

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 AMERICAN  
FREE TRADE AGREEMENT

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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 billion 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 have 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, 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.