potential profits earned by foreign corporations. The corporations could then sue national governments under Chapter 11 provisions. For example, under NAFTA the Mexican state of San Luis Potosi was forced to accept a toxic waste site run by the U.S. Metalclad corporation. The Mexican federal government also had to pay the corporation $16 million in damages. Similar results could be seen with CAFTA

1. Field Guide to the Global Economy, Sarah Anderson and John Cavanagh with Thea Lee and the Institute for Policy Studies, 2000.



*Adapted from NAFTA's Vicious Cycle, found in Field Guide to the Global Economy, by Anderson, Cavanagh and Lee

3. Rights to Public Services:

When the final round of CAFTA negotiations were completed in Washington DC in December, Costa Rica had withdrawn frrom the negotiations due to disputes over the regulation of services such as telecommunication. This has raised increased awareness regarding the issue of the privatization of services in free trade agreements. The following information from the Washington Office on Latin America and Global Exchange provide background information on the dangers of privatization in the proposed Free Trade Agreements including both CAFTA and the FTAA

Investor Rights or Human Rights? (Excerpt from Washington Office on Latin America)

The proposed Free Trade Agreements, including CAFTA, the Free Trade Area of the Americas (FTAA), and others all contain provisions that will require developing countries to allow foreign corporations to compete in their domestic services markets, including such essential public services such as water and electrical utilities, and public health and education sectors.

This will limit the control of local and national governments over essential public services, fundamental to meeting people's basic rights, and risk the forced privatization or deregulation of these services. The results could be cuts in services, increased fees and limited access to public health care, education and water for citizens. Governments who may later decide to reverse course and seek to re-regulate these sectors will risk expensive lawsuits by foreign corporations.

The FTAA, the WTO, and the Assault on Public Interest, Services, and our Water (excerpt from Global Exchange)

Today, services constitute a bigger share of the economy than ever before. A service is anything you can't drop on your foot: the work of lawyers, accountants, doctors, nurses, teachers, child care and elder care employees, librarians, and other professionals are services. Services also include water collection and distribution, electricity generation and distribution, trucking, shipping and other sorts of transportation, oil drilling, waste incineration, and sewage treatment. Services constitute between 70 percent and 80 percent of the United States' economy, and make up more than 60 percent of the global economy.

The Free Trade Area of the Americas negotiators have included services as one of the many items covered by the treaty's rules. Under the FTAA, trade in services would be "liberalized" to create "certainty and transparency" for investors. In practice, this means that our health, labor, and environmental laws would be eroded, all under the guise of reducing "barriers to trade." The proposed FTAA rules would also speed up the process of deregulation and privatization already underway throughout the hemisphere, a process that is eliminating public oversight of essential services.

Essentially, the FTAA rules for services threaten to launch an unprecedented corporate expansion into the lives of the 800 million people of the Americas. The FTAA would give multinational corporations vast new abilities to control our children's education, our elder's health care, our mail service, and even the water we drink. The FTAA's services agenda represents a massive increase in corporate power at the expense of the ability of ordinary people and governments to determine their future.

4. Rights to Political Participation (Democracy)

Chapter 10 Section B of the CAFTA negotiation is where one will find the investment-state dispute mechanism that resembles the infamous investment-state dispute mechanism found in Chapter 11 of NAFTA. This mechanism allows foreign corporations to sue signatory governments for perceiving violations of their rights, which is defined as any loss of potential profits. The arbitration for these disputes take place in secret tribunals and often results in costly compensation paid by cash-strapped and indebted governments. This puts pressure on governments to repeal public interest laws that either protects environmental, health and labor rights or that regulates corporations.

Since NAFTA introduced this mechanism in 1994 North American corporations have used it to either repeal these laws or to get financial compensation for profits they did not work for. The following chart from Public Citizen outlines some of the major cases up to 2002.

In 1997 the Ethyl Corporation sued the government of Canada because a ban had been was placed on MMT, a chemical used in gasoline additives. Canada had placed this ban for two public interest reasons. The first reason is that Canada is committed to addressing global warming and in that vain they were responsibly controlling unnecessary air pollution. The second reason for this ban was that studies showed that MMT carries potential hazards to human health and as a precautionary move Canada banned this substance until further tests.

Ethyl Corporation filed a suit on Canada using Chapter 11 under NAFTA for $251 million in damages. In 1998, when Canada realized that it could not win, Canada settled for $13 million and they **reversed its ban on MMT.**

Similarly in the United States, A Canadian-based Corporation sued the state of California for a law phasing out MTBE, a methanol substance found in gasoline. California passed this law because of confirmed research that found MTBE culpable for the contamination of the drinking water throughout the state.

In 1999 the Methanex Corporation sued California using NAFTA's chapter 11 for the repeal of this law or for $970 million in damages. This lawsuit is pending.

The issue with Chapter 11 of NAFTA and Chapter 10, Section B of CAFTA is that foreign investors and corporations will have greater rights and legislative privileges than the citizens of the host nations. This mechanism sets the stage for a degenerative process for democracies in favor of wealthy investors and corporations.

Chart of NAFTA Chapter 11 Cases

CORPORATION OR INVESTOR	ISSUE	VENUE	DAMAGES SOUGHT (U.S. $)	STATUS OF CASE (MAY 2002)
Ethyl - Against Canada Apr. 14, 1997	U.S. chemical company challenges Canadian environmental regulation of gasoline additive MMT	UNCITRAL	$201 million	Settled; Ethyl Win, $13 million
Metalclad - Against Mexico Jan. 13, 1997	U.S. firm challenges Mexican municipality's refusal to grant construction permit for toxic	ICSID	$90 million	Metalclad Win, $15.6 million

	waste dump and State declaration of ecological zone			
S.D. Myers - Against Canada Oct. 30, 1998	U.S. waste treatment company challenges Canadian ban of PCB exports compliant with multilateral environmental agreement	UNCITRAL	$20 million	S.D. Myers Win, Award Pending
Loewen - Against the U.S. Oct. 30, 1998	Canadian funeral conglomerate challenges Mississippi jury damage award	ICSID	$725 million	Pending
Sun Belt - Against Canada	U.S. water company challenges British Columbia's bulk water export moratorium	UNCITRAL	$10.5 billion	Pending
Pope & Talbot - Against Canada Mar. 25, 1999	U.S. timber company challenges Canada's implementation of 1996 U.S.-Canada Softwood Lumber Agreement	UNCITRAL	$381 million	Pope and Talbot Win, Award Pending
Methanex - Against U.S. Dec. 3, 1999	Canadian corporation challenges California phase-out of gasoline additive MTBE, which is contaminating drinking water around the state.	UNCITRAL	$970 million	Pending
UPS - Against Canada Apr. 19, 1999	UPS claims Canadian post office delivery service enjoys unfair subsidy because it is a public service	UNCITRAL	$160 million	Pending
Mondev - Against U.S. Sept. 1, 1999	Canadian real-estate developer challenges Massachusetts Supreme Court ruling on local government sovereign immunity	ICSID	$50 million	Pending
Karpa - Against Mexico Apr. 7, 1999	U.S. cigarette exporter challenges denial of export tax rebate by Mexican government	ICSID	$50 million	Pending
Azinian, et. al - Against Mexico Mar. 17, 1997	U.S. investors challenge Mexican federal court decision revoking waste	ICSID	$19 million	Dismissed

	management contract for suburb of Mexico City			
ADF Group - Against U.S. July 19, 2000	Canadian steel contractor challenges U.S. "Buy America" law	ICSID	$90 million	Pending
Waste Management - Against Mexico Sept. 29, 1998	U.S. waste disposal giant challenges city of Acapulco revocation of waste disposal concession	ICSID	$60 million	Pending
Calmark - Against Mexico Jan. 11, 2002	U.S. development company challenges Mexican court ruling in development dispute	UNCITRAL	$400, 000	Pending
Adams, et. al - Against Mexico Feb. 16, 2001	U.S. landowners challenge Mexican court ruling that developer who sold them property did not own land	UNCITRAL	$75 million	Pending

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.

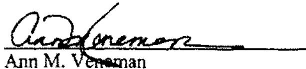
A vote for CAFTA-DR is a vote for fairness and for reciprocal market access. Under CAFTA-DR all of our food and farm products will receive duty free treatment when the agreement is fully implemented.

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.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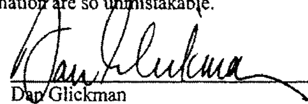
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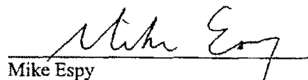
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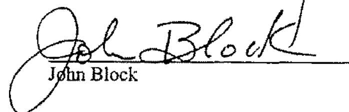
Clayton Yeutter


John Block

Bob Bergland

GROCERY MANUFACTURERS OF AMERICA
MAKERS OF THE WORLD'S FAVORITE BRANDS OF FOOD, BEVERAGES, AND CONSUMER PRODUCTS

Statement of

The Grocery Manufacturers of America

On the
"U.S. - Central America - Dominican Republic Free Trade Agreement"

Before the
Senate Finance Committee

April 13, 2005

The Grocery Manufacturers of America (GMA) appreciates the opportunity to provide information to the Committee on Finance in support 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. US 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 and,
- 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.

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. In addition, 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 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 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 US 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 the sugar to the U.S.
- Despite claims to the opposite by the 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 US raw price to 21.85 cents a pound. According to their own studies, even after the 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 US 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 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.

BEFORE THE COMMITTEE FINANCE
UNITED STATES SENATE

STATEMENT OF

THE INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC

ON THE IMPLEMENTATION OF THE DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE AGREEMENT

April 26, 2005

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This material is disseminated by Robert W. Johnson II, Esq., Balch & Bingham LLP, 1275 Pennsylvania Avenue, NW, Washington, D.C. 20004, who is registered with the Department of Justice, Washington, D.C., as an agent of the Government of the Dominican Republic. This material is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of this material by the United States Government.

STATEMENT
OF
THE INTERNATIONAL SUGAR POLICY
COORDINATING COMMISSION
OF THE
DOMINICAN REPUBLIC
ON THE IMPLEMENTATION OF THE DOMINICAN REPUBLIC -
CENTRAL AMERICA FREE TRADE AGREEMENT

April 26, 2005

The International Sugar Policy Coordinating Commission of the Dominican Republic (Dominican Sugar Commission)[1] welcomes the opportunity to submit this statement to the Committee on Finance in connection with the Committee's April 13, 2005, hearing on the implementation of the Dominican Republic - Central America Free Trade Agreement (DR-CAFTA). This statement is submitted for inclusion in the printed record of the proceedings.

The Dominican Sugar Commission strongly believes implementation of the provisions relating to sugar and other sweeteners in the Dominican Republic portion of the DR-CAFTA will provide no benefit whatsoever to the Dominican sugar industry. Rather, the reverse is true - the provisions relating to sweeteners will have a harmful effect over the long run, causing serious injury to the Dominican sugar industry. As explained below, this is due to the lack of reciprocity in the agreement, and the unfair and insidious effects of the language relating to "trade surplus". The Dominican Government and the sugar industry have worked hard over the past year to engage the U.S. Government in an effort to solve the problems in a constructive manner. Unfortunately, all such overtures have been rejected. Hopefully, the Committee will take a more constructive approach and solve the problems in the implementing legislation, as suggested in this statement.

One major problem is that the proposed DR-CAFTA additional sugar quota for the Dominican Republic is an illusory promise. Because of the unusual and perverse definition of "trade surplus", the Dominican Republic will never be able to export any additional sugar to the United States under the DR-CAFTA.

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[1] The International Sugar Policy Coordinating Commission of the Dominican Republic is an umbrella organization comprised of the sugar producers in the Dominican Republic. Its purpose is to communicate the views and analyses of its members on international issues that may affect the Dominican sugar industry, including Dominican sugar exports to the United States and other markets.

Furthermore, the country will be required to accept significant imports of high fructose corn syrup (HFCS), which would displace domestic cane sugar in numerous applications.

IMPORTANCE OF U.S. SUGAR PROGRAM TO THE DOMINICAN REPUBLIC

The Dominican Republic is the principal foreign supplier of raw sugar to the United States, having a 17.6 percent share of the allocated quota. Moreover, sugar is more important to the economy of the Dominican Republic than to any other country's economy. For these reasons, the Dominican Sugar Commission is interested in any changes in the U.S. sugar import program which could affect Dominican sugar exports to the United States.

NEGOTIATIONS WITH THE DOMINICAN REPUBLIC

On August 4, 2003, U.S. Trade Representative (USTR) Robert Zoellick notified Congress of the Administration's intent to initiate negotiations for a Free Trade Agreement with the Dominican Republic. This notification was required by section 2104(a) (1) of the Trade Act of 2002, which provided "Trade Negotiating Authority" to the President to negotiate trade agreements on a "fast-track" basis. On November 18, 2003, following the 90-day notice and consultation period with the U.S. Congress, Ambassador Zoellick met with Dominican Secretary of Industry and Commerce Sonia Guzman to move ahead with the negotiations to integrate the Dominican Republic into the FTA (CAFTA) then being negotiated with the five countries of Central America. The first formal negotiating round began the second week in January 2004, with additional sessions held in February and March. On March 15 negotiations were concluded between the U.S. and the Dominican Republic, and on August 8, 2005, USTR Zoellick and representatives of the Dominican Republic and the Central American countries signed the final text of the agreement.

The issue of sweetener access for both countries was not addressed until the final day of the negotiations, when the Dominican agricultural experts were not present, having been informed the day before that the negotiations were suspended for several weeks. The provisions giving the Dominican Republic a minimal additional access of 10,000 MT, but limited by the insidious "trade surplus" language, and the provisions for access for HFCS into the Dominican Republic, were agreed to by the head of the Dominican delegation when her agricultural negotiators were not available to provide their expert advice on the effect of these provisions. These provisions, if implemented without change, will prove very harmful to the Dominican sugar industry.

VIEWS ON SUGAR IN BILATERAL AGREEMENTS

The Dominican Sugar Commission has long supported the position that agreement should be reached in the WTO agriculture negotiations to reduce the distortions in the world sugar trade caused by the EU's CAP, and other measures around the globe. The structural problems in the world sugar trade need to be addressed in the context of the WTO agriculture negotiations. The WTO is the only forum where comprehensive meaningful reforms can be made. Attempts to reform world sugar trade in other forums could have unintended adverse consequences and create unnecessary mischief.

The long-standing Dominican position was sugar trade should not be a subject of negotiation in regional, sub-regional, or bilateral trade negotiations, absent overriding considerations. However, the Dominican Government and its sugar industry were forced to re-assess and modify this position when the United States offered increased sugar access to the Central American countries in the CAFTA negotiations. Since the CAFTA countries negotiated substantially increased access to the U.S. market, it was only fair that the Dominican Republic, also a developing country in the region, be given proportionate access to the Central American countries.

The Dominican Ambassador in Washington and the head of the Dominican negotiating team, the Minister of Industry and Commerce, indicated this to USTR, that the Dominican Republic expected in its negotiations to obtain access to the U.S. sugar market on a proportionate basis as provided to the CAFTA countries, presumably based on the countries' shares of the Tariff Rate Quota. This was a reasonable position, given that USTR expressed its intention to treat the Dominican Republic like the Central American countries.[2] Unfortunately, USTR did not offer any such proportionate access and the access it did provide was illusory, being subject to the "trade surplus" provision.

"TRADE SURPLUS" PROVISION AND EFFECTS ON THE SUGAR INDUSTRY

The "trade surplus" provision included in the DR-CAFTA undermines any potential benefits to the Dominican sugar industry. The provision is a "Catch-22" since it would require the Dominican sugar industry to export raw sugar to the world market at a loss in order to obtain the right to export an

[2] During a conference call on December 18, 2003, USTR officials were asked questions about the status of the Dominican Republic, its "accession" to the CAFTA, and USTR's negotiating strategy. In response to the question on negotiating strategy, USTR specifically stated the Dominican Republic would be "treated no better or no worse" than the CAFTA countries. While this statement was not directed specifically to the issue of sugar, there was no suggestion sugar would be negotiated on any different basis than in the CAFTA.

equivalent amount to the United States the following year. This is an obviously absurd result; the inclusion of this rule in the DR-CAFTA agreement, where it does not have a similar negative effect on any of the five Central American countries, leads one to question whether the provision was expressly targeted at the Dominican Republic. This language must be rejected or modified in the implementing legislation for the Dominican Republic to realize any benefits at all from the sugar provisions. What is particularly puzzling is the inclusion of this language when the Dominican Republic was assured it would receive the same treatment as the Central American countries.

1. CAFTA Trade Surplus Rule. Under the CAFTA, the Central American countries will obtain additional Tariff Rate Quotas (TRQs), starting at 97,000 MT and growing to about 140,000 MT in year 15, thereafter increasing by 2% a year into perpetuity. A 2,000 MT TRQ, with no growth, was allocated to Costa Rica for organic sugar under the U.S. specialty sugar TRQ. The new CAFTA TRQ access will be as follows:

	Costa Rica	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*
Year 1	11,000	24,000	32,000	8,000	22,000
Year 15	14,860	36,040	49,820	10,240	28,160
Annual increase	220	680	940	160	440

If the Dominican Republic had been given a proportionate quota in its FTA, based on the CAFTA countries' and the Dominican Republic's shares of the FY 2004 TRQ, the Dominican Republic should have an additional DR-CAFTA TRQ of approximately 142,000 MT in year 1, increasing to over 182,000 MT in year 15.

The "trade surplus" provision in the base text (U.S. General Notes and Appendix I, Tariff-Rate Quotas, Annex 3.3-US Notes-9) limits the additional CAFTA quotas to the amounts specified in the chart above for each country, or the country's "trade surplus" in sugar (including raw, refined or sugar-containing products), whichever is lower.[3]

[3] The exact language is, as follows:

(d) In any year, duty free tariff treatment under subparagraph (a) for a Party shall be accorded to the lesser of (i) the aggregate quantity set out in subparagraph (a) for that Party, or (ii) a quantity equal to the amount by which the Party's exports to all destinations exceeds its imports from all sources ("trade surplus") for goods classified under the following subheadings: HS1701.11, HS1701.12, HS1701.91, HS1701.99, HS1702.40, and HS1702.60, except that a Party's exports to the United States of goods classified under subheadings HS1701.11, HS1701.12, HS1701.91, and HS1701.99 and its imports of originating goods of the United States classified under HS1702.40 and HS1702.60 shall not be included in the calculation of its trade surplus. A Party's trade surplus shall be calculated using the most recent annual data available.

In rough terms, a country's "trade surplus" is calculated by subtracting its imports from the world market from its exports to the world market. Exports to the U.S. and imports from the U.S. are disregarded in the calculation of the "trade surplus". Increases in a country's production, and its increased capacity for exports and increased ability to ship to the U.S. are not taken into account. By way of example, under this formula, Guatemala has a new CAFTA TRQ of 32,000 MT in year 1, and its recent exports to the world market were in the magnitude of 1 million MT, according to ISO statistics. Under the CAFTA "trade surplus" rule, Guatemala would receive the lower of its new CAFTA TRQ (32,000 MT) or its "trade surplus" defined as its world market exports minus world market imports, calculated at roughly 1 million MT. Thus its new additional CAFTA TRQ would be the amount set out in the chart above, since its "trade surplus" is higher than its CAFTA TRQ. The same is true for all of the CAFTA countries; their "trade surpluses" are all higher than their CAFTA quotas, meaning they would be entitled to export their full specified CAFTA quotas. In effect, this language rewards CAFTA countries that have exported to the world market, and penalizes those countries that have not done so in recent years.

2. Unfair Effect on the Dominican Republic. On the other hand, the Dominican Republic would be penalized by the operation of the "trade surplus" rule because the country has not exported sugar to the world market in recent years. (The primary reasons for the reduction in Dominican sugar exports to the world market are: the country reduced its sugar production at the United States' request to diversify its agricultural economy; the U.S. sugar quota program had a drastic effect on Dominican sugar production; and Hurricane Georges caused extensive damage to the Dominican industry in 1998).

Therefore the Dominican Republic, having no exports to the world market in recent years, would have a zero "trade surplus" under the CAFTA formula, and would not be able to utilize its new DR-CAFTA TRQ of 10,000 MT. If the Dominican Republic wanted to utilize the new TRQ, the country would be forced to increase production and export 10,000 MT to the world market at a substantial loss in order to use the new TRQ the following year. **This is a bizarre result. The language should be modified to take into account the country's ability to increase production, and fill the new DR-CAFTA TRQ, without forcing the country to increase production and make world market sales at a loss. This is simply fair, given the United States' role in the reduction of Dominican exports to the world market.**

3. Dominican Sugar Industry. Historically, the sugar industry was the engine of the Dominican economy; sugar was more important to the Dominican economy than to any other country.[4]

[4] Columbus introduced sugarcane to Hispaniola, but sugar plantations did not

Until the early 1980s the Dominican Republic maintained a fairly stable level of sugar production, with about 1 million short tons, representing 80% of total production, available for export. In 1976 production reached a peak volume of roughly 1.25 million short tons, and exports to the United States totaled 900,389 MT. The country's sugar exports to the United States averaged 730,291 MT during the 1975-1981 period, entitling the Dominican Republic to the largest share of the allocated Tariff Rate Quota. At the request and encouragement of the United States, the country has since diversified its agricultural economy away from its dependence on sugar. Despite ongoing diversification efforts, in the late 1980s the Dominican Republic was one of the world's largest producers of sugarcane.

The role of sugar changed markedly in the 1980s as external conditions (including actions by the United States - reductions in the U.S. sugar quota and assistance for diversification in Dominican agriculture) forced the national economy to diversify.[5] Sugar prices had reached unprecedented highs in 1975 (when sugar export revenues peaked at $577 million) and again in 1979. The international recession of the early 1980s, however, pushed prices to their lowest levels in forty years. Lower world prices hurt the Dominican economy, but the reduction of sales to the United States market, as a result of quota reductions that began in 1981, was even more costly because of the preferential price the United States paid under the quota system. The international market continued to be depressed in the late 1980s. The market had been glutted by over-production, caused principally by European beet growers; major soft-drink manufacturers had also switched to high-fructose corn sweeteners and away from cane sugar. This resulted in a substantial decrease in Dominican sugar production. It made no economic sense for the Dominican sugar industry to continue exports to the depressed world market when profitable exports to the United States, needed to offset losses on world market sales, were

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flourish in the Dominican Republic until the 1870s. Investment by United States sugar companies, such as the United States South Porto Rico Company and the Cuban-Dominican Sugar Company, rapidly transformed the Dominican economy. These companies had established themselves by the 1890s, and between 1896 and 1905 sugar output tripled.

[5] In November 1981, U. S. Ambassador Robert L. Yost announced the possibility that by 1990 the United States could end its sugar importations, due to increases in production of high fructose corn syrup and its potential displacement of sugar. For this reason, he urged nations such as Dominican Republic to diversify their agricultural economies away from their dependence on sugar. To help in this effort, the United States provided special funding, which was later used to stimulate the production of non-traditional crops. While the Caribbean Basin Initiative offered the Dominican Republic increased duty-free access to the U.S. sugar market (780,000 MT), this promised access was severely limited by the application of the sugar quota program. Economic development took place in other sectors, such as free zones, tourism, and alternative agriculture. This diversification was financed in part by direct foreign investment and also by USAID, which made significant contributions to a number of projects.

severely restricted by the reductions in the U.S. TRQ throughout the 1980s and 1990s.

4. Dominican Exports to the U.S. The Dominican Republic is the largest exporter of raw sugar to the United States, holding 17.6 percent of the allocated Tariff Rate Quota. Historically, the sugar industry had been the nation's largest employer and the main source of the country's export earnings.[6] From 1978-1987, sugar exports provided roughly 30 percent of the Dominican Republic's foreign exchange, which is needed to finance the purchase of the many essential imports that cannot be produced in the Dominican Republic. (The great bulk of manufactured items the Dominican Republic imports are of U.S.-origin). For example, the Dominican Republic's sugar exports to the United States averaged 805,000 tons per year during the 1975-1981 period, and under the Caribbean Basin Initiative it was contemplated that the Dominican Republic could export 859,794 tons (780,000 MT) per year duty-free. Because of the operation of the U.S. sugar quota program, the Dominican Republic's sugar quota has steadily eroded. It is currently 185,335 metric tons for FY 2004. **Over the past two decades the Dominican Republic has failed to realize some $2 billion in potential sales to the United States due to the shrinkage in its U.S. sugar quota.**

5. Recent Developments in the Dominican Sugar Industry. There have been several recent developments that have affected the Dominican Republic's sugar production, and thus its ability to supply domestic needs and have sugar available for shipment to the world market, and to the United States. Among the most important are the damage caused by Hurricane Georges in 1998, and the restructuring and privatization of the sugar industry beginning in 1999. In September 1998, Hurricane Georges hit the Dominican Republic with winds over 120 mph and more than 20 inches of rain. Significant amounts of sugarcane were destroyed in the fields and several mills suffered severe damage. In 1999 the Dominican Government completed the process of privatizing its government-owned sugar operations, Consejo Estatal del Azúcar (CEA), and private producers began operating the CEA-owned mills in 2000. However, this process suffered setbacks as some of the new producers experienced financial difficulties and technical problems in re-opening the old mills or starting up new production facilities. As a result, the Dominican Republic has had to import raw and refined sugar for domestic production several times in the past few years.

A number of mills have ceased production in recent years encouraged by U.S. policy. [Angelina, Rio Haina, Ozama, Santa Fe,

[6] The elimination of United States sugar quotas for Cuba after the Cuban Revolution of 1959 further enhanced the economic role of sugar, as the Dominican Republic assumed Cuba's former status as the main supplier under the quota system.

Catarey, Esperanza, Amistad, and Quisqueya]. Central Romana, Cristóbal Colón, CAEI, Consuelo, Boca Chica, Barahona, and Monte Llano currently produce sugar. Porvenir is not producing at this time but could be in operation for next crop. Production improved in 2003-2004, reaching a level over 530,000 metric tons. The Dominican Republic has reached a level of production that there is no need for additional imports of raw or refined sugar to meet demand.

PROBLEM OF HFCS IMPORTS

Another significant problem with the DR-CAFTA is that the agreement provides for substantially increased access of HFCS into the Dominican Republic over 15 years. It is the view of the Dominican sugar industry that HFCS could eventually displace as much as one third of domestic cane sugar in various applications in the Dominican Republic. This loss of domestic markets to HFCS would be especially harmful to a cornerstone of the country's economy, particularly under the circumstances described above, where the sugar industry is in the process of recovering from the blows of a decreased U.S. sugar quota, depressed world prices, natural disasters, and reorganization and contraction in the industry. Moreover, the harm would not be limited to a few major sugar producers, but a large number of Dominican cane producers and workers, including Haitians. **To repeat, allowing HFCS to access the Dominican market over 15 years could be the death knell for the Dominican sugar industry. HFCS will displace sugar in soft drinks and food products and force Dominican sugar producers to close mills and lay off workers. This could be disastrous for the Dominican economy and pose a serious threat to the social fabric of our country as well.**

EFFORTS TO CORRECT THE PROBLEMS

Recognizing that the DR-CAFTA provides small benefit to Dominican sugar exporters - and threatens the Dominican sugar industry with grave harm as a result of increased imports of sugar and HFCS from the U.S. - on April 7, 2004, President Mejía issued Decreto No. 316-04 creating a Special Commission to revise the final text of the DR-CAFTA.

Members of the Special Commission went to Washington in late May 2004 to meet with Allen Johnson, Chief Agricultural Negotiator at USTR, and Assistant Secretary of State for Western Hemisphere Affairs Roger Noriega. The Dominican negotiating team's position at the meetings was that (1) the Dominican Republic needed to maintain its tariffs on sugar and sweeteners; and (2) in exchange, the Dominican Republic would forego the 10,000 MT DR-CAFTA quota. In essence, sugar should be excluded from the scope of the agreement (like corn was excluded for some

CAFTA countries), thus addressing political and economic concerns of both countries. Having sugar and fructose excluded from the agreement was the primary goal of the negotiating team; a "fall-back" position was to make the "trade surplus" provision reciprocal, in effect limiting U.S. sweetener imports into the Dominican Republic to its "trade surplus". Suggested language on this point had already been developed and provided to USTR during an earlier meeting in May. Ambassador Allen Johnson flatly refused to reopen discussions on sugar and HFCS, saying agreement had already been reached between the two sides and that the agreement was fair and balanced. Further efforts to rectify the unfair and harmful sweetener provisions in the DR-CAFTA were rebuffed. A personal letter last fall from President Fernández to President Bush seeking a remedy to the sweetener problem proved fruitless as well. USTR simply refused to re-open the sweetener provisions in the agreement or change the technical definition of "trade surplus" to make the language reciprocal.

CONCLUSION AND RECOMMENDATIONS

The Dominican Sugar Commission appreciates the opportunity to submit this statement. We recommend the implementing legislation should provide, in the interests of reciprocity and fairness, that a country has the option to forgo "benefits" under the agreement for its sweetener exporters in exchange for elimination of similar "benefits" to the United States sweetener exporters, that is, permit the Dominican Republic to eliminate sugar and HFCS from the scope of the agreement. In the alternative, the "trade surplus" provisions should be made "reciprocal". (The Dominican Sugar Commission can provide the Committee with technical language to accomplish this result in the implementing legislation). In the view of the Dominican Sugar Commission such changes would remedy the serious defects in the sweetener provisions in the DR-CAFTA agreement.

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International Sugar Policy
Coordinating Commission
of the Dominican Republic

MOTION PICTURE ASSOCIATION
OF AMERICA, INC.

WRITTEN TESTIMONY OF DAN GLICKMAN PRESIDENT AND CEO OF THE MOTION PICTURE ASSOCIATION OF AMERICA, INC.

TO THE SENATE FINANCE COMMITTEE

THE VALUE OF THE U.S.-DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE AGREEMENT FOR THE FILMED ENTERTAINMENT INDUSTRY

APRIL 13, 2005

On behalf of the Motion Picture Association of America (MPAA) and the Entertainment Industry Coalition (EIC), of which MPAA is a member, I would like to take this opportunity to thank the committee for holding this hearing on the U.S.-Dominican Republic Central America Free Trade Agreement (DR-CAFTA). The DR-CAFTA creates new opportunities for America's entertainment industries and workers in terms of US jobs and exports. This agreement also establishes important precedents for future Free Trade Agreements (FTAs) to be negotiated with other countries.

The MPAA is a trade association representing the interests of seven of the largest producers and distributors of films, home video entertainment and television programs. Its members are Buena Vista Pictures Distribution; Metro-Goldwyn-Mayer Studios Inc.; Paramount Pictures; Sony Pictures Entertainment Inc.; Twentieth Century Fox Film Corporation; Universal Studios from Universal City Studios; and Warner Bros. Entertainment Inc.

The EIC is a coalition representing trade associations, guilds, a labor union and companies that produce, distribute and exhibit films, recorded music and video games. The coalition's members include the MPAA, the Recording Industry Association of America, the National Association of Theater Owners, Independent Film & Television Alliance and the Electronic Software Association.

Importance of the Copyright Industries to the U.S. Economy

The copyright industries reach across all fifty states and into almost every corner of the globe. The innovation and creative works they produce not only entertain us and make our lives easier; they represent an enormous engine of economic growth, prosperity

and job opportunity. In 2002, the U.S. "core" copyright industries[1] accounted for an estimated 6% of the U.S. gross domestic product ($626.6 billion), and employed 4% of U.S. workers in 2002 (5.48 million workers). Between 1997-2002, the core copyright industries added workers at an annual rate of 1.33%, exceeding that of the U.S. economy as a whole (1.05%) by 27%. Factoring out the difficult economic year of 2002, between 1997-2001, employment in the core copyright industries grew at an annual growth rate of 3.19% per year, a rate more than double the annual employment rate achieved by the U.S. economy as a whole (1.39%).

In 2002, the U.S. "total" copyright industries[2] accounted for an estimated 12% of the U.S. gross domestic product ($1.25 trillion) and employed 8.41% of U.S. workers (11.47 million workers). This level approaches the total employment levels of the entire health care and social assistance sector (15.3 million) and the entire U.S. manufacturing sector (14.5 million workers in 21 manufacturing industries).

In 2002, the U.S. copyright industries achieved foreign sales and exports estimated at $89.26 billion, leading other major industry sectors such as: chemicals and related products, food and live animals, motor vehicles, parts, and accessories, and aircraft and associated equipment sectors.

Protecting the copyright industries and the intellectual property they are based upon goes hand in hand with protecting the U.S. economy and job market. To that end, the DR-CAFTA provides for better intellectual property (IP) protections and more improved market access than the industry has seen in previous agreements. Central America and the Dominican Republic are currently pirate markets for the MPAA's member companies; this agreement would go a long way toward establishing legitimate markets and will help set the stage for effective enforcement of intellectual property laws. Moreover, the DR-CAFTA will set higher standards of IP protections and market access in future trade agreements.

TRIPS Plus Provisions For IP Protections In The Digital Economy

The DR-CAFTA builds on the framework of copyright protections provided by the World Trade Organization's agreement on trade related intellectual property. The signatories of the DR-CAFTA agree to implement the WIPO Internet Treaties, which provide world-class IP standards on treatment of digital copyrighted material, upon entry into force of the Free Trade Agreement. This establishes strong anti-circumvention provisions to prohibit tampering with technologies that are designed to prevent piracy and unauthorized distribution over the Internet. It also ensures that copyright owners have the

[1] The "core" industries are those industries whose primary purpose is to produce or distribute copyright materials. These industries include newspapers, book publishing, recording, music, and periodicals, motion pictures, radio and television broadcasting, and computer software (including business application and entertainment software).
[2] The "total" industries are composed of four groups called the core, partial, non-dedicated support, and interdependent sectors.

exclusive right to make their works available online, and it provides an expeditious process that allows for copyright owners to engage with Internet Service Providers and subscribers to deal with allegedly infringing copyright material on the Internet. In addition, DR-CAFTA protects copyrighted works for extended terms, in line with emerging international trends.

Strengthened IP Enforcement

The DR-CAFTA offers strengthened intellectual property enforcement in several ways. The agreement increases in criminal and civil protection against the unlawful decoding and distribution of encrypted satellite TV signals, and it criminalizes end-user piracy, providing strong deterrence against piracy and counterfeiting. It requires both parties to authorize the seizure, forfeit, and destruction of pirated products and the equipment used to produce them and also provides for enforcement against goods-in-transit, to deter violators from using ports or free trade zones to traffic in pirated products. In addition, it includes agreed criminal standards for copyright infringement and stronger remedies and penalties.

Broadcast Piracy

The members of the MPAA have had a long-standing and serious problem with broadcast piracy- the unlicensed and illegal retransmission of broadcast signals- in the Dominican Republic. However, an August 5, 2004 side letter to the DR-CAFTA agreement *already* provides a strong commitment to eliminate broadcast piracy by the Government of the Dominican Republic. One favorable judgment against a notorious pirate broadcaster was received late last year.

Zero Tariffs On Entertainment Products

The Agreement committed to zero tariffs on all movies, music, consumer products, software, books and magazines that our companies export into the countries. It also reaffirmed that customs duties are based on the value of carrier media and not the value of the movie, music, or software contained on the carrier media in order to assist in efforts to create global consensus on this customs valuation standard.

Improved Market Access For Audiovisual Services

DR-CAFTA demonstrates that a trade agreement can harmonize two important objectives -- trade liberalization and the promotion of cultural diversity. It avoids the "cultural exceptions" approach, while demonstrating that a trade agreement has sufficient flexibility to take into account countries' cultural promotion interests. This agreement includes important provisions to ensure market access for US films and television programs over a variety of media including cable, satellite, and the Internet. It also has strong investment protections that will benefit theater chains. U.S. cinemas are building new multiplexes in Central American countries and the investment protections that they

receive in DR-CAFTA will help to protect and promote their growth. These multiplexes in turn provide an important base for expanding the filmed entertainment market.

The Agreement also has broad commitments to open services markets (with few exceptions) across a range of sectors important to the entertainment industries, including but not limited to computer and related services, telecommunications services, audiovisual services, advertising, and distribution services, such as wholesaling and retailing. In addition, there are disciplines that ensure a more competitive telecommunications market including disciplines that require cost-based Internet access (through leased circuit services). Such disciplines will be particularly important in safeguarding competition against Costa Rican state-owned telecomm company.

Free Trade In Digital Downloads/E-Commerce

The Agreement contains groundbreaking commitments on e-commerce, which will help stimulate development of advanced telecommunications infrastructure in these countries. These commitments will in turn ensure benefits for the filmed entertainment industry under this Agreement far into the future. The DR-CAFTA also includes a commitment to non-discriminatory treatment of digital products including DVDs and CDs; and agreement not to impose customs duties on such products.

Agriculture

The Chief Executive Officer of the Motion Picture Association of America would not generally be expected to opine on issues involving trade in agriculture. But, as a former Secretary of Agriculture, I was honored to join five other former Secretaries of Agriculture: Ann Veneman, Mike Espy, Clayton Yeutter, John Block and Bob Bergland in a letter released on April 19, 2005, in recognizing the significant benefits this Agreement will bring to US farmers, ranches, food and agriculture organizations and in urging members of congress to support this Agreement. A copy of our letter is attached.

Conclusion

In conclusion, the Motion Picture Association of America has long been appreciative of the leadership shown by the Office of the U.S. Trade Representative in negotiating important provisions for good market access and intellectual property rights protections in previous FTAs, and we thank them again for their hard work on the DR-CAFTA. In turn, Congress has in the past and should again recognize the importance of these agreements to the US economy and job market by approving them. On behalf of the MPAA, its member companies, and the members of the Entertainment Industry Coalition, I hope that Congress will vote in favor of the U.S.-Dominican Republic Free Trade Agreement and the job opportunities, market expansion, and strong intellectual property and investment protections it provides to the entertainment industry. Thank you.

Written Testimony
From the National Corn Growers Association
Submitted to the
Senate Finance Committee
On United States – Central American-Dominican Republic Free Trade Agreement

April 13, 2005

We appreciate the opportunity to submit written testimony on behalf of the National Corn Growers Association (NCGA) to the Senate Finance Committee.

The National Corn Growers Association was founded in 1957 and represents more than 32,600 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to checkoff programs in 19 states.

No sector of the U.S. economy is more dependent on trade than agriculture – and corn growers are no exception to that rule. One out of every five rows of U.S. corn is exported and exports of value-added corn and co-products add to the importance of foreign markets for U.S. corn producers. The Central America Free Trade Agreement – Dominican Republic (CAFTA-DR) will stimulate U.S. exports of corn co-products and value-added products such as corn gluten, DDG's, starches, oils and sweeteners as well as meat and poultry products.

U.S. agricultural exports to the CAFTA-DR region totaled over $1 billion in 2002 and the United States' share of market in that region for agriculture exports has declined from 54 percent in 1995 to 41 percent in 2001. This is due in large part to preferential access conditions afforded third countries by the Central Americans through bilateral trade agreements. We believe CAFTA will help restore U.S. share of the market.

United States agriculture has much to gain from the CAFTA-DR. American Agriculture is strategically positioned to translate an agreement with the five countries into export gains across a variety of products estimated $945 million per year by 2024. 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 agriculture products coming into the United States from these and other Caribbean countries.

For agriculture, it is estimated that 99 percent of Central America's and the Dominican Republic's farm exports to the U.S. are duty free.

CAFTA-DR will create new opportunities for corn growers to realize opportunities for export of corn products. For example, all tariffs on corn products (such as corn flour, corn oil, and high fructose corn syrup) will be eliminated within 15 years and tariffs on corn gluten feed/meal and distillers dried grains will be eliminated immediately.

Import duties on yellow corn in Costa Rica is one percent. In the other CAFTA countries, the tariff ranges from 15 – 35 percent. Under the terms of the agreement,

guaranteed access will total nearly over 1 million metric tons duty free. In addition, under the agreement, all Central American tariffs will be eliminated within 15 years and tariff rate quotas (TRQ) will be established. In 2003, CAFTA countries imported 1.7 mmt of corn (approximately 68 million bu). With approval of the agreement, it is expected that this number will grow and U.S. share will also grow.

The import duty on white corn in CAFTA countries is currently 20 percent. Under the agreement, Costa Rica will drop their duty to zero. The other countries will liberalize access thru a TRQ that will grow at 2 percent per year over perpetuity.

Bulk corn imports from the United States to CAFTA countries between 1999-2001 averaged $137.4 million annually. In 2024, exports to the region with CAFTA will be $357.6 million with the CAFTA agreement and $302.3 million annually without. The net gain from the agreement for corn exports will be $55.4 million in that year alone. U.S. share of the CAFTA market for corn is expected to increase from 80 percent to 87.5 percent by 2024 with the agreement. Market share without CAFTA is expected to remain at a stagnant 80 percent.

In the Dominican Republic, corn imports from the U.S. will grow from an average of $93.3 million (1999-2001) to $148.3 million in 2024. Without the agreement, imports from the United States are estimated at $145.3 million. The net gain from the Dominican Republic Free Trade Agreement will be $3 million annually in 2024.

Like the other CAFTA countries, the net surplus of exports over imports in the Dominican Republic will be $468 million.

CAFTA-DR is a homerun for agriculture. CAFTA will provide new export opportunities for U.S. corn producers as well as locking in the market we already have.

The CAFTA-DR Agreement puts the United States in the role of a preferred supplier of agricultural products rather than a residual supplier to these countries and there will be a net positive effect for U.S. Agricultural products. The National Corn Growers Association strongly supports passing of the Central America Free Trade Agreement - Dominican Republic.

OXFAM AMERICA

Written Testimony for the U.S. Senate Finance Committee Hearing on

The U.S. – Central America - Dominican Republic Free Trade Agreement

April 13, 2005

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Oxfam is an international development and humanitarian relief agency committed to developing lasting solutions to poverty, hunger and social injustice. We work in over 120 countries around the globe, including the five Central American countries and the Dominican Republic that are party to the free trade agreement with the United States, known as DR-CAFTA.

Oxfam believes that trade can be an important means to achieving sustainable development and poverty reduction. Trade and development are intimately linked. A global system that has fair trade rules and practices has the potential to lift millions of people out of poverty. For this reason, Oxfam has focused on making global trade rules fair and consistent with development goals, as an integral part of our work to improve livelihoods and reduce poverty in developing countries.

Trade agreements present both opportunities and risks, especially when they involve developed and developing countries. The DR-CAFTA is the first such agreement the US has negotiated with some of the poorest countries in the hemisphere, two of which have annual per capita incomes below $1,000. The U.S. trading partners in the DR-CAFTA, with a population of 42.5 million, have high levels of poverty and very unequal distributions of income and wealth. They depend heavily on agriculture for the livelihood of significant portions of their populations. These countries are ravaged by curable diseases due to poverty and inadequate health-care coverage. They sorely lack public infrastructure and, in several cases, are highly indebted.

In order for a trade agreement to be fair for these countries and promote their development, it must ensure that governments are able to provide for the food security needs of their people. And for an agreement to contribute to their poverty reduction, it must not prevent citizens from being able to access life-saving drugs they desperately need to effectively combat contagious diseases like HIV/AIDS or prevalent illnesses like diabetes. Trade agreements

inevitably have winners and losers. Oxfam believes that those who stand to lose in the DR-CAFTA are the ones who are already disadvantaged in these highly unequal societies, where the majority of poor people live in rural areas, rely on income from agriculture and must pay for medicines out-of-pocket.

There has been much public debate about what the passage or rejection of the DR-CAFTA will mean for the U.S. trade agenda. Oxfam, however, believes that the DR-CAFTA must be judged only on the basis of what this particular agreement will mean specifically for the seven countries involved. Congress should look carefully at the terms of the DR-CAFTA to understand their implications in a region of high geo-political importance to our country. On balance, Oxfam believes the agreement, in its current form, will do more harm than good. It will threaten the livelihoods of millions in Central America and the Dominican Republic and may contribute to increased insecurity and instability in that region.

Oxfam wishes to focus attention on provisions in the DR-CAFTA involving agriculture, intellectual property and investment. As a result of our analysis in these areas, Oxfam believes the DR-CAFTA is a bad deal for millions of farmers, workers, and consumers in Central America and the Dominican Republic and should therefore be rejected.

Agriculture

Agriculture currently comprises between 10 to 23 percent of GDP in the six DR-CAFTA trading partners, while it represents less than two percent of GDP in the U.S. Nearly a third of employment in these six countries depends on agriculture, much of which involves food essentials for consumption in the region, and most of these workers are poor and low skilled.

There are two major reasons why Oxfam believes many farmers in Central America and the Dominican Republic are at significant risk of losing their livelihood under DR-CAFTA. Market access rules for agriculture in the agreement deny developing country governments the ability to adopt measures to ensure domestic food security and promote rural livelihoods. Under DR-CAFTA, countries must eliminate import tariffs on virtually all agricultural goods, including those food essentials that are most important for small farmers' incomes - rice, yellow corn, beans and dairy products.

At the same time, the agreement requires Central American countries and the Dominican Republic to open the door for dumping of highly subsidized US agricultural exports at prices below their cost of production. This situation is not only profoundly unfair, but it risks creating poverty and economic dislocations among the 5.5 million farmers and farmworkers in the region.

Although DR-CAFTA provides for longer tariff elimination periods for some basic commodities in Central America and the Dominican Republic, duty-free quotas are immediately created or expanded beginning in the first year of the agreement. These duty-free quotas are nearly equal to current US exports to these markets (quotas begin to surpass current US export levels starting in the second year of DR-CAFTA) and will immediately drive down prices for local producers. The region's small farmers – who receive no subsidies, lack access to credit and depend on the income from each year's harvest for their subsistence – will be unable to compete

with subsidized US exports. And as more local farmers go out of business each year, the region's grain imports in following years are likely to surpass the annual quota increases, as occurred in Mexico under NAFTA, making the longer tariff phase-out periods irrelevant.

The case of corn in Mexico under NAFTA is illustrative. An extended 15-year period for tariff elimination was instead reduced to little more than 30 months, and real corn prices in Mexico fell more than 70 percent in the first eight years under NAFTA, without benefiting Mexican consumers. It is estimated that since NAFTA's passage, 1.7 million Mexican peasants working in the agricultural sector have lost their jobs. In addition, 15 million small farmers have lost significant income because they could not compete with subsidized US exports, such as corn. Many left their land and fled to urban areas. It is no coincidence that the number of Mexicans crossing the US border without authorization seeking employment and a better life more than doubled between 1990 and 2000 – with most of that growth occurring after NAFTA went into effect in 1994 – and has continued to increase in this decade.

A similar outcome can be expected under the DR-CAFTA for producers of basic grains such as rice. In fact, the experience of the rice sector in Honduras in the 1990s offers a case study of the likely impact on small farmers in the region. In 1991, the Honduran government cut tariffs on rice imports to make up for a shortage due to drought, and a flood of imports at harvest time equivalent to the country's annual consumption left local producers without a market. Rice prices fell by more than 28 percent in one year and, as a result, areas under rice cultivation decreased by 35 percent the following year. Over a decade, the number of rice producers dropped from 25,000 to fewer than 2,000, and the jobs generated from rice production fell from 150,000 to 11,200. As a result, rice production was reduced by 86 percent between 1991 and 2002, and the amount of foreign exchange spent on rice imports increased 20-fold (from $1 million in 1989 to $20 million in 2003). At the same time, the price of rice to consumers rose 140 percent in nominal terms, or 12 percent in dollar terms, over the decade.

The market access rules for agriculture in the DR-CAFTA deny developing country governments the policy flexibilities necessary to promote rural development, protect livelihoods, and provide food security to their citizens. The agreement negates the principle governing multilateral trade negotiations for the past 50 years that developing countries are not required to make reciprocal commitments to reduce trade barriers if these are inconsistent with their individual development needs. Instead, the DR-CAFTA does not incorporate pro-development concepts, such as special and differential treatment, and precludes use of flexibilities available to developing countries at the WTO. It does not allow developing countries to use differentiated tariff reduction formulae or designate special products eligible for more flexible treatment. It prohibits the use of the WTO safeguard, and the safeguard mechanism provided under DR-CAFTA is weak and temporary: a price drop could render it useless since it is linked to volume instead of prices of imports, and it can only be applied until the tariff is completely phased out.

This will have a devastating impact on the 5.5 million Central Americans who depend on agriculture for their livelihoods. What will the US gain at the expense of the loss of livelihoods of small farmers in Central America and the Dominican Republic? According to the US International Trade Commission, US grain exports can be expected to expand by 1.2 percent annually once tariffs are fully eliminated under DR-CAFTA. Overall, the market access

provisions are expected to increase US GDP by less than 0.01 percent annually. Considering the cost in terms of increased poverty and social problems for our neighbors, not to mention the potential increase in immigration to our borders, the DR-CAFTA is not only a bad deal for development in the region, but it provides no appreciable benefits to US citizens.

Intellectual Property

The rules on intellectual property in DR-CAFTA are another serious area of concern for Oxfam. All of the Central American countries and the Dominican Republic are WTO members and are therefore bound to implement the intellectual property provisions in the WTO's Agreement on Trade-Related Intellectual Property Rights, known as "TRIPS". But the DR-CAFTA goes well beyond the existing TRIPS provisions, imposing new so-called TRIPS-plus provisions related to pharmaceuticals. Most of these provisions are aimed at delaying the introduction of generic competition, thereby prolonging a patent holder's monopoly over the marketing of a medicine. When generic drugs cannot enter the market to compete with brand-named products, drug prices are higher and fewer people have access to medicines.

At the heart of intellectual property rights systems is a balance between the rights of patent holders and the public interest. In particular, determining the appropriate balance between protections related to pharmaceuticals and public health is a complex task still being debated in the United States -- for example, the "drug re-importation" debate in Congress. Oxfam does not believe that there is one "size" of intellectual property protection that fits all, however. The appropriate balance depends upon a variety of factors, such as the level of poverty in a country, the likelihood that protections will generate innovation, and the real-world effects from higher medicine prices resulting from protections.

Many public health and intellectual property experts have warned that TRIPS-plus provisions may undermine public health in poor countries, without generating any appreciable gains in innovation. This concern became a major issue at the WTO, and the importance of preserving public health was affirmed in the 2001 Doha Declaration on TRIPS and Public Health in 2001 by all WTO members, including the United States. The Doha Declaration confirmed that WTO Members may use "flexibilities" built into TRIPS to modify intellectual property rules to address public health needs, and constitutes a commitment to favor public health over intellectual property rights.

In 2002, Congress endorsed this commitment as part of Trade Promotion Authority, under which DR-CAFTA was negotiated, by instructing the US Trade Representative to respect the Doha Declaration in trade negotiations (Section 2102(b)(4)(C) of the Trade Act of 2002). Yet USTR has ignored the direction of both the WTO and Congress by forcing the governments of Central America and the Dominican Republic to adopt some of the highest levels of intellectual property protections for drugs in the world. This completely undermines the protections for public health laid out in the Doha Declaration. Oxfam believes that many of these provisions are not suitable for the small, poor developing economies in Central America and will result in reduced access to needed medicines and therapies, with no appreciable benefit in innovation or research and development spending.

Many of the intellectual property provisions in DR-CAFTA tip the balance of intellectual property protections in favor of the short-term commercial interests of US pharmaceutical companies, at the expense of public health. These provisions:

- Extend patent protection beyond the 20-year period required under TRIPS. Contrary to US law, no upper limit is placed on such extensions. Twenty years of patent protection is more than an adequate monopoly for patent holders to recover investments and generate profits. Extending this monopoly period unfairly favors patent holders to the detriment of the broader public interest in accessing affordable medicines.

- Require test data protection for periods of up to 10 years. These rules will delay for up to 10 years the introduction of generic medicines, even in the absence of patent barriers.

- Effectively eliminate the ability of Central American countries and the Dominican Republic to use compulsory licensing, a key tool available to governments to meet their citizens' public health needs. Compulsory licenses provide an important safeguard to governments to counterbalance the monopoly rights granted to patent holders. Both developing and developed countries – including the United States – have used compulsory licenses or the threat of them to bring down medicine prices.

- Force national drug registration authorities to serve as patent police, which prevents these authorities from granting marketing approval for generic versions of drugs until after the patent expires. This could prevent or delay access to affordable generic versions of new medicines, as well as undermine the use of compulsory licenses. Furthermore, this goes beyond US law, which places the burden on the patent owner to enforce its own rights. DR-CAFTA forces the government to bear the cost, expense, and delay of enforcing private patent rights.

When the DR-CAFTA was signed on August 5, 2004, a side letter or "understanding" on intellectual property and public health was included in response to criticism that the intellectual property restrictions in the agreement could undermine public health. However, this "understanding" does nothing to allay Oxfam's concerns with these provisions. In reality, it merely states that CAFTA provisions "do not affect a Party's ability to take necessary measures to protect public health by promoting access to medicines for all" or from "effective utilization" of the WTO decision on TRIPS. This clause is virtually meaningless from a legal standpoint because it is just a declaratory statement, similar to a preamble or an objective. It is not a legally binding exception to the very clear obligations in the Agreement but at best has interpretive value. USTR has studiously avoided describing the "understanding" as a legally binding exception.

Oxfam believes that TRIPS-plus provisions relating to pharmaceuticals should not be included in a trade agreement with Central America and the Dominican Republic. Central America has the second highest death rate from communicable diseases in Latin America. Over 165,000 people are living with HIV/AIDS and more than 30,000 cases of full-blown AIDS have been reported in the region. Resources for public health in the DR-CAFTA countries are extremely limited. Medicines sold at monopoly prices are too costly for these countries to provide through their public health systems and too expensive for poor people to pay for out-of-

pocket. These countries should be able to use the TRIPS public-health safeguards to the fullest to protect public health and promote access to medicines for all, as affirmed by the Doha Declaration.

DR-CAFTA is often described as a "cutting-edge" trade agreement that will serve as a model for future trade agreements. Oxfam feels this is a grim prospect. Imposing new intellectual property burdens on developing countries that increase the cost of medicines for poor people is a very bad model indeed, particularly looking towards the other countries with which the US is currently negotiating trade agreements.

Investment

Investment rules in the DR-CAFTA are another important concern for Oxfam in this trade agreement. These rules are clear and strong on the rights of foreign investors, but say little about the rights and obligations of governments to ensure that investors behave responsibly and that investment serves the public good. Specifically, DR-CAFTA restricts governments' ability to regulate foreign investment through the use of measures such as performance requirements, technology transfers, and capital controls. Oxfam believes that prohibiting pro-development measures such as these will reduce the positive impact that investment in the region can have and may create large new financial and policy burdens for already over-stretched governments.

In Central America and the Dominican Republic, increased investment is critical to achieving sustainable development. Yet several recent studies show that trade and investment agreements themselves do not stimulate additional foreign investment. Rather, macroeconomic and political stability, as well as market size, are determining factors. Furthermore, Oxfam believes that the quality – not just quantity – of investment is key in promoting development. Positive incentives to direct investment can help distribute wealth and promote economic growth, which can result in improved livelihoods. By setting performance requirements, governments can ensure the use of local inputs, which helps create backward linkages to the domestic economy. Through technology transfers, governments can help establish valuable linkages between foreign and domestic producers.

However, DR-CAFTA will forbid governments from using local content rules and technology transfers. Without the flexibility to utilize these measures, governments are powerless to direct investment so that it benefits the rest of the domestic economy. This will lead to a scenario in which a limited number of investors may prosper without contributing more broadly to sustainable growth in the countries where they operate. This defies the spirit of the DR-CAFTA agreement, which claims to have the development of Central America and the Dominican Republic as one of its goals.

Much of the foreign direct investment recently flowing into the region has been directed towards *maquiladora* factories or export processing zones, mostly for garments manufacturing. While these factories do provide some badly needed jobs, they usually contribute little to the overall economy because of the enclave nature of their production. Moreover, jobs in these factories are increasingly at risk with the removal of global quotas for textiles and apparel.

Oxfam is also concerned that DR-CAFTA forbids restrictions on the repatriation of profits and limits governments' ability to impose controls on highly speculative investments. This means that foreign investors in the region will have unrestricted ability to bring capital into and out of countries, while governments will have little recourse to deal with economic instability, should investors suddenly pull their money out of the country. While a stable business climate is important, so too is ensuring that investment contributes to domestic growth and broad-based sustainable development. Unregulated capital flight can have devastating consequences, especially in case of a financial meltdown, such as occurred in Argentina in 2001.

Also of serious concern is the investor-state dispute settlement mechanism in the DR-CAFTA, which, similar to NAFTA, will enable foreign investors to bring suits before international arbitral tribunals when they believe their business interests have been impaired by government regulatory actions. Investment rules in the DR-CAFTA broadly define what constitutes an expropriation and leave open the possibility that these ad-hoc tribunals will interpret social and environmental regulations as an "indirect expropriation." Thus, foreign investors will be able to challenge laws or regulations at the national, state or local levels, even if these are enacted for legitimate public interest objectives, including public health, safety, and environmental protection.

These special international tribunals are neither open to the public nor accountable to democratic processes. They lack the transparency generally afforded by normal judicial proceedings, yet are empowered to order governments to directly compensate investors for regulations that hurt them, regardless of the public good that the regulations might serve. Claimants are not required to exhaust domestic judicial remedies before bringing investment claims to these international tribunals, thus allowing foreign investors to bypass domestic legal systems. Although the DR-CAFTA was intended to strengthen and support democratic institutions in Central America and the Dominican Republic, it may actually undermine the judiciaries in the region.

This dispute settlement mechanism has been used to challenge important regulations that are expressly designed to protect public health, safety, the environment, and other public interest objectives that enhance social welfare. To date, over 40 suits have been filed by corporations under NAFTA's investment rules in special tribunals, seeking $28 billion in claims from the US, Canadian and Mexican governments. If NAFTA is any indication, the investment provisions of DR-CAFTA could create large new liabilities for the governments of Central America and the Dominican Republic. Perhaps more problematic is the chilling effect the threat of litigation by investors could create on policy-makers interested in generating new environmental, public-health, and pro-development safeguards.

Highlighting this problem is a bitter dispute between Canadian-owned Glamis Gold, Ltd., which is seeking to construct a mine in San Miguel, Guatemala, and the local citizens who oppose the project. Backed by the Catholic Church, local residents fear that the mining project will wreak havoc on the local environment. They successfully pressured the Guatemalan government to agree to freeze issuance of future mining permits. However, under DR-CAFTA, foreign investors will be able to challenge local measures like this one, claiming discrimination as foreign investors. At risk will be governments' ability to provide effective regulation to

protect workers, health and safety, and the environment. Any agreement that contains investment rules that limits governments' ability to protect the health and well-being of its citizens should be opposed.

Conclusion

CAFTA is likely to increase inequality and exacerbate poverty in a region that is still struggling to recover from the devastation of wars, hurricanes and droughts. Under the Caribbean Basin Initiative (CBI), Congress established trade preferences to facilitate the economic development and export diversification of the Caribbean Basin economies. These benefits were permanently extended in 1990, and in 2000 the list of products eligible for duty-free access to the US market was expanded, in part in response to the devastation wrought by Hurricane Mitch. Nevertheless, the region continues to suffer from serious problems of poverty and inequality.

Oxfam believes it is in the interest of the United States to promote economic development in the region, including increased development assistance, institution-building, and increased trade. However, the DR-CAFTA is, at best, a mixed bag. The agreement provides very modest and incremental trading opportunities for our poorer neighbors, while it imposes major new obligations and restrictions in the process.

In general, Oxfam believes that the US trade negotiation strategy has set the wrong priorities. With limited resources, the USTR has pursued numerous smaller bilateral and regional trade agreements even while a much bigger, and more important, trade agreement has stalled. For both the US and the world, the WTO Doha Round offers potential benefits that are orders of magnitude larger than those in free trade agreements with small countries such as DR-CAFTA. While negotiating trade agreements at the global level is certainly a messy and cumbersome process, the alternative is a very scattered and asymmetrical trading scheme that adds complexity and increases entry costs. This is not good for the US, but it is far worse for developing countries, many of which are already very marginal players in global trade. And while the US is likely to have to make more concessions – particularly in agriculture – at the multilateral level, than in bilateral agreements, this is where the US can demand concessions from other rich countries like Europe and Japan. Investing in, rather than neglecting, the WTO and the Doha Round, will help build a more common, rules-based system that provides more opportunity and stability for both the US and developing countries.

The rules set forth in the DR-CAFTA on agriculture, intellectual property, and investment add up to a bad deal for farmers, workers, and consumers in Central America and the Dominican Republic. Rather than setting out provisions that will foster broad-based economic growth and sustainable development, DR-CAFTA will put millions of poor people at risk of losing their livelihood. The US should do better if it wants to promote peace, political stability, and economic security in this region that has struggled with poverty and inequality, and the resulting instability, for so long. Unfortunately, the DR-CAFTA is wrong way to achieve these goals, which is why Oxfam urges Congress to vote no.

Written Comments to the United States Senate Finance Committee Hearing on the US-Central America, Dominican Republic Free Trade Agreement
Wednesday, April 13, 2005

Submitted by Jorge A. Z. Bermudez, MD, PhD
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April 26, 2005

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Honorable Members of the US Senate Finance Committee,

I would like to thank the US Senate Finance Committee and Senator Charles E. Schumer, for inviting me to submit written comments, as the Unit Chief of Essential Medicines, Vaccines and Health Technologies of the Pan American Health Organization (PAHO), therefore responsible for this strategic issue in the Region, but as stated in the text of the invitation letter, also based on my previous experience, specifically to address concerns with regards to Access to Medicines as a priority agenda within our Health systems and assessing the potential impact of recent Free Trade Agreements on the public health and access to medicines in the countries involved. I must clear that these written comments submitted by me on this opportunity are based on official documents from the World Health Organization (WHO) and PAHO, but also have many of my personal thoughts and views involved based on my previous experience in Public Health, mainly in Brazil. These comments do not express any official statement of the Organization.

As it is of your knowledge, PAHO is an international public health agency with 100 years of experience in working to improve health and living standards of the countries of the Americas. PAHO serves as the specialized organization for health of the Inter-American System and as the Regional Office for the Americas of the World Health Organization and enjoys international recognition as part of the United Nations system.

Our organization, as well as the World Health Organization and other UN Agencies, are extremely concerned about ensuring access to essential medicines as a priority issue within Health policy. Our activities and work plans, as well as the support that we implement, with countries at the core, attend the mandates that we receive from yearly World Health Assemblies in Geneva and the Directive Council Sessions every September here in Washington, which include the Ministries of Health and Delegations from our 34 Member States in the Region. Currently and as a result of the request of Member States, we are especially concerned regarding the potential effect on access to affordable medicines of the more stringent or restrictive levels of intellectual property protection which are being proposed, discussed and adopted in recent FTAs. While we recognize the importance of devising incentives to foster innovation and research on new innovative drugs, we believe that it is essential to establish strong competition policies that may help to strike a balance between innovation and access to medicines. Thus has been addressed within the terms of reference of the WHO Commission on Intellectual Property Rights, Innovation and Public Health which has been set up by the WHO following a Resolution approved in 2003. Unfortunately, recent FTAs may fail to reach the appropriate balance within the scope of health.

The World Trade Organization Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) entailed major adjustments for most countries and brought about serious challenges in the area of access to affordable medicines. The objectives of TRIPS are however meant to be defined with the context of social and economic development, above all recognizing the need for countries to protect public health. Exceptions to the above are therefore defined (Article 30) which may facilitate the

rapid development of generic medicines in certain circumstances. Provisions are also presented named as flexibilities and they account mainly for:

- Parallel Importation: importation of a patented product, without consent of the patent holder, marketed in another country by the patent holder or its representative
- Compulsory licensing: the authorization of a third party (including government bodies and public institutions) for the use (including manufacture) of an invention without authorization of the patent holder, under specific conditions).
- Bolar provision or "early working", a flexibility which allows the scaling-up of generic versions (technological development), even prior to patent expiration, in order to ensure that these products may be marketed as soon as the patent expires.

TRIPS-plus is a non-technical term which refers to IP legislation that is more stringent than required under TRIPS, and in particular may:

- Extend patent protection beyond 20 years
- Limit compulsory licensing in ways not required by TRIPS
- Limit exceptions that would facilitate the rapid introduction of generic drug competition
- Include measures that could indefinitely block affordable medicine, such as linkage and market exclusivity

Moreover, many countries were and are under pressure to implement only those provisions that protect the rights of patent holders while leaving out others that are designed to protect consumers[1]. As a result, in November 2001 all Member States of the World Trade Organization (WTO) signed the Doha Declaration on the TRIPS Agreement and Public Health in which they affirmed that the Agreement can and should be interpreted and implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all. For that purpose, they reaffirmed the countries' right to use, to the full, the flexibilities provided in the TRIPS Agreement.

The DOHA declaration is a strong political statement that makes it easier for developing countries to adopt measures (exceptions, parallel imports, compulsory licensing) in national IP legislation to ensure access to health care and medicines for all. A WHO publication maps some of the options as well as their implications for public health[2].

The impact of such trade agreements on access to medicines has been the subject of considerable debate in recent years. Several Resolutions have been adopted by the World Health Assembly. The last one refers to May 2003, the 56th World Health Assembly considered and adopted a resolution on the matter "Intellectual property rights, innovation and public health", and in September 2003 during meetings of the 44th

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[1] Paper presented by M. Fabiana Jorge on behalf of CILFA (Argentina) and ANAFAM (Mexico) during the WHO/WTO Secretariat Workshop on Differential Pricing and Financing of Essential Medicines - April 8-11, 2001 -Hosbjor, Norway

[2] Implications of the DOHA Declaration on the TRIPS Agreement and Public Health, Health Economics and Drugs, EDM Series No. 12, WHO/EDM/PAR/2002.3

Directing Council of the Pan American Health Organization (PAHO), the complex issue of globalization, trade agreements within the Americas and access to medicines was raised by concerned countries on three separate occasions. The last Resolution approved by PAHO's Directive Council, in September 2004, is the Resolution CD45.R7 (Access to medicines) and approved by consensus, urges Member States to **"implement in the Region of the Americas Resolution WHA57.14 of the Fifty-seventh World Health Assembly, specifically to adapt national legislation in order to maximize the flexibilities contained in the World Trade Organization's Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), and to encourage that bilateral trade agreements take into account the Doha Ministerial Declaration on the TRIPS Agreement and Public Health".**

However, although it seemed that the Doha Declaration was a big step towards ensuring a balance between access and innovation, recent bilateral trade agreements seem to back down on the progress that had been made and once again put in jeopardy people's access to affordable medicines. In fact, while before Doha some interest groups sought to convince other countries not to include the TRIPS flexibilities through diplomatic means, after Doha similar efforts are being conducted within the context of new trade agreements. In our opinion, this is contrary to the letter and the spirit of the Doha Declaration signed by all WTO Member States. Let me quote the statements made by two of your colleagues in the Senate when the amendment including this requirement was passed:

> Mr. GRASSLEY. "This amendment makes an important contribution to the underlying trade promotion authority bill.
>
> During the WTO ministerial at Doha, the members of the organization adopted a political declaration that highlights the provisions in the TRIPS agreement that provide members with the flexibility to address public emergencies, such as the epidemics of HIV, tuberculosis, and malaria. The objectives on intellectual property, which are part of this bill, were drafted before completion of the Doha ministerial. Senator *Kennedy*'s amendment updates these objectives to take into account the important declaration on public health made at the Doha meeting. It is a good addition to the bill. I am pleased to accept it."
>
> Mr. BAUCUS. "Mr. President, I highly compliment the Senator from Massachusetts. This is an extremely important statement. Millions of people in the world are suffering from HIV/AIDS, and the current patent the companies have, as important it is, is a measure that should be relaxed so people in many parts of the world get assistance.
>
> The amendment recognizes the special declaration concerning public health that was adopted last November in Doha. The special declaration provided assurance to poor countries facing the immense challenges of

> dealing with public health emergencies caused by pandemics of infectious diseases like HIV/AIDS, that measures necessary to address such crises in these countries can be accommodated by the WTO TRIPS Agreement, the Agreement on Trade-Related Aspects of Intellectual Property Rights."

This was clearly a bipartisan effort, aimed at improving public health and access to life-saving prescription drugs, worldwide.

Additionally, I would like to state my concerns regarding the following issues:

- Trade agreements generally supersede national legislation. Therefore the adoption of restrictive IP provisions through trade agreements would supersede existing provisions in IP legislation.

- Until recently, trade agreements were not negotiated with input from the Ministries of Health. They were negotiated principally by Ministries of Trade, Finance and the Economy, without the public health perspective and the implications of trade on health were not set forward in the Health agendas.

- Developing countries are generally not experienced in trade negotiations and may not have a comprehensive understanding of the issues and consequences. Additionally, we understand that a Government decision takes into account the inputs from diverse areas and sometimes conflicting interests. With that clarification, it is very clear for us that we are addressing from the Public Health perspective.

- Countries are not informed of the options available to them in IP particularly with regard to access to medicines. For example, trade agreements should include measures to facilitate timely resolution of patent disputes. Additionally we have observed that countries are not using the flexibilities to their fullest extent, as they do not include them in their legal frameworks, so it is therefore not possible to apply them [3],[4],[5]

- The specific conditions of the negotiations do not facilitate the transparent participation of all stakeholders, including the national industry, consumer groups and civil society: the negotiation is 'closed', the text of the agreement is not in the public domain until it is signed by the parties, and accordingly negotiators may not directly avail themselves of technical counsel.

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[3] Oliveira, MA; Bermudez, JAZ; Chaves, GC & Velasquez, G, 2004. Has the implementation of the TRIPS Agreement in Latin America produced intellectual property legislation that favours public health? Bulletin of the World Health Organization 82 (11): 815-821.

[4] Bermudez, JAZ & Oliveira, MA (Editors), 2004. Intellectual property in the context of the WTO TRIPS Agreement: challenges for public health. Rio de Janeiro: Escola Nacional de Saúde Pública/FIOCRUZ.

[5] Bermudez, JAZ; Oliveira, MA & Esher, A (Org), 2004. Acceso a Medicamentos: Derecho fundamental, Papel del Estado. Rio de Janeiro: Escola Nacional de Saúde Pública/FIOCRUZ.

- The very short time-frame in which trade negotiations must be completed puts pressure on countries; additionally developing countries may have insufficient time to prepare themselves for the negotiations.

As an organization specialized in public health, the position of PAHO and WHO *vis a vis* global agreements such as TRIPS, regional, sub-regional or bilateral trade agreements in the Americas have been based on the fundamental principles of equitable access to medicines for all. Specifically,

- Access to medicines is part of the basic right of health for all;
- Essential medicines must not be considered as any other marketable product;
- Patent systems can represent an effective incentive for R & D; but
- Patents must be administered in an impartial manner, protecting the interests of the holder patent while at the same time safeguarding public health

Based on the above principles and considering the revised WHO Medicines Strategy, since 1999, the 52nd World Health Assembly established a mandate for the organization to provide support to countries in assessing the potential impact of national IP legislation and trade agreements on access to medicines, and to advise countries in the development of regulatory measures that will facilitate access. Specifically the WHA indicated that WHO would:

' cooperate with Member States, at their request, and with international organizations, in monitoring and analyzing the pharmaceutical and public health implications of relevant international agreements.... so that Member States can effectively assess and subsequently develop pharmaceutical and health policies and regulatory measures that address their concerns and priorities, and are able to maximize the positive and mitigate the negative impact of those agreements[6]'.

This initial mandate to our Organization, as well as to the Member States, has constantly been renewed and updated throughout the past years, both in Geneva and in Washington. That mandate guides our actions supporting our Member States in promoting the best conditions for Health.

To conclude, I would like to reiterate my profound appreciation for your invitation and the honor that it was to submit these written comments before this Committee on such an important matter.

[6] WHA Resolution 52.19 on the Revised Drug Strategy

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Written Statement for the Record of

The Retail Industry Leaders Association

Submitted for the

Senate Committee on Finance

Hearing on

The U.S. - Central America - Dominican Republic

Free Trade Agreement

April 13, 2005

On behalf of the Retail Industry Leaders Association, we welcome the opportunity to submit written comments for the record for this important hearing on the United States-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), now coming before the Congress for implementation. We strongly support the DR-CAFTA agreement and urge swift Congressional passage of the implementing legislation.

By way of background, the Retail Industry Leaders Association (RILA) represents the nation's most successful and innovative retailer and supplier companies -- the leaders of the retail industry. As a sector, retail is the second largest industry in the U.S., employing 12 percent of the nation's total workforce and conducting $3.8 trillion in annual sales. RILA's retail and product supplier companies operate 100,000 stores, manufacturing facilities and distribution centers in every congressional district in every state, as well as internationally. They pay billions in federal, state and local taxes and collect and remit billions more in sales taxes. They are also leading corporate citizens with some of the nation's most far-reaching community outreach and corporate social responsibility initiatives.

RILA fully believes that passage of this agreement will:

- *benefit* the U.S. economy -- producers and consumers alike;
- *strengthen* freedom and security in our Hemisphere;
- *improve* working conditions;
- *activate* critically important textile-apparel-footwear provisions; and
- *enhance* the legal framework for retail and distribution services.

THE DR-CAFTA WILL BENEFIT THE U.S. ECONOMY – PRODUCERS AND CONSUMERS ALIKE

Central America and the Dominican Republic make up the second-largest U.S. export market in Latin America, behind only Mexico. U.S. sales in the region exceed $15 billion annually -- more than is sold to Russia, India and Indonesia combined – a result achieved in the *absence* of reciprocal trade liberalization. Upon full implementation of the agreement, U.S. goods will be able to enter the participating countries duty free. In fact, 80% of the commercial goods will become duty free once the agreement is implemented, with the rest phased out over a ten-year period. This will help to significantly increase U.S. exports of farm products,

manufactured goods and services to the region. According to a report by the International Trade Commission on the economic impact of the agreement, once the agreement is fully implemented, exports will grow by nearly $2.7 billion.

In addition to increased benefits for U.S. exporters, U.S. importers and their customers will benefit from implementation of the DR-CAFTA as well. Most Central American products already enter the United States duty-free, under preference programs such as the Caribbean Basin Trade Partnership Act (CBTPA). Enshrining this treatment in an international agreement with reciprocal obligations will provide added commercial security as well as a firmer legal basis under WTO rules. This aspect of the FTA is in effect a tax cut targeted to those consumers who need it most.

THE DR-CAFTA WILL STRENGTHEN FREEDOM AND SECURITY IN OUR HEMISPHERE

Within recent memory, conditions in Central America have featured civil war, chaos, dictators, and Communist insurgencies. Today, the region is one of fragile democracies that need U.S. support. Elected leaders are embracing freedom and economic reform, fighting corruption, and supporting U.S. anti-narcotics and anti-terrorism efforts. But this positive momentum cannot be taken for granted. Opponents of reform in the region remain strong.

By implementing the DR-CAFTA, the United States can demonstrate its support for freedom, democracy, the rule of law, and economic reform in Central America. Doing so will bolster U.S. security in various ways. The new economic opportunities will reduce the pressures that help produce illegal narcotics activity and illegal immigration.

THE DR-CAFTA TAKES THE RIGHT APPROACH ON WORKING CONDITIONS

America's retailers are committed to careful supply chain management and high ethical standards of corporate conduct in international sourcing. This applies to products sourced in not just in Central America, but around the world. Our experience with the DR-CAFTA countries has shown that they share these values and high standards, including the field of labor rights. Their constitutions and national laws generally provide strong labor protections consistent with the International Labor Organization's four "core principles." Indeed, labor protections in these countries are largely in line with those in Morocco and Jordan, whose accession to the status of "FTA partner" gained overwhelming Congressional approval in recent years.

The DR-CAFTA will promote economic opportunities and growth that are likely to become powerful catalysts for improved working conditions in the region. Through capacity-building and dispute settlement, the DR-CAFTA will also address those circumstances where better enforcement of existing labor laws proves necessary.

THE DR-CAFTA'S TEXTILE-APPAREL-FOOTWEAR PROVISIONS WILL BENEFIT CONSUMERS AND PRODUCERS THROUGHOUT THE VALUE CHAIN

The textile and apparel product category is a hugely important component of U.S.-Central American trade, and retailers are committed to finding the best available combination of speed-to-market, product price, and quality of products for their consumers. U.S. consumers will benefit from several innovative DR-CAFTA provisions promoted by retailers to add needed flexibility to the outdated "yarn forward" rule of origin. Moreover, qualifying textile and apparel products are to be afforded immediate U.S. duty free treatment.

Retailers are also quite interested in the health of regional textile and apparel producers -- our valued suppliers. The DR-CAFTA is strategically designed to improve their competitive situation at a time when, following the expiration of global textile and apparel quotas, they face a formidable challenge from outside the hemisphere, most notably China. The DR-CAFTA will provide regional garment-makers – and their U.S. suppliers of fabric, yarn and other components – a boost in competing with Asian producers and will support an estimated 400,000 jobs in the DR-CAFTA countries and 700,000 jobs in the U.S. cotton, yarn, textile and apparel sectors.

In addition to benefits for textiles and apparel, there are significant benefits for footwear imports in the DR-CAFTA. A solid consensus in all segments of footwear manufacturing and retailing favors immediate duty-free treatment for footwear traded among the DR-CAFTA countries, excluding a few import-sensitive tariff lines. By delivering this outcome, the DR-CAFTA lays the groundwork for increased trade and investment in the footwear sector, supports retailer strategies designed to maintain geographically diverse sourcing options, provides substantial benefits to consumers, and poses no risk to U.S. footwear production.

THE DR-CAFTA ENHANCES THE LEGAL FRAMEWORK FOR RETAIL/DISTRIBUTION SERVICES

For the first time in a trade agreement, the DR-CAFTA addresses restrictions on distribution created through restrictive dealer protection regimes. Such regimes are prevalent in Central America today and have locked U.S. companies and products into inefficient, exclusive

and effectively permanent relationships with local dealers regardless of performance. DR-CAFTA rules would require dealer distribution agreements to permit parties to terminate at the end of the contract or renewal period without indemnification. These rules will promote more efficient distribution for U.S. companies and products in the DR-CAFTA region.

THE DR-CAFTA, ONCE IMPLEMENTED, CAN BE IMPROVED OVER TIME

No FTA is perfect, and as with other FTAs, experience under the DR-CAFTA may reveal opportunities for useful adjustments in areas like rules of origin, accelerated tariff phase-out, *etc.* Some improvements may require the negotiated approval of all the DR-CAFTA parties; others may be of the type the United States can make unilaterally. The implementing legislation should establish a flexible and streamlined framework for making such adjustments over time, using available tools such as proclamation authority and consultation/layover.

RILA congratulates the Committee on Finance for turning its attention to this important agreement, and stands ready to assist as the implementation process moves forward. If you have any questions, please contact Lori Denham, Senior Vice President Policy and Planning or Jonathan Gold, Vice President Global Supply Chain Policy.

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June 7, 2005

Senator Charles E. Grassley
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This statement is submitted for the record of the Finance Committee's hearings on the Central American Free Trade Agreement.

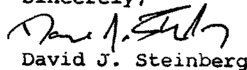
Although I am a longtime "free trader" (having publicly advocated definitive, properly designed, free-trade initiatives for the past forty years, I am currently withholding support for any free-trade agreement the president sends to Congress for ratification until there is a well-designed U.S. domestic-development strategy to backstop such trade-policy commitments.

Such a domestic economic strategy should aim to ensure that free trade is advantageous to every state in the Union (and every U.S. offshore territory as well). It should be the subject of effective White House liaison with all the respective governors -- also the subject of an annual report the president should be required to send to Congress.

Since no such coherent domestic strategy exists (the long-time trade-adjustment-assistance program does not suffice), I oppose Congressional ratification of the Central American Free Trade Agreement (withholding any reservations I may have on specific features of this free-trade agreement).

My outspoken support for "free" trade as a trade-policy objective (beyond the support for "freer" trade that had long characterized most commitments on this side of the trade-policy debate) dates back to 1964 when I was on the staff of the Committee for a National Trade Policy -- a private organization I served as chief economist (later executive director) from 1961 to 1974. I was president of the U.S. Council for an Open World Economy from 1974 to 1989. I have since been a freelance writer on many issues to which I have devoted considerable attention.

Sincerely,



David J. Steinberg

SWEETENER USERS ASSOCIATION

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Statement of the
SWEETENER USERS ASSOCIATION

Hearing on the DR-CAFTA
Senate Committee on Finance

April 13, 2005

The Sweetener Users Association (SUA) appreciates the opportunity to provide information to the Committee on Finance 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[1]
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:

[1] Includes up to 2,000 metric tons of organic sugar each year.

Costa Rica	16,080 metric tons[1]
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;
- Less than 1% of total supply in the current 2003/04 marketing year;
- Less than 7% of total imports and less than 6% of ending stocks for 2003/04;
- Only about half of the amount by which beet sugar supplies last year fell *short* of the beet marketing allotment; and
- Only about one-tenth of one month's value of sugar utilization in the United States.

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 24.5 cents per pound would decline to 23.8 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[2], 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.

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?**

In fact, **one of the ironies of the sugar grower lobby 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.** According to a recent analysis by Promar International (see attached) imports under the U.S. tariff-rate quota will need to be 1.9 million tons, compared to just 1.2 million tons annually in recent years. The 109,000 tons of CAFTA-DR sugar only represents about one-sevenths of the additional imports the U.S. will need in the coming season.

The "Compensation" Provision

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. We suggest the Commission analyze not only the potential impact of this compensation provision, but the likely reaction of our non-CAFTA-DR trading partners as well.

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 current 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.

[2] USDA/ERS, *Sugar and Sweetener Outlook*, Jan. 30, 2004, Table 11, p. 33.

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, unlike the sugar industry, are capable of competing in export 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 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.

ND: 4838-5285-1712, Ver 1

April 12, 2005

Sharply Higher Sugar Imports Will Be Needed in 2005/06

One of the ironies of sugar producer opposition to the CAFTA-DR free trade agreement is that the coming season is going to be one in which the United States really needs much higher sugar imports. In fact, we project that imports under the tariff rate quota (TRQ) in 2005/06 will need to be 1.9 million tons, compared to just 1.2 million tons annually in recent years. And even that level of imports will leave ending stocks at a lower than desirable level. The 100,000 tons or so of CAFTA sugar will only be one-seventh of the additional imports the country will need in any case.

The table below contains our initial forecast of the supply-demand balance for 2005/06. USDA will publish its own forecast in its May 12 World Agricultural Supply and Demand Estimates (WASDE) report. The Department's production and disappearance numbers are unlikely to differ greatly from our own, but they will not predict the import quota this early. For the last couple of years, USDA has

US sugar balance, fiscal year (1,000 short tons, raw value)

	2001/02	2002/03	2003/04	2004/05	2005/06
Beginning stocks	2,180	1,528	1,670	1,897	1,365
Production					
Beet	3,915	4,462	4,692	4,685	4,300
Cane	3,985	3,964	3,957	3,368	3,700
Total	7,900	8,426	8,649	8,053	8,000
Imports					
Quota entries	1,158	1,210	1,230	1,225	1,910
Quota exempt	296	488	464	350	350
Non-program	81	32	60	65	75
Total	1,535	1,730	1,750	1,640	2,335
Total availability	11,615	11,684	12,073	11,590	11,700
Disappearance					
Deliveries	9,973	9,712	9,862	10,000	10,100
Exports	137	142	288	225	200
Miscellaneous	-24	160	26	0	0
Total use	10,086	10,014	10,176	10,225	10,300
Ending stocks	1,528	1,670	1,897	1,365	1,400
CCC stocks	212	0	43	0	0
"Blocked" stocks	0	0	395	480	0
Free stocks	1,316	1,670	1,456	885	1,400
Stock/use ratio (%)	15.1	16.7	18.6	13.3	13.6

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simply plugged in the minimum import quota of roughly 1.2 million tons. If they follow that precedent, their ending stock projection will be very low – perhaps only 700-800,000 tons. The alternative is to leave the import and ending stock lines blank, but the implications of the other projections will still be obvious.

In its April 8 WASDE report, USDA reduced beet sugar production 42,000 tons to 4,685,000 tons and made a further 22,000 ton cut in cane sugar production due to a disappointing final figure from Texas where a December cold snap apparently hurt production potential. Total sugar production of 8,053,000 tons is down about 600,000 tons from the 2003/04 level.

Production prospects for 2005/06 will be about the same as for this year. Sugar beet planting intentions were down 3% in the March 31 Prospective Plantings report. With trend yields, that acreage would produce 4,250,000 tons. We do not expect plantings to decline that much and are projecting next year's crop at 4,300,000 tons. Cane sugar production should bounce back but it sounds like Florida, Louisiana and now Texas will all still be suffering some lingering aftereffects of past bad weather. We project production at 3,700,000 tons.

Sugar demand is growing again and deliveries should rise at least 100,000 tons in 2005/06 if the economy holds up. The implication of all this is that imports under the TRQs for raw and refined sugar will have to total 1,910,000 tons just to hold ending stocks at 1.4 million tons. Taking into account quota shortfalls, the announced quotas will have to be close to 2 million tons – 56% higher than this year's 1,278,896 tons. If the CAFTA-DR FTA authorizes another 100,000 tons of sugar imports, it will be a welcome and much-needed addition to supplies.

Even if beet and cane sugar production each end up 100,000 tons higher than our projections, TRQ imports will need to be 1.7 million tons, well above the 1,532,000 ton trigger for suspending marketing allotments. While the Secretary of Agriculture might technically have the authority to not suspend allotments, we think such a course would be unlikely if import requirements are more than 1.6 million tons.

UNITED STATES
HISPANIC CHAMBER OF COMMERCE
2175 K Street, NW, Suite 100
Washington, DC 20037

June 14, 2005

The Honorable Charles A. Grassley	The Honorable Max Baucus
Chairman	Ranking Member
Committee on Finance	Committee on Finance
U.S. Senate	U.S. Senate
219 Dirksen Senate Office Building	203 Hart Senate Office Building
Washington, D.C. 20510	Washington, D.C. 20510

Dear Chairman Grassley and Ranking Member Baucus:

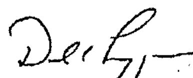
Earlier this year the United States Hispanic Chamber of Commerce (USHCC) announced its support for the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). The USHCC realizes that DR-CAFTA will present major trading opportunities for Hispanic businesses all over the country, many of which are small businesses. For this and other reasons, the USHCC and its 153 state and local chamber members nationwide support congressional approval of DR-CAFTA.

While Central American countries already enjoy duty-free access into the U.S. market for three-quarters of their exports, U.S. companies face tariffs that average 30 to 100% higher. DR-CAFTA will level the playing field for many U.S. workers and businesses, creating economic opportunities on both sides. For Hispanic-owned businesses interested in conducting international trade, many of which are small companies with ties to the region, this trade agreement will naturally present tremendous trading opportunities.

The USHCC also believes that hand-in-hand with the benefits of free trade that DR-CAFTA will deliver; the trade pact must assure a critical foundation to improve workplace protections and practices, as well as advance economic development in this region. Furthermore, DR-CAFTA should be viewed as the first essential step to achieving economic and social improvement in the Dominican Republic and in Central America.

The USHCC looks forward to working with the Bush Administration to assure the passage of DR-CAFTA and to ensure that the promise of balance and free trade is achieved to the benefit of all the citizens that will make part of this new trade region.

Sincerely,



David C. Lizárraga
Chairman of the Board

George Franco
Chair, Legislative Committee

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The Honorable Trent Lott
The Honorable Olympia Snowe
The Honorable Jon Kyl
The Honorable Craig Thomas
The Honorable Rick Santorum
The Honorable Bill Frist
The Honorable Gordon Smith
The Honorable Jim Bunning
The Honorable Mike Crapo
The Honorable John D. Rockefeller IV
The Honorable Kent Conrad
The Honorable James M. Jeffords
The Honorable Jeff Bingaman
The Honorable John F. Kerry
The Honorable Blanche L. Lincoln
The Honorable Charles E. Schumer

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WORC

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Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

Testimony to the House Ways and Means Committee on the Central American Free Trade Agreement held April 21, 2005. Submitted by the Western Organization of Resource Councils (WORC).

WORC is a regional network of seven grassroots community organizations that include 9,500 members and 46 local chapters. WORC helps its member groups succeed by providing training and by coordinating issue work.

In the West, farming and ranching is a way of life. The trade of livestock, sugar and grain fuels rural communities and provides American families with safe, high quality food.

The proposed Central American Free Trade Agreement (CAFTA) would hurt rural America by outsourcing American farmers and ranchers and their way of life. CAFTA would clear the way to import foreign food produced under standards that do not protect the public health, safety and the environment. The import of these cheaply produced, poor quality foods makes it harder for American farmers and ranchers to provide safe, high quality food for our families.

CAFTA would give foreign corporations the ability to challenge local, state, and national laws in closed tribunals that are unaccountable to U.S. law.

CAFTA Chapter 10 contains the same language of the North American Free Trade Agreement (NAFTA) Chapter 11. This chapter includes "investor to state" provisions allowing foreign companies to sue local, state and federal governments over laws protecting the health and safety of your constituents' families. Under this provision, three unelected bureaucrats determine if corporate profits should take precedence over the health and safety of U.S. citizens, preempting the U.S. judicial system. CAFTA would open the way for more investor-to-state cases from six more countries. The U.S. Trade Representative should not be allowed to negotiate trade agreements that undermine your right and ability to enforce the very laws you pass to protect human health and safety.

A recent NAFTA Chapter 11 case directly challenges our ability to protect U.S. food safety and to prevent cattle disease in the U.S. cattle herd. A Canadian cattlemen's organization has sued the U.S. Department of Agriculture (USDA) under NAFTA Chapter 11 provisions. The Canadian group claims they are due payment for loss of profits because of USDA's regulations Canadian cattle imports . This case is being brought even though the USDA regulations are a direct result of mad cow disease in Canada, even though the regulations were put in place to protect the health of U.S. consumers and cattle markets.

U.S. trade agreements should not deny farmers and ranchers access to tools that provide American consumers access to safe, high quality food. Trade agreements must honor local, state and national governments' right to protect the public health and safety of their citizens.

WORC calls on the Senate Finance Committee to enact trade policies that expand markets for American farmers and ranchers while providing consumers with good food choices.

Relaxing import restrictions is unwise until we implement mandatory country-of-origin labeling. Until then, consumers will not have the opportunity to choose food grown and processed in the U.S. over imported food from Central America and the Dominican Republic. Mandatory labeling provides a set of comprehensive standards that ensure all food is labeled consistently, in a way that is easy for the consumer to identify and access. This is also vital for livestock producers who want to differentiate their high quality product from products of other countries. Without implementation of the U.S. mandatory country of origin labeling law for meat and produce, these trade agreements short-change our consumers and our producers.

Congress has a clear choice. You can continue to approve trade agreements that undermine U.S. laws and chip away at rural America, or you can enact trade policies that provide more opportunities for our farmers and ranchers, keep high quality, safe food for our families, and honor laws that protect Americans.

WORC urges the House Ways and Means Committee to choose policies that strengthen rural America by rejecting the Central American Free Trade Agreement. Instead, this country should enact trade policies that expand markets for American farmers and ranchers while providing consumers with good food choices.

Sincerely,

Reed Kelley
WORC Trade Team Chair
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