FE564

UF UNIVERSITY of FLORIDA
IFAS Extension

Central American Free Trade Agreement-Dominican Republic (CAFTA-DR): What's in It for Florida Agriculture?[1]

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Introduction

On August 5, 2004, the United States signed the Central American Free Trade Agreement-Dominican Republic (CAFTA-DR) with Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua (http://ita.doc.gov/cafta/index.asp). The Agreement, if approved by all parties, would result in the creation of the second-largest U.S. export market in Latin America, behind only Mexico. It would be the fourteenth-largest U.S. market in the world, with the value of two-way trade (imports plus exports) in 2004 amounting to over US$33 billion. Arguments for and against the implementation of this Agreement can be found virtually everywhere. Here in Florida the reaction is mixed. The purpose of this article is to summarize the main elements of this Agreement, and to take a closer look at the Agreement to see what is in it for Florida producers.

Main Elements of the Agreement

The general objective of the Agreement is the eventual removal of all barriers to trade (tariff and non-tariff) on all commodities, save a few which are considered sensitive. The Agreement is modeled after the North American Free Trade Agreement (NAFTA) in that it considers not only trade-specific issues such as tariff reduction, but also liberalization in other areas such as intellectual property, investment, and services. Like NAFTA, the Agreement is comprised of a set of mini agreements between the United States and each of the partners (i.e., each of the six CAFTA-DR countries negotiated separate schedules of commitments providing access for U.S. products). In return, the United States has agreed to provide the same tariff treatment to all the partner countries while making country-specific commitments on tariff-rate quotas (TRQ).

In the case of Agriculture, the key elements of the Agreement fall under four categories: Market Access; Safeguards; Sanitary and Phytosanitary Measures; and Export Subsidies (FAS Online).

Market Access

Market access is the ease with which one country can sell its products and services in another country. Under this sub-heading, liberalization (opening up a

1. This is EDIS document FE564, a publication of the Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL. Published June 2005. Please visit the EDIS website at http://edis.ifas.ufl.edu.
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market) may occur through a combination of tariff reductions and TRQ expansion (a two-stage tariff that imposes a lower rate of duty on imports up to the quota level and a higher rate of duty on imports over-quota). In general, tariffs will be eliminated on all products (exceptions: sugar in the United States, fresh potatoes and fresh onions entering Costa Rica, and white corn for all CAFTA countries except Costa Rica) over a phase-out period, with some taking effect immediately and others scheduled for phase-out after 5, 10, 12, 15, 17, or 20 years. For most of the commodities, the reductions will occur in equal installments over the course of the agreed upon phase-out period. For others, TRQs will be established or, in some cases, expanded with zero duty for specified import quantities or greater quantities above the quota.

Safeguards

Safeguards are precautionary measures that permit countries to restrict imports if they cause injury, with the proviso that such restrictions must be for a limited time and nondiscriminatory. For some commodities, the Agreement establishes safeguard mechanisms that would be trigged once commodity imports reach a specified level within a given year. Triggering the safeguard mechanism implies that the country can increase the tariff level for a limited period of time. Safeguard mechanisms end when the phase-out period for a commodity ends. For example, if a commodity has a five-year phase-out period, the safeguarding mechanism would NOT be applicable in the sixth year unless the partners agree to extend it beyond the five-year period.

Sanitary and Phytosanitary (SPS) Measures

A country can adopt SPS measures, which are designed to protect animal, plant, and human health. All seven members agreed to utilize the science-based framework set out by the World Trade Organization (EDIS publication FE492, Understanding the WTO Sanitary and Phytosanitary Agreement, http://edis.ifas.ufl.edu/FE492). They also agreed to set up a special committee to resolve technical disputes that might arise.

Export Subsidies

Export subsidies include any form of government payment that helps an exporter or manufacturer to lower their export costs. All parties to the Agreement agreed that they would not use such measures in another member's market unless it was necessary to compete against export subsidies used by a non-member.

Selected Demographics for CAFTA-DR Countries

Selected demographics for the CAFTA-DR countries are shown in Table 1. Broadly speaking, the CAFTA-DR countries can be subdivided into two groups: (1) those with relatively high income per person, low poverty, and high literacy; and (2) those with relatively low income per person, high poverty, and low literacy. Countries in the first group are Costa Rica, the Dominican Republic, and El Salvador. Those in the second group are Guatemala, Honduras, and Nicaragua. The data in Table 1 indicate that Guatemala is the most populous, with a population of about 13.9 million, followed by the Dominican Republic (8.7 million), Honduras (6.7 million), and El Salvador (6.5 million). Costa Rica, with the smallest population (3.9 million), has the highest income per person at US$8,300. This is followed by the Dominican Republic and El Salvador, with per person income of US$6,300 and US$4,600, respectively. For the counties in the second group, the relatively low income levels per person suggest the potential for increased demand for higher-valued commodities (e.g., meat, fruits, and vegetables) as income levels rise. Guatemala has the highest poverty level at 75%, followed by Honduras (53%) and Nicaragua (50%). These three countries also have the lowest level of literacy. Of interest is the fact that agriculture is the largest single employer for most of the CAFT-DR countries, with agriculture representing 50% of total employment. This implies tremendous opportunities to improve agricultural productivity through modern technologies.

Benefits for Florida Producers

The 2002 Census of Agriculture shows Florida leading cash receipts by commodity/group as documented in the 2002 Census for Agriculture (Table 2). The 2002 Census also indicates total receipts of US$6.33 billion for the top 24 commodities/groups listed. The main agricultural commodities in Florida are greenhouses/nurseries (25.76%), oranges (18.46%), sugarcane (8.18%), tomatoes (8.03%), dairy products (5.63%), and cattle/calves (5.27%). These six commodities accounted for 71.33% of the gross receipts (Table 2). The top 13 commodities in Florida accounted for as much as 90.62 % of the total receipts.

In value terms, Florida is the nation's leading producer of oranges, sugarcane, peppers, grapefruit, snap beans, sweet corn, tangerines, cucumbers, and squash (Table 2). Florida ranks second nationally for greenhouses/nurseries, tomatoes, strawberries, watermelons, and avocados.

Assuming that the five categories in Table 3 (Florida's leading agricultural exports) reflect the commodity groupings in which Florida producers may have a comparative advantage, the following analysis examines possible export opportunities that could result from the United States signing the CAFTA-DR Agreement. The five-year average (1999-2003) net import values are illustrated in Table 4. A positive value in the net import column indicates that a CAFTA-DR country is a net importer of U.S. commodities, and a negative value indicates the opposite.

Overall, with respect to these five categories, the CAFTA-DR region is a net exporter to the United States, with a trade surplus of US$764 million (Table 4). However, while Costa Rica, Guatemala, Honduras, and Nicaragua are net exporters to the United States for the five selected categories, the Dominican Republic and El Salvador are net importers. Over the five-year period, Costa Rica had the biggest trade surplus with the United States, at approximately US$452.68 million, while the Dominican Republic was the biggest net importer of U.S. commodities, with a trade deficit of about US$67.20 million. In terms of individual countries and categories, Table 4 indicates that Costa Rica is a net importer of live animals, and oil seed, grain, and seed from the United States. The Dominican Republic is a net importer of live animals; meat and edible meat offals; and oil seed, grain, and seed. El Salvador is a net importer of live animals, meat, and fruits. Guatemala is a net importer of live animals, and meat. Honduras is a net importer of live animals; meat; and oil seed, grain, and seed. Nicaragua is a net importer of live animals, and oil seed, grain, and seed.

The average five-year values of import commodities from the world (includes all countries) and the total and percentage shares of import commodities from the United States for the CAFTA-DR countries are shown in Table 5. Defining an export opportunity (from the US/Florida perspective) to mean a situation in which these countries currently buy less than 50% of their import requirements of the selected commodities from the United States, the following observations are made in relation to the information presented in Table 5:

1. El Salvador, Nicaragua and Honduras represent the best export opportunities. Of the three, El Salvador, which has the third highest GDP per person and a population of over six million, imports only 11.85% of these commodities from the United States and thus presents a particularly good export opportunity.

2. Dominican Republic represents the worst export opportunity since it imports over 80% of the selected commodities from the United States.

3. El Salvador shows good potential opportunities in all five categories.

4. In the other CAFTA-DR counties, potential opportunities exist in the following categories:

    - Costa Rica: meat (30.54%), vegetables (12.79%), and fruits (41.91%).
    - Guatemala: live animals (48.02%) and vegetables (32.67%).
    - Honduras: live animals (9.54%), vegetables (30.03%), and fruits (39.44%).
    - Nicaragua: live animals (11.18%), vegetables (16.34%), and fruits (28.46%).

The current and proposed level of market access for selected commodities within the five groupings if the trade agreement were to be implemented are shown in Table 6. The information in Table 6 supports the view that the current low level of imports of these commodities from the United States could be the result of the existing limited market access.

Concluding Remarks

There is no doubt that implementing the CAFTA-DR Agreement will lead to an expansion of trade between the United States and the CAFTA-DR countries. As it stands, there appear to be advantages for U.S. producers from the Agreement, given the already low duties on agricultural imports from these countries to the United States and the relatively high duties placed on U.S. agricultural exports. However, as with any trade agreement, there will be "winners" and "losers". In the absence of a crystal ball, there are potential benefits for U.S. and Florida producers from the Agreement. The conclusions reached are made based on two premises. The first premise is the observation that Florida producers still maintain a trade surplus for some of the selected commodities, notwithstanding the relatively high tariff faced by U.S. producers/exporters. The second premise is that removing trade restrictions should enable more Florida producers to penetrate more CAFTA-DR markets. It should be noted that trade flows and patterns can and do change over time and that countries currently importing a particular commodity can, with the requisite level of investment and technological support, become net exporters in the near future.

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Table 1. Selected CAFTA-DR demographics.

Country	Population	GDP Per Person	Poverty	Literacy	Ag Population
	(*millions*)	(*US dollars*)	(%)	(%)	(%)
Costa Rica	3.9	8,300	21.0	96.0	20.0
El Salvador	6.5	4,600	48.0	80.0	30.0
Guatemala	13.9	3,900	75.0	71.0	50.0
Honduras	6.7	2,500	53.0	76.0	34.0
Nicaragua	5.1	2,200	50.0	68.0	42.0
Dominican Republic	8.7	6,300	25.0	84.0	17.0
Total/Average	44.8	4,633	45.3	79.2	32.2

Source: Adapted from Parr Rosson's 2004 presentation

Table 2. Florida's leading cash recipts by commodity, 2002.

Commodity	Florida Receipts	Share of Receipts	Cumulative Share	National Ranking
	($ *thousand*)	(%)	(%)	(*number*)
Greenhouse/Nursery	1,629,993	25.76	25.76	2
Oranges	1,168,211	18.46	44.22	1
Sungarcane	517,925	8.18	52.40	1
Tomatoes (fresh & processed)	508,320	8.03	60.43	2
Dairy Products	356,184	5.63	66.06	14
Cattle/Calves	333,413	5.27	71.33	26
Peppers	218,960	3.46	74.79	1
Potatoes	211,622	3.34	78.13	4
Chicken Broilers	195,579	3.09	81.22	15
Grapefruit	183,680	2.9	84.12	1
Strawberries	153,472	2.43	86.55	2
Snap Beans (fresh)	148,764	2.35	88.90	1
Eggs	109,012	1.72	90.62	12
Sweet Corn	101,538	1.60	92.22	1
Tangerines	98,047	1.55	93.77	1
Cucumbers	91,942	1.45	95.22	1
Aquaculture	77,000	1.22	96.44	—
Watermelons	62,238	0.98	97.42	2
Squash	40,611	0.64	98.06	1
Peanuts	35,011	0.55	98.61	7
Cabbage (fresh)	28,928	0.46	99.07	5
Cotton	22,815	0.36	99.43	16
Tobacco	18,244	0.29	99.72	8
Avocados	17,195	0.27	99.99	2
Total	6,328,704	100	100	

Source: Compiled by author from information obtained from Florida Statistical Directory, 2004

Table 3. Florida's top five agricultural exports.

Category	Value	Share
	($ *million*)	(%)
Fruits and Preparations	569	43.77
Vegetables and Preparations	138	10.61
Live Animals and Meat	53	4.08
Oil seed, grain, seed	37	2.85
Poultry and Products	28	2.15
Total	825	63.46
Source: FAS Online		

Table 4. Average value of CAFTA-DR net imports from United States.

	Average 1999–2003		
	Imports from US	Exports to US	Net Imports
		(*US dollars*)	
COSTA RICA			
Live Animals	2,183,899	439,202	1,744,697
Meat and Edible Meat Offals	2,731,830	24,895,319	–22,163,489
Vegetables	2,888,230	50,810,486	–47,922,257
Fruits	9,547,281	438,896,570	–429,348,289
Oil sseed, grain, seed	51,892,351	6,882,174	45,010,177
Total	69,243,591	521,923,751	–452,680,160
DOMINICAN REPUBLIC			
Live Animals	3,048,000	224,000	2,824,000
Meant and Edible Meat Offals	11,548,000	0	11,548,000
Vegetables	12,834,000	19,451,000	–6,617,000
Fruits	12,880,000	23,684,000	–10,804,000
Oil seed, grain, seed	70,804,000	551,000	70,253,000
Total	111,114,000	43,910,000	67,204,000
EL SALVADOR			
Live Animals	2,035,454	442,881	1,592,573
Meat and Edible Meat Offals	2,593,236	12,270	2,580,967
Vegetables	1,783,147	6,059,242	–4,276,095
Fruits	8,511,010	2,606,154	5,904,855
Oil seed, grain, seed	1,519,281	1,845,720	–326,439
Total	16,442,127	10,966,266	5,475,861

Table 4. Average value of CAFTA-DR net imports from United States.

	Average 1999–2003		
	Imports from US	**Exports to US**	**Net Imports**
	(*US dollars*)		
GUATEMALA			
Live Animals	2,522,201	45,418	2,476,783
Meat and Edible Meat Offals	20,448,344	2,118	20,446,225
Vegetables	4,115,981	27,296,123	–23,180,142
Fruits	11,156,345	208,722,499	–197,566,154
Oil seed, grain, seed	11,648,674	14,148,955	–2,500,281
Total	49,891,545	250,215,113	–200,323,569
HONDURAS			
Live Animals	724,508	126,226	598,282
Meat and Edible Meat Offals	8,047,375	412,507	7,634,868
Vegetables	4,629,875	31,865,546	–27,235,671
Fruits	6,751,668	137,348,378	–130,596,710
Oil seed, grain, seed	2,561,919	247,567	2,314,352
Total	22,715,344	170,000,224	–147,284,880
NICARAGUA			
Live Animals	850,587	362,777	487,809
Meat and Edible Meat Offals	2,043,235	28,403,042	–26,359,807
Vegetables	2,471,000	3,349,263	–878,263
Fruits	1,138,070	12,001,715	–10,863,645
Oil seed, grain, seed	2,073,586	825,544	1,248,042
Total	8,576,477	44,942,340	–36,365,863

Source: UN Commodity Trade Statistics Database (UN Comtrade)

Table 5. CAFTA-DR countries' share of imports from United States.

	Average 1999–2003		
	Imports from US	**Imports from World**	**US Share**
	(*US dollars*)		(%)
COSTA RICA			
Live Animals	2,183,899	3,527,184	61.92
Meat and Edible Meat Offals	2,731,830	8,944,866	30.54
Vegetables	2,888,230	22,573,864	12.79
Fruits	9,547,281	22,782,549	41.91
Oil sseed, grain, seed	51,892,351	61,797,338	83.97

Table 5. CAFTA-DR countries' share of imports from United States.

	Average 1999–2003		
	Imports from US	**Imports from World**	**US Share**
	(*US dollars*)		(%)
Total	69,243,591	119,625,801	57.88
DOMINICAN REPUBLIC			
Live Animals	3,048,000	3,141,000	97.04
Meant and Edible Meat Offals	11,548,000	12,203,000	94.63
Vegetables	12,834,000	25,093,000	51.15
Fruits	12,880,000	15,283,000	84.28
Oil seed, grain, seed	70,804,000	76,349,000	92.74
Total	111,114,000	132,069,000	84.13
EL SALVADOR			
Live Animals	2,035,454	15,521,985	13.11
Meat and Edible Meat Offals	2,593,236	34,483,505	7.52
Vegetables	1,783,147	41,905,635	4.30
Fruits	8,511,010	41,434,629	20.31
Oil seed, grain, seed	1,519,281	5,374,004	28.27
Total	16,442,127	138,719,758	11.85
GUATEMALA			
Live Animals	2,522,201	5,252,678	48.02
Meat and Edible Meat Offals	20,448,344	32,046,518	63,81
Vegetables	4,115,981	12,597,272	32.67
Fruits	11,156,345	22,234,272	50.18
Oil seed, grain, seed	11,648,674	17,920,826	65.00
Total	49,891,545	90,051,567	55.40
HONDURAS			
Live Animals	724,508	7,593,285	9.54
Meat and Edible Meat Offals	8,047,375	11,904,160	67.60
Vegetables	4,629,875	15,417,075	30.03
Fruits	6,751,668	17,120,220	39.44
Oil seed, grain, seed	2,561,919	4,651,395	55.08
Total	22,715,344	56,686,135	40.07
NICARAGUA			
Live Animals	850,587	7,610,054	11.18
Meat and Edible Meat Offals	2,043,235	3,075,243	66.44
Vegetables	2,471,000	15,125,759	16.34
Fruits	1,138,070	3,998,669	28.46
Oil seed, grain, seed	2,073,586	3,349,452	61.91
Total	8,576,477	33,159,178	25.86

Table 6. Proposed market access under CAFTA-DR for selected commodities of interest to Florida.

Category	Selected Commodities	Current Tariffs	Proposed Market Access
Animal Products	Beef	Applied rates 15-30%, can reach 79%	Immediate tariff elimination on prime and choice cuts in all except Dominican Republic, which established a TRQ that increases annually as duties are eliminated Duties on other beef products and beef offals scheduled for phase-out over 15 years
	Poultry	Applied rates up to 164%, can reach 250%	Immediate duty-free access on chicken leg quarters through TRQs that increase annually; duties eliminated in 17-20 years Duties on other poultry products (e.g., wings, breast meat, and mechanically deboned poultry meat) scheduled for elimination within 10 years
	Dairy Products	Applied rates up to 60%, can reach 100%	Immediate duty-free access through TRQs that increase each year; all duties eliminated within 20 years
Vegetables and Preparations	Fresh vegetables	Applied rates 15-47%, can reach 60%	Immediate tariff elimination with exception of sweet corn, lettuce, cauliflower, and broccoli
	Frozen vegetables	Applied rates 15-47%, can reach 60%	Immediate elimination for Nicaragua; phase-out within 10-12 years for the other countries
Fruits and Preparations	Fresh fruits	Applied rates 15%, can reach 150%	Approximately 70% of U.S. fruits and nuts receive immediate duty-free access; phase-out duties on others over 5-10 years
	Frozen orange juice	Applied rates 20-60%, can reach 150%	Immediate elimination of duties in all countries except Dominican Republic, which will eliminate duties within 15 years
	Grapefruit juice	Applied rates 20-60%, can reach 150%	Immediate elimination of all duties