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

Statement of
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before the
Committee Ways and Means
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INTRODUCTION

Chairman Thomas, Congressman Rangel, 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 Thomas and Congressman Rangel 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 6.3%, 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 recently released 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 Labor and Trade Ministers recently 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 developing 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, 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.