STATEMENT OF WHY THE DOMINICAN REPUBLIC-CENTRAL AMERICA-UNITED STATES FREE TRADE AGREEMENT IS IN THE INTERESTS OF U.S. COMMERCE

INTRODUCTION

The Dominican Republic-Central America-United States Free Trade Agreement ("CAFTA-DR" or "Agreement") provides for equitable and reciprocal trade liberalization among the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. The CAFTA-DR is a comprehensive free trade agreement that will strip away barriers to trade, eliminate tariffs, open markets, and promote investment in the Parties. By promoting economic growth in Central America and the Dominican Republic, this cutting edge pact will expand U.S. opportunities in important regional markets and further U.S. commercial interests.

Negotiations with the five Central American countries of Costa Rica, El Salvador, Honduras, Guatemala and Nicaragua began in January 2003 and were completed one year later. The negotiations with the Dominican Republic were launched in January 2004 and concluded in March 2004. The CAFTA-DR is a regional trade agreement among all seven signatories, and will contribute to the transformation of a region that was consumed in internal strife and border disputes just a decade ago.

WHY CENTRAL AMERICA AND THE DOMINICAN REPUBLIC?

The CAFTA-DR countries are among the developing countries that already enjoy duty free access to the U.S. market for the majority of their exports through trade preference programs. These developing countries often have high tariff and non-tariff barriers to U.S. exports and impose restrictions on U.S. businesses. State-of-the-art free trade agreements like the CAFTA-DR not only reduce barriers to U.S. trade, but also require important reforms of the domestic legal and business environment that are key to encouraging business development and investment. Such reforms include providing greater transparency for government actions such as rule making and other steps to strengthen the rule of law, improving the protection and enforcement of intellectual property rights, and providing clear guidance on customs matters.

Moving from One-way Preferences to Reciprocity

For twenty years, most Central American and Dominican Republic exports to the United States benefited from duty-free treatment, primarily as a result of the Caribbean Basin Initiative (CBI). With the expansion of the CBI program in 2000 (under the Caribbean Basin Trade Partnership Act - CBTPA), about eighty percent of the region's exports enter the United States duty-free.

The CAFTA-DR moves beyond one-way preferences to full partnership and reciprocal commitments, under which U.S. exports also benefit from duty-free access.

Expanding Economic Opportunities for U.S. Manufacturers, Workers, and Farmers

Trade between the United States and the CAFTA-DR countries is significant for all the Parties. In 2004, such trade totaled over $33 billion.[1] The United States exported almost $16 billion in goods to the five Central American countries and the Dominican Republic in 2004, more than all exports to Russia, India, and Saudi Arabia combined. A free trade agreement with Central America and the Dominican Republic would effectively create the second-largest U.S. export market in Latin America ($16 billion), behind only Mexico, and the 14th largest U.S. export market in the world. The market access and trade disciplines provided by the CAFTA-DR offer an opportunity to expand U.S. exports to a region that is already seeing high export growth rates. U.S. export growth to the CAFTA-DR region has outperformed overall U.S. exports. From 2000 to 2004, export shipments to CAFTA-DR destinations grew by almost 16 percent, compared with less than 5 percent for overall U.S. exports.

The Central American countries, as well as the Dominican Republic, are natural trading partners of the United States; U.S. firms already enjoy about a forty percent share of the Central American and Dominican import markets.[2] Geographic proximity and close cultural and family ties strengthen the economic relationship. The region, with a population of about 44 million,[3] is only a 2 - 2 ½ hour flight from either Miami or Houston.

Remittances from relatives in the United States to our CAFTA-DR partners are an important and rapidly growing source of foreign exchange throughout the region and help to fund imports of U.S. goods and services. Most U.S. firms that do business in the Caribbean Basin already operate on a regional basis. The CAFTA-DR would bring about additional opportunities to harmonize and integrate this market and allow U.S. businesses to better serve the region.

Leveling the Playing Field

The CAFTA-DR would level the playing field for U.S. businesses that sell to Central America and the Dominican Republic. In 2004, over 80 percent of the CAFTA-DR countries' goods exports to the United States came in duty-free under unilateral U.S. trade preference programs, such as the Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP), or under zero MFN tariffs. The CAFTA-DR will open reciprocal trade benefits, eliminating tariffs and reducing barriers, also, to U.S. exports to the region. In addition, U.S. products currently face a competitive disadvantage because Central American countries, as well as the Dominican Republic, have been active in negotiating free trade agreements with other countries. Central America grants preferences to products from Mexico, Canada, Chile, and other South American nations under more than twenty trade agreements. The Dominican Republic has signed free trade agreements with the Central American Common Market countries as well as the Caribbean Community countries. The CAFTA-DR would ensure that U.S. companies are no longer disadvantaged as a result of these trade agreements

Advancing the U.S. Trade Agenda

The CAFTA-DR is a key part of America's regional and global efforts to open markets and enable U.S. businesses to sell goods and services around the world. The CAFTA-DR will lend momentum to complete the Free Trade Area of the Americas (FTAA) and signals that Central America and the Dominican Republic are ready to join the United States, Mexico, Canada, and Chile as free trade leaders in the hemisphere. As these countries' stake in the trading system expands, we will look for new opportunities to work together in other multilateral negotiations such as the World Trade Organization (WTO). The common disciplines and trade objectives developed through the CAFTA-DR will enhance the ability of all parties to forge consensus in the WTO.

Supporting Democracy, Economic Reform, and Regional Integration

The CAFTA-DR promotes close cooperation among the Central American countries and with the Dominican Republic, thereby advancing regional integration and contributing to greater peace, economic cooperation, and stability in the region. During the past decade, the Central American countries and the Dominican Republic have established democratic systems of government and implemented economic reforms to promote privatization, competition, and open markets. The United States has supported this transition to democratic institutions, enhanced economic growth, and security for human rights through a number of programs, including the Caribbean Basin Initiative.

The CAFTA-DR commits the Central American countries and the Dominican Republic to adopt more open and transparent procedures, which should deepen the roots of democracy, civil society, and the rule of law in the region, as well as reinforce market reforms. These reforms, coupled with increased trade and investment flows, should promote expanded growth and openness in the region, as well as support common efforts to achieve stronger labor and environmental protection. The United States and the other CAFTA-DR Parties take an aggressive and cooperative approach to ongoing efforts to improve labor protections through 1) requiring effective enforcement of existing labor laws; and 2) building local capacity to improve worker rights.

SMALL AND MEDIUM-SIZED ENTERPRISES: KEY EXPORTERS TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC

The CAFTA-DR will be of particular benefit to small and medium-sized enterprises (SME's). In 2002 small and medium-sized enterprises (enterprises with 500 or fewer employees) were responsible for an estimated thirty-seven percent of the value of U.S. merchandise exports to the Dominican Republic and Central America. This was considerably greater than the twenty-six percent SME share of global U.S. merchandise exports.[4]

U.S. SME Share of 2002 Merchandise Exports	
Nicaragua	70 %
Dominican Republic	44 %
Guatemala	46 %
El Salvador	35 %
Honduras	33 %
Costa Rica	22 %
Global Exports	**26 %**

Small and medium-sized enterprises particularly benefit from the tariff-eliminating provisions of free trade agreements, and should benefit from the significant tariff cuts required under the CAFTA-DR. The transparency obligations, particularly those contained in the customs chapters, are also very important to SME's, which may not have the resources to navigate customs and regulatory red tape.

Small businesses have taken advantage of previous trade agreements designed to eliminate trade barriers. In 1992, SME's accounted for only twenty-four percent of exports to our NAFTA partners, Canada and Mexico. In 2002, the SME share of this growing export market rose to thirty percent.

ENHANCED MARKET ACCESS TO THE DOMINICAN REPUBLIC AND CENTRAL AMERICA: LATIN AMERICA'S NEWEST EMERGING MARKETPLACE

More than eighty percent of U.S. exports of consumer and industrial products to Central America and the Dominican Republic will be duty-free immediately upon entry into force of the Agreement, with remaining tariffs phased out over ten years. Key U.S. exports, such as information technology products, agricultural and construction equipment, paper products, chemicals, and medical and scientific equipment will gain immediate duty-free access to Central America and the Dominican Republic.[5]

Best Prospects For Increased Market Growth For Non-Textile Industrial Goods

Information Technology Products

All U.S. Information Technology Agreement (ITA) product exports to Central America and the Dominican Republic will be duty-free immediately upon implementation of the Agreement. U.S. exporters of information technology (best prospects include circuit switching equipment, computers and peripherals, cables, routers, and cellular services equipment, including base stations, radio trunking equipment, handsets) will all benefit from the Agreement. The CAFTA-DR countries are forging ahead into the digital age. In Guatemala, for instance, demand for telecommunications equipment is expected to grow at an annual rate of ten to fifteen percent over the next 2 to 3 years. U.S. exports of ITA products to the CAFTA-DR region in 2004 were $1.8 billion.

Chemicals

U.S. exporters of chemical and related products will benefit from the CAFTA-DR tariff reductions, particularly with regard to exports of plastics and cosmetics, where tariffs range up to fifteen percent. Tariffs on nearly three-quarters of U.S. chemical exports will be eliminated immediately upon entry into force of the Agreement. For fertilizer and agro-chemical products, the news is even better. Ninety-one percent of U.S. fertilizers and agro-chemicals exports will be duty-free immediately upon entry into force of the Agreement, an important boost to a sub-sector that has seen declining exports to the region. U.S. chemical exports to Central America and the Dominican Republic reached $1.4 billion in 2004.

Eighty percent of U.S. imports from Central America and the Dominican Republic now enter the United States duty-free, while U.S. exporters to Central America and the Dominican Republic currently face significant tariffs.

Benchmark Central American/DR tariffs on imports of industrial goods from the United States

Motor Vehicles and Parts	11 %
Wood Products	10 %
Textile, Apparel & Leather Products	10 %
Chemicals, Petroleum, Coal, Rubber	5 %
Ferrous Metals	6.3 %
Other Metals and Metal Products	3.5 %
Transport Equipment	3.5 %
Electronic Equipment	1.4 %
Other Machinery and Equipment	4 %
Other Manufactures	7.1 %

The CAFTA-DR Eliminates Tariff Spikes, including

- El Salvador's 30 % autos tariff.
- Guatemala's 23 % tariff on certain footwear.
- Plastics and cosmetics tariffs up to 15 %.
- Air conditioning and refrigeration equipment facing tariffs up to 15 %.
- 15 % percent tariffs on some building products such as valves and home construction accessories including fixtures, sinks and doors.

Source – Benchmark tariffs: USITC Publication 3717 *U.S.-Central America-Dominican Republic Free Trade Aareement: Potential Economvwide and*

Industrial Machinery

Ninety-two percent of U.S. capital goods exports to Central America and the Dominican Republic will be duty-free immediately upon implementation of the CAFTA-DR. U.S. exporters of food processing, storage and packaging equipment, agricultural machinery (including irrigation equipment) and heating and cooling equipment will benefit significantly from the Agreement. The construction and tourism boom, coupled with an increase in non-traditional agricultural production in Guatemala and Honduras and the increase in the processed food market, will continue to fuel demand for specialized machinery. The CAFTA-DR better positions U.S. exporters to take advantage of this expanding market, particularly in the heating and cooling equipment sub sectors where tariffs currently range up to fifteen percent. In 2004, U.S. exports of machinery to the CAFTA-DR region were $935 million.

Electrical Power Generation and Distribution Equipment

Electrical power generation and distribution equipment, including transmission and distribution-related equipment, meters, regulators, boxes, switchers, converters, pumps, etc., is a best prospect for export to Central America and the Dominican Republic. Tariffs in the energy sector range up to twenty percent. Overall, ninety-six percent of U.S. exports of energy product exports to Central America and the Dominican Republic will receive duty-free treatment upon implimentation of the CAFTA-DR. The Agreement will improve U.S. competitiveness in this sector at a key point in time. The Central American countries have launched an inter-regional energy trading system, which will present an opportunity for sales of energy equipment as the countries upgrade their systems. Increasing energy demand as well as investment in rural electrification projects will provide opportunities for increased export sales. Major projects, such as the Government of El Salvador's plans for a 100 MW thermal generation plant in the near future, a project estimated to cost $100 million, as well as two major hydroelectric projects, will keep demand for energy-related products high. In 2004, U.S. exports of energy products to Central America and the Dominican Republic were approximately $726 million.

Environmental Technologies

Virtually all U.S. environmental technology product exports to Central America and the Dominican Republic, with the exception of miscellaneous plastic items, will receive immediate duty-free treatment. The Agreement includes environmental obligations as part of the core text of the Agreement and provides a cooperative framework for environmental capacity building. This should help spur demand for environmental technologies. The elimination of tariffs is an important competitive boost to a sector where ninety-nine percent of companies in the United States are small enterprises. Central American and Dominican Republic tariffs on some environmental goods are as high as twenty percent. The Salvadoran Ministry of Environmental and Natural Resources, as well as private industries, are starting projects to recycle and treat solid waste material – other countries in the region need to address this and other environmental issues. U.S. exports of environmental technologies to Central America and the Dominican Republic were valued at $307 million in 2004.

Medical Equipment

Ninety-eight percent of U.S. medical equipment exports to Central America and the Dominican Republic will receive duty-free treatment immediately upon entry into force of the Agreement. Tariffs on medical equipment range up to twenty percent on some medical and dental furniture. U.S. suppliers will be well positioned to take advantage of growing demand for medical equipment and supplies. In Costa Rica, for example, demand for medical equipment is expected to increase dramatically, as most hospitals need to replace obsolete equipment. The Costa Rican government has already approved several programs for large-scale purchases of modern medical equipment as part of an effort to upgrade the public and private

health sectors. U.S. exports of medical equipment and supplies to the CAFTA-DR region in 2004 were $213 million.

Construction Equipment and Building Supplies

Ninety-nine percent of U.S. construction equipment exports and over fifty-five percent of building supply exports will be duty-free immediately upon entry into force of the Agreement. Current tariffs on construction equipment range from zero to fifteen percent. Central American tariffs on building supplies are higher on average than for other products in the region, with the highest tariffs ranging up to fifteen percent for products such as valves and home construction accessories including fixtures, sinks and doors. Tractors, road building/paving equipment, items required for heavy infrastructure (hotels, roads, bridges), and residential housing (low, medium and high-end) are all best prospects for export under the CAFTA-DR. Construction is booming in both the Dominican Republic and Central America. In the Dominican Republic tourism-related construction is leading the boom. In Costa Rica, where the construction sector has been identified as one of the most dynamic sectors of the economy for the past three years, private sector construction (building of residences, warehouses, industrial plants, offices, shopping malls, supermarkets, schools and hospitals) is taking the lead. In 2004, U.S. exports of construction equipment to the CAFTA-DR region were approximately $85 million, and building products exports were over $136 million**.**

Automotive Parts and Services Equipment

The CAFTA-DR will eliminate Central American and Dominican tariffs on autos and parts that average from about four to nine percent and range as high as thirty percent for certain products. Automotive parts, accessories and service equipment are the best prospects for U.S. exports to the region. U.S. exporters will also benefit from CAFTA-DR provisions that will allow remanufactured auto parts to receive benefits under the Agreement.

AGRICULTURAL PRODUCTS

Although the United States exported $1.8 billion in farm products in 2004, CAFTA-DR countries continue to impose high tariffs and other barriers on most agricultural products. Removing existing trade barriers between the United States, the five Central American countries and the Dominican Republic, will create important new export opportunities for U.S. farmers, ranchers and processors. Moreover, because the U.S. market is already largely open to agricultural imports from these countries, the CAFTA-DR will result in only limited increases in imports. With consumption stagnant for many agriculture products in the United States, access to growth markets such as those in Central America and the Dominican Republic is critical for the expansion and profitability of U.S. agriculture.

The average WTO bound tariff on agricultural products is forty-two percent in Costa Rica, forty percent in the Dominican Republic, forty-one percent in El Salvador, forty-nine percent in Guatemala, thirty-five percent in Honduras, and sixty percent in Nicaragua. Applied tariffs may be lower on specific products, but in many cases these tariffs constrain U.S. exports. Moreover, without the CAFTA-DR, there is no assurance that the Dominican Republic and Central American countries will not raise these tariffs to their WTO bound rate. In contrast, under the Caribbean Basin Initiative, the United States allows over ninety-nine percent (trade weighted basis) of Central American and Dominican Republic exports to enter duty-free, effectively preserving tariff protection only for out-of-quota imports of products under U.S. tariff-rate quota ("TRQ") programs.

Best Prospects For Market Growth For Agricultural Goods

Beef, Pork and Poultry

U.S. poultry and livestock producers are among the most efficient in the world, producing high quality product at competitive prices. Under the Agreement, duties on all poultry and livestock products will be eliminated, either immediately or through tariff phase-outs. As a result, U.S. exports will benefit from access to the vibrant tourist industry in the region, where there is strong demand for high quality product, as well as the ability to sell to into the growing domestic market in these countries.

Current import duties on U.S. beef exports are as high as 30 percent, and under WTO rules CAFTA-DR countries may charge duties as high as 79 percent. From 2001 through 2003, U.S. suppliers annually shipped on average $10.6 million worth of beef to all six countries combined. U.S. beef exports worldwide, including to CAFTA-DR countries, were severely impacted in 2004 by BSE-related bans. Under the Agreement, duties on the products most important to the U.S. beef industry – prime and choice cuts – will be eliminated immediately in the Central American countries, while the Dominican Republic will establish a zero duty TRQ on these products which expands annually as tariffs are eliminated. Duties currently applied to certain other beef products and beef offals will be phased-out in 5 to 10 years by the CAFTA-DR countries. In addition, some immediate duty-free access will be provided on other beef cuts through other TRQs, which will expand annually as tariffs are eliminated. The CAFTA-DR countries will eliminate all tariffs on beef and beef products within 15 years.

U.S. pork exports currently face duties as high as 47 percent, and the WTO permits duties as high as 60 percent. From 2002 through 2004, U.S. suppliers annually shipped on average $20.5 million of pork to all six countries combined. Each CAFTA-DR country will provide immediate duty-free access on pork cuts through TRQs amounting to 13,613 metric tons which expand annually as tariffs are eliminated. Most countries will immediately eliminate tariffs on bacon and certain offal products. All CAFTA-DR tariffs on pork will be eliminated within 15 years.

Current import duties on U.S. poultry exports are as high as 164 percent, and WTO rules permit duties as high as 250 percent. From 2002 through 2004, U.S. poultry meat suppliers annually shipped on average $51.4 million to all six countries combined, and chicken leg quarters accounted for approximately 55 percent (in value terms) of this total. Under the Agreement, each CAFTA-DR country will provide immediate duty-free access on chicken leg quarters, a product where the United States is the world's most competitive exporter, through TRQs that expand annually as tariffs are eliminated. For example, El Salvador, Guatemala, Honduras and Nicaragua will establish a total initial regional duty-free TRQ of 21,810 metric tons, with individual country minimum TRQ levels, for the first 12 years of the Agreement. For years 13 through 17 of the Agreement, the level of the TRQ will be established through negotiations, but will not be less than the amount equal to five percent of regional chicken production. Costa Rica will establish a 300 metric ton duty-free TRQ for chicken leg quarters and the Dominican Republic one of 500 metric tons, each expanding by 10 percent annually until duties are eliminated. In addition, many duties on other poultry products, such as wings, breast meat and mechanically de-boned poultry meat will be eliminated immediately or within 5 to 10 years in some countries. Full liberalization of all poultry and poultry products will occur within 17 to 20 years, depending on the country.

The Central American countries and the Dominican Republic are working toward the recognition of the U.S. meat and poultry inspection systems, and it is expected that this process will be brought to a favorable conclusion in the near future.

Dairy Products

U.S. dairy producers are very competitive with producers in the region and will benefit from opportunities to access a growing market. U.S. exports to the CAFTA-DR countries currently face duties as high as 65 percent, and the WTO permits duties as high as 100 percent. From 2002 through 2004, U.S. suppliers annually shipped on average $52.4 million of dairy products to all six countries combined, and the U.S. share of the import market was 10-15 percent. The CAFTA-DR countries combined will permit immediate access to over 10,000 metric tons of U.S. dairy products through TRQs that expand annually as dairy tariffs are phased-out. Under the Agreement, all tariffs on dairy products will be eliminated, within 20 years in all countries, and some sooner.

Soybeans and Soybean Products

From 2002 through 2004, U.S. suppliers annually shipped on average 203,359 metric tons of soybeans, 640,770 metric tons of soybean meal, and 76,286 metric tons of soybean oil, valued at $50 million, $140 million and $38 million, respectively, to all six CAFTA-DR countries combined. Current import duties on these products range from zero to 20 percent, but under WTO rules the Central American countries and the Dominican Republic could impose much higher duties. Under the Agreement, the CAFTA-DR countries will provide immediate duty-free access on soybeans. U.S. suppliers will face zero duties on soybean meal, soybean flour, and crude soybean oil in most CAFTA-DR countries. Improved access to these markets, which are expected to grow with rising incomes and population spurring expanded food consumption, will further expand export opportunities for competitive U.S. producers.

Fruits, Tree Nuts and Vegetables

Fruit and vegetable production in Central America and the Dominican Republic largely complements production in the United States -- climatic, seasonal and geographic differences serves to limit the direct competition between the regions and encourage trade in both directions. Removing tariffs on U.S. products will facilitate expanded sales in the region.

U.S. fruit and tree nuts face import tariffs ranging from 15 to 30 percent in the six countries, while WTO bindings generally range from 20 to 60 percent, with some approaching 150 percent. From 2002 through 2004, U.S. suppliers annually shipped on average 43,540 metric tons of fruits and nuts valued at $55.5 million to all six countries, and the U.S. share of their import market was approximately 40 percent in 2002. Apples and grapes, which face tariffs ranging from 15 to 20 percent, accounted for nearly half of these U.S. exports. Nearly 70 percent of U.S. fruit and nuts are eligible for immediate duty-free access under the Agreement, including apples, grapes, pears, cherries, raisins, peaches, almonds, walnuts, and pistachios. Processed horticultural products, such as wine, canned peaches and pears, mixed canned fruit, grapefruit and cranberry juice will receive duty-free treatment immediately in all six countries, and the Central American countries also will immediately eliminate tariffs on frozen concentrated orange juice. The CAFTA-DR countries will phase-out import tariffs on another 26 percent of all fruit and nut products over the first five to ten years of the Agreement.

WTO bound tariffs in the Central American countries and the Dominican Republic on vegetables range from 30 to 89 percent, with applied rates generally 15 to 25 percent. From 2002 through 2004, U.S suppliers to the six countries annually shipped on average nearly $11 million worth of pulses, and $40.9 million worth of fresh and prepared vegetables, including $4.4 million worth of frozen fries. The six countries will open their markets for pulses through a combination of tariff cuts (including immediate duty elimination on peas and lentils in certain countries and five-year phase-outs on lentils, peas and white beans in other countries) and zero duty TRQs which expand annually as tariffs are phased-out over

15 years. Import duties on frozen french fries will be immediately eliminated in four countries and phased-out over five or six years in the other two countries. U.S. suppliers obtain immediate duty-free access on fresh and canned sweet corn, lettuce, mushroom, tomato paste, mushrooms and canned asparagus in some countries, while tariffs on other vegetables, such as cauliflower, broccoli, and lettuce are phased-out in five to ten years in most countries.

Grains

U.S. suppliers of grains (wheat, rice, corn and other feed grains) currently face applied tariffs as high as 60 percent in the CAFTA-DR countries. U.S. farmers and processors of grains are well positioned to compete in the CAFTA-DR countries, and the Agreement will open an already large and growing market to increased U.S. exports. As populations increase and diets adapt to reflect higher levels of economic development, demand for these products in the region will expand.

From 2002 through 2004, U.S. wheat suppliers annually shipped on average over 1.2 million metric tons of common wheat, valued at over $204 million to the six CAFTA-DR countries. During the same period, U.S. suppliers shipped on average $117 million worth of rice, $303 million worth of corn, and $7 million worth of other grains. U.S. grain suppliers will benefit from zero tariffs immediately on wheat, barley, barley malt in all six countries, as well as on some processed grain products. Costa Rica and the Dominican Republic will immediately eliminate the tariff on yellow corn, while the other four countries will provide access through zero-duty TRQs on yellow corn that total 1,151,259 metric tons initially and grow by 5 percent annually as tariffs are phased out. Zero duty TRQs will be established for milled rice by all countries, and rough rice in all countries except the Dominican Republic, which will have a TRQ for brown rice. The TRQ access totals over 400,000 metric tons immediately and grows through the tariff phase-out period.

Cotton

From 2002 through 2004, U.S. suppliers annually shipped on average $73.1 million worth of cotton to all six countries combined, both to meet domestic demand and as inputs to further processing. Tariffs will be eliminated immediately for cotton, contributing to the integration of regional production to the benefit of U.S. cotton farmers and manufacturers.

Processed Products

Demand in Central America and the Dominican Republic for imported processed products has been expanding substantially in recent years, despite tariffs that can range as high as 66 percent. U.S. food manufacturers, benefiting from dependable commodity suppliers at home and production and marketing efficiencies, already compete well in the region. From 2002 through 2004, U.S. suppliers annually shipped on average $180 million worth of candies, distilled spirits, breakfast cereals, soups, pet food, cookies and other prepared foods to the six CAFTA-DR countries. All CAFTA-DR countries will immediately eliminate tariffs on certain cookies and breakfast cereals. Most countries will immediately provide duty-free access on whisky and other distilled spirits. U.S. suppliers of pet food, other cereals, cookies and food preparations will benefit from immediate duty elimination in some countries, and tariff phase-outs, generally over five to ten years, in other countries.

TEXTILES AND APPAREL

The CAFTA-DR region is an important market for U.S. yarn and fabric manufacturers and therefore it is in the U.S. interest to do as much as possible to support the growth of Central American and Dominican Republic apparel manufacturers. In 2004, the United States sold $4.15 billion worth of yarns and fabrics to CAFTA-DR countries and sixty-one percent of apparel shipped from Central America and the Dominican Republic qualified under the Caribbean Basin Trade Partnership Act (CBTPA) provision requiring the use of U.S. yarns and fabrics. In contrast, Asian apparel producers use very little U.S. yarn or fabric. The CAFTA-DR will help retain and promote textiles trade with Central America and the Dominican Republic, a benefit to U.S. exporters.

The following identifies the key textile and apparel features and benefits contained in the CAFTA-DR:

- Regional yarn forward rule of origin – over ninety percent of apparel must be made of regional yarns and fabrics in order to qualify for duty-free treatment. The vast majority of these yarns and fabrics are made in the United States.

- Immediate duty and quota-free trade for qualifying goods, retroactive to January 1, 2004, has helped induce apparel manufacturers in the region to place orders in 2004 prior to the implementation of the Agreement, and has helped maintain and strengthen regional business partnerships. Keeping assembly in Central America and the Dominican Republic, as quotas under the WTO ended on December 31, 2004, should continue to strengthen sales of U.S. yarns and fabrics to the region.

- Customs cooperation provisions will help prevent transshipment and circumvention of non-qualifying goods entering the United States.

- Streamlined commercial availability (short supply) process will allow use of other yarns or fabrics if yarns or fabrics are not commercially available in the region to be used in the production of apparel.

- Central America, the Dominican Republic and the United States will be able to source non-elastomeric nylon yarns from Israel, Mexico and Canada, retaining the current CBTPA provision.

SERVICES SECTORS

The CAFTA-DR countries have made very substantial commitments to liberalization in cross-border services trade, telecommunications, and financial services. These commitments significantly improve upon their WTO commitments in terms of sectors covered and elimination of restrictions. The CAFTA-DR establishes a solid framework for trade in services by providing for the elimination of obstacles in most service sectors and regulatory transparency.

Why do services commitments matter?

The service sector accounts for the majority of jobs – and most job growth – both in the U.S. economy and elsewhere. In the United States, private services industries added almost 17 million new jobs to U.S. payrolls between 1993 and 2003, when they accounted for almost 86.5 million U.S. jobs, or eighty percent of private non-farm employment. U.S. services exports are a vital part of this picture. For example, commercial services exports of $294 billion accounted for 29 percent of total 2003 U.S. exports,

generating a 2003 commercial services trade surplus of $66 billion which helped to offset part of the U.S. merchandise trade deficit.[6]

U.S. services firms are well positioned relative to their competitors abroad to take advantage of free trade agreements. The intensity and vigor of the U.S. market give rise to high-quality companies prepared to meet stringent services demands at home and enables them to compete abroad. Consumers in the CAFTA-DR countries value services that help boost their own productivity and enhance their lives, and look to the United States as a model in terms of providing high-quality and cutting-edge services and technologies.

CAFTA-DR Opens Services Markets Across the Region

Substantial Market Access provided.

- The Central American countries and the Dominican Republic will accord substantial market access across their entire services regime, subject to very few exceptions, using the so-called "negative list" approach.

Key sectors benefit, including:

- computer and related services, tourism, telecommunications services, financial services, audiovisual services, advertising, construction and engineering, express delivery, professional services (architects, engineers, accountants, legal services), distribution services (wholesaling, retailing, franchising), adult education and training services and environmental services, with very few limitations or restrictions.

Most residency requirements eliminated.

- CAFTA-DR removes most local residency requirements, which had imposed significant barriers to U.S. professionals.

Regulatory Transparency required.

- Transparency in regulatory processes is absolutely essential for services industries because they generally are highly regulated. The CAFTA-DR requires regulatory authorities to use open and transparent administrative procedures, consult with interested parties before issuing regulations, provide advance notice and comment periods for proposed rules, and publish all regulations.

The CAFTA-DR Allows Service Providers to Choose Mode of Delivery - a Key Provision for SME's

The commitments in services cover both cross-border supply of services (such as services supplied through electronic means, or through the travel of nationals) as well as the right to establish a company in another CAFTA-DR country in order to supply services. The ability of service providers to choose their mode of providing a service becomes increasingly important as technology makes distance less of a service barrier. Distance learning, for example, has undergone a dramatic transformation due to technology. Satellites and the Internet are transforming the world into a borderless educational arena, benefiting both previously under-served citizenries and education entrepreneurs. Although many developing countries still have limited access to these new technologies, major new investments in telecommunications and information systems are going to dramatically improve their access, benefiting all "e-service" providers.

The CAFTA-DR governments are prohibited from requiring a U.S. company to incorporate or make any form of local investment when supplying their services on a cross-border basis. In other words, a U.S. company wishing to provide its service in a CAFTA-DR country is not required to have any formal

presence there. This is a benefit to all U.S. service providers, especially SMEs, who may neither have the resources to maintain a presence outside of the United States nor conduct enough business to even need that kind of presence.

The CAFTA-DR Liberalizes an Onerous Distribution Restriction: Agent-Distributor Laws

The CAFTA-DR liberalizes restrictive agent-distributor regimes, eliminating laws in several Central American countries and the Dominican Republic that restricted U.S. companies' ability to choose distributors for their products. These laws, often called "dealer protection" laws were designed to protect citizens who work as agents or distributors for foreign companies. In practice, the rules are often very complicated and potentially costly to foreign suppliers, locking them into inefficient and exclusive distributor arrangements and making it difficult or impossible for them to modernize their distribution systems. Foreign companies have, in many cases, been forced to pay large fees or penalties to end distribution contracts, even if the contract had already reached its termination date or the distributor was not doing its job.

The Agreement will liberalize and modify the application of these laws for U.S. companies that wish to enter the CAFTA-DR marketplace, allowing U.S. businesses the freedom to contract the terms of new distributor relationships. It creates greater certainty that U.S. companies can enter into distribution arrangements without facing exorbitant penalties if it becomes necessary to modify or terminate the arrangement. The Agreement also recognizes international arbitration as an option for resolution of disputes relating to distributor relationships.

Sector-specific Benefits for the Service Sector

Generally speaking, sectoral coverage of the six CAFTA-DR countries is significantly broader than are the commitments these countries undertook in the WTO General Agreement on Trade in Services (GATS). One reason is that the CAFTA-DR uses a more inclusive method of sectoral coverage - the "negative list" approach. This means that every sector is covered unless an exception is listed and that trade disciplines are automatically extended to services that have yet to be created or brought to market. Such automatic coverage of new services is especially important to industries where market development, technological advances and innovation continuously result in new service offerings and means of delivery. This is particularly important in sectors such as communications, express delivery, financial and computer related services. GATS uses a "positive list," which means that only those sectors that a country expressly lists are covered by the Agreement's national treatment and market access obligations. The CAFTA-DR countries listed relatively few of the possible 150 different sectors and subsectors in their GATS commitments, meaning that their GATS commitments are fairly limited.

U.S. service providers should immediately benefit from CAFTA-DR commitments in a number of key areas. Some examples are provided below.

Advertising

Nicaragua, Honduras, and Guatemala have committed to completely opening their market for this important sector. Although El Salvador maintains a local content quota for commercials, it does not apply this requirement to foreign-made commercials for imported U.S. goods and services, which substantially reduces the negative trade effect of this measure. In the GATS, the Dominican Republic made a partial commitment in advertising, and the remaining five CAFTA-DR countries made no commitments.

Construction and engineering services

Improved regulatory regimes and strong investment environments will stimulate growth opportunities for construction consultants and engineers. U.S. companies should benefit from a reduction in the percentage of Salvadorian ownership required for a construction project and the removal of a number of Guatemalan restrictions on U.S. suppliers of construction and engineering services.

Distribution Services, including retail and wholesale services, direct marketing, and direct selling

Retailers will benefit from the removal of barriers that inhibit the movement of industrial and consumer goods and agriculture products between manufacturers, wholesalers, retailers, and consumers. Intellectual property rights provisions will ensure the concept brands of franchise companies are protected. Retailers working with transportation, telecommunications, financial, computer and other service providers may be able to improve and streamline the supply chain to better serve consumers in the United States and throughout the hemisphere. Direct marketers should have increased opportunities as a result of improved wireless telecommunication services, Internet service, and commitments in specific sectors such as travel and tourism.

Franchising

The CAFTA-DR countries have not scheduled restrictions on market access for franchising. Furthermore, other CAFTA-DR commitments will benefit U.S. franchisers. Trademark provisions will protect the franchiser name, tariff liberalization will allow the lower-cost export of key equipment needed to supply the franchisee, and the elimination or modification of onerous "dealer act" provisions will allow U.S. companies to terminate a contract with a franchisee for just cause. The franchising market in the CAFTA-DR countries is very strong. It is particularly appealing to an emerging group of investors that includes young professionals who are familiar with U.S. business practices and who seek to break away from their family businesses and start new undertakings of their own.

Entertainment, including audiovisual and broadcasting

The CAFTA-DR provides improved market access for U.S. films and television programs over a variety of media including cable, satellite, and the Internet. This market opening is in contrast with these countries' commitments under the GATS, where Costa Rica, El Salvador, Guatemala and Honduras made no commitments in this area. CAFTA-DR countries maintained some non-conforming measures in this sector (for example Costa Rica, El Salvador, and Nicaragua have local equity requirements for broadcast licenses). A number of other CAFTA-DR provisions will be beneficial to this sector. The CAFTA-DR provides state-of-the-art intellectual property protections and prohibits the unauthorized receipt or distribution of encrypted satellite signals, thus preventing piracy of satellite television programming. The CAFTA-DR also provides for non-discriminatory treatment for digital products such as U.S. software, music, text, and videos.

Environmental Services

CAFTA-DR countries did not include any restrictions on market access or national treatment in this area in contrast with the GATS where the six countries made no commitments in environmental services. CAFTA-DR countries have been putting a growing emphasis on environmental protection. U.S. environmental services providers should benefit from increased opportunities in this sector. Environmental technologies, for example, are a U.S. Commercial Service best prospect for export in El

Salvador. El Salvador's 1998 Environmental Law requires environmental impact studies for major new investment, including public sector projects, and the Ministry of Environmental and Natural Resources as well as private industries are starting projects to recycle and treat solid waste material. Other countries in the region need to address this and other environmental issues.

Express delivery services

The CAFTA-DR services chapter includes an expansive definition reflecting the integrated nature of express services. The Agreement also affirms existing competitive opportunities in the CAFTA-DR region and prevents cross-subsidization from a postal monopoly. This is in contrast with the GATS, where no CAFTA-DR country made a commitment in either postal/courier services or in express delivery. Improved customs trade facilitation will help express delivery service companies provide better services to customers who are seeking to enhance their competitiveness in the hemisphere and global market place. Express delivery services are in demand from a wide range of companies--from high-tech to agriculture, and autos to retail services. Speed-to-market, just-in-time inventory processes and total quality management are critical to success in today's economy.

Energy Services

Energy demand in Central America and the Dominican Republic is increasing. The Central American countries are just beginning to establish a system for interregional energy trading and the CAFTA-DR countries are upgrading their systems. The initial connection between Central America's northern and southern energy grids was completed in May 2002. Over the next two years, energy trade will increase as upgrades to the regional transmission line are completed. New adjustments and reforms to regulations for the electric power sector are being prepared to assure fair competition and to enable participation in the new Central American Energy Integration System. Increasing energy demand as well as investment in rural electrification will also provide opportunities for U.S. energy companies. CAFTA-DR provisions related to regulatory transparency and investment will also help enhance opportunities for U.S. energy services firms to provide energy services to Central America and the Dominican Republic. In the GATS, the CAFTA-DR countries made no commitments in energy services.

Information Services, including computer related services

The CAFTA-DR, which provides for full market access with no exceptions in this important sector, is an improvement over the GATS where only Honduras made such commitments. The CAFTA-DR covers all modes of delivery, including electronic delivery, such as via the Internet. The "negative" list approach also ensures that rapidly evolving computer services, driven by continual advances in technology, will be covered by commitments contained in the Agreement. Without such an approach, computer and related services definitions and commitments could quickly become obsolete as new services are introduced. The CAFTA-DR's protections for "digital products" and other e-commerce commitments will also benefit U.S. technology service providers. In addition, as technology users are increasingly purchasing information technology solutions as a combination of goods and services, duty-free treatment of technology products under the CAFTA-DR will also benefit service providers in this sector. New access in such sectors as banking, financial services, and telecommunications as a result of the CAFTA-DR will increase demand for strong software development, data processing, and other information services.

Legal Services

As a result of the Agreement, there are no significant restrictions imposed in the CAFTA-DR countries on 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.

Professional Services, including accounting, legal services, and management consulting

Liberalization in such sectors as banking, investment, and financial services will offer increased opportunities for professional service providers. However, licenses will continue to be required. 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 support agreements mutually recognizing their qualifications and standards for professional practice.

FINANCIAL SERVICES

Improving the conditions for financial institutions to provide services is a key component of the U.S. trade liberalization agenda. The financial sector is a critical component of a nation's economy: it not only contributes directly to output and employment but also provides an essential infrastructure for the functioning of the entire economy.

The CAFTA-DR countries' commitments in the financial services sector include core obligations of national treatment, most-favored nation treatment, and additional market access obligations for investment. The Agreement also includes provisions on cross-border trade in financial services, new financial services, regulatory transparency, and objective and impartial administration of domestic regulation. In addition, the Agreement includes important commitments relating to branching, asset management and use of foreign-based portfolio managers by mutual funds.

Banking and Securities

The financial sectors of Central America and the Dominican Republic are generally quite open to foreign investment. The Agreement will lock in rights for U.S. financial service suppliers to establish wholly-owned subsidiaries or joint ventures. Also, banks will be ensured the ability to establish a direct branch from abroad in most countries. The Central American countries and the Dominican Republic have committed without reservation to allow their citizens to consume banking and securities services abroad and will also allow U.S.-based firms to offer cross-border services in Central America and the Dominican Republic in areas such as financial information and data processing, and financial advisory services.

Asset Management Services

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic made no commitments in asset management in the 1997 GATS Financial Services Agreement. The CAFTA-DR provides legal certainty that U.S. asset management firms will be afforded national treatment, non-discrimination and the right of establishment in these countries. In addition, the Agreement includes a specific commitment to permit the cross-border provision of portfolio management services by asset managers located abroad to collective investment schemes located in the Central American countries and the Dominican Republic. This important commitment allows a U.S. firm to achieve economies of scale and use its global expertise in serving its clients in those countries. El Salvador and the Dominican Republic have agreed to adopt necessary laws and regulations within four years to implement this commitment, and Guatemala and Nicaragua will implement commitments as soon as the appropriate laws

are passed and regulations established. The financial services transparency commitments in the Agreement also will benefit the asset management industry.

Insurance

The insurance commitments contained in the financial services chapter of the Agreement are comprehensive and generally provide good treatment for insurance providers. Commitments are similar among Nicaragua, Guatemala, El Salvador, Honduras, and the Dominican Republic with slight differences in terms of timing of implementation of commitments. Significant liberalization was achieved with the removal of economic needs tests and foreign equity limitations. These insurance commitments are significant improvements over current WTO obligations. For example, branching restrictions in El Salvador are to be lifted within three years; those in Guatemala, Nicaragua and the Dominican Republic will be eliminated within four years. Commitments on expedited availability of new products are also included.

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. This will occur in four phases. The first phase of liberalization begins on the date of entry into force of the Agreement. At that time, insurance may be provided on a cross-border basis. Costa Rica will permit the establishment of representative offices as of July 1, 2007. Full establishment will be permitted January 1, 2008, with choice of juridical form (branching, subsidiary, joint-venture). All lines of insurance may be sold as of that date, except third-party auto liability and workman's compensation, which will be liberalized January 1, 2011.

All major aspects of insurance are covered, including life, non-life, reinsurance, intermediation and services auxiliary to insurance. Key cross-border insurance products and services are covered (marine, aviation and transport (MAT), reinsurance and intermediation), similar to those in the Chile and Singapore free trade agreements, with additional commitments to allow services necessary to support global accounts and surplus lines.

INVESTMENT

The CAFTA-DR establishes a secure, predictable legal framework for U.S. investors in Central America and the Dominican Republic. Foreign direct investment can contribute significantly to the economic development and stability of this region. The Governments of Central America and the Dominican Republic have undertaken significant liberalization to their investment regimes over the past decade. U.S. investors, however, continue to cite complex and confusing laws and regulations, market restrictions, and red tape as disincentive to investment. The CAFTA-DR commitments improve transparency and remove barriers to investment.

Key Investment Provisions

The agreement will establish a secure, predictable legal framework for U.S. investors operating in the Central American countries and the Dominican Republic.

All forms of investment are protected under the Agreement, including real property, enterprises, debt, concessions, and other similar contracts and intellectual property.

U.S. investors enjoy in most circumstances the right to establish, acquire and operate investments in the Central American countries and the Dominican Republic on an equal footing with local investors, and with investors of other countries.

The agreement draws from U.S. legal principles and practices to provide U.S. investors in the Central American countries and the Dominican Republic a basic set of substantive protections that Central American and Dominican Republic investors currently enjoy under the U.S. legal system. Among the rights afforded to U.S. investors (consistent with those found in U.S. law) are due process protections and the right to receive the fair market value for property that has been expropriated.

Investor rights are backed by an effective, impartial procedure for dispute settlement that provides for transparent panel hearings and allows interested parties to submit their views.

Previously, governments in the region have backed away from commitments to investors. For example, U.S. companies that have entered into contracts with the Costa Rican government have faced constitutional and legal challenges to the execution of their contracts.

Central America and the Dominican Republic have major infrastructure needs. Increased foreign direct investment in the CAFTA-DR region would greatly improve the development of efficient, reliable systems for power generation, water, sewage, transportation, and telecommunications. Across the CAFTA-DR countries, energy demand is increasing. In Guatemala, for example, the government has stated that it is looking to the private sector to take the lead in expanding service capacity. Costa Rica has placed a priority on infrastructure development (roads, bridges, airport modernization, port improvements, and rehabilitation of the railroad), which has been offered to private companies and private consortiums under concession. In addition, the Government of El Salvador, as well as private industry, is starting projects to recycle and treat solid waste material and to develop water treatment facilities. These are just some examples of how the governments of Central America and the Dominican Republic can benefit from foreign investment.

The CAFTA-DR includes an effective, impartial, and transparent investor-state dispute settlement procedure, which provides investors recourse outside of Central American and Dominican Republic courts. This is particularly important in a region where the slow pace and uncertainty of legal systems has been an impediment to investment (a commercial dispute within the Costa Rican legal system can take up to 10 years to be resolved). In addition, under the CAFTA-DR, investors will also have recourse to arbitration to enforce certain contractual rights, including any concessions that governments in Central America and the Dominican Republic may grant to U.S. investors.

INTELLECTUAL PROPERTY RIGHTS

With the implementation of the CAFTA-DR, the level of intellectual property protection in Central America and the Dominican Republic is expected to improve. Although CAFTA-DR countries have already made improvements with regard to the modernization of their intellectual property laws, there are still shortcomings in the laws, and enforcement continues to be a challenge. Implementation of the significant new commitments made under the CAFTA-DR will reinforce national efforts to strengthen IP laws and enforcement. The CAFTA-DR, once fully implemented, will establish the highest level of intellectual property protection in the Latin American region and will support the growth of trade in valuable digital and other intellectual property-based products.

A Case Study – Why is Strong Intellectual Property Protection Important for U.S. Goods and Services Exporters?

The popularity of American Football in Central America is increasing and there is demand for football-related memorabilia. The New Orleans Saints football games are now broadcast on Honduran television. Commercial partnerships such as these benefit from strong intellectual property protection.

Trademark provisions will ensure that the football team's logo trademarks, as well as those of the NFL, can only be used when properly licensed and will provide for protection against bad faith registration of famous marks. Themed merchandise, including football shirts and sports memorabilia, is a prime target for counterfeiting - strong enforcement of anti-counterfeiting laws will help ensure that only legitimate merchandise is in the marketplace.

Copyright protection will ensure that the broadcast of the football games can only take place under agreement with team owners. The CAFTA-DR prohibits the unauthorized receipt or distribution of encrypted satellite signals, thus preventing piracy of satellite television programming. Several countries in Latin America are able to pick up the encrypted satellite signals of U.S. programmers and redistribute that satellite television programming to viewers in Latin America. This is a particular problem in the Dominican Republic

- All CAFTA-DR countries will improve their data protection regimes, provide for protection of plant varieties and institute stronger penalties for infringement. Honduras, for example, has already introduced laws that would provide patent protection for plant varieties and the design of integrated circuits before its National Congress.[7]

- Under the CAFTA-DR, governments must use only legitimate computer software, thus setting a positive example for private users. In El Salvador, for example, the government has taken significant steps to legitimize and modernize its software systems.[8] In Guatemala, while there is still pirated software in many offices, the Minister of Economy, who oversees the national IPR registry, has already committed to catalogue and properly license software in his ministry and will promote similar action by his cabinet colleagues.[9]

- The CAFTA-DR provides for tough penalties for piracy and counterfeiting. In Guatemala, the government has taken steps to root out the organized contraband and smuggling rings that have infiltrated the tax and customs administrations and that control much of the traffic in pirated goods.[10]

Enforcement remains a concern in the CAFTA-DR countries. As the economies of Central America and Dominican Republic strengthen, governments will have additional resources to face the challenges due to the lack of personnel and expertise necessary to wage amore effective campaign against copyright and other IP violations. In addition, the regional integration that the CAFTA-DR promotes and CAFTA-DR provisions on customs administration should help CAFTA-DR customs authorities to operate more efficiently and transparently. This will decrease opportunities for corruption and free up resources that could be used to improve border measures to keep pirated materials out of the CAFTA-DR region.

Key Intellectual Property Provisions

State of the art protection for U.S. trademarks

- Procedures for registering and maintaining trademarks as well as resolving disputes should become more efficient and transparent and less subject to abuse. This will make trademark protection more accessible to small businesses interested in the CAFTA-DR marketplace.

Protection for copyrighted works

- Copyright-based industries are among the fastest growing and most productive of any sector of the U.S. economy. They employ new workers in higher-paying jobs at over three times the rate of the rest of the economy; create new revenue at over two times that rate; and contribute close to $90 billion to the U.S. economy through foreign sales and exports. The industries' principal barrier to trade is the lack of effective protection and enforcement of intellectual property rights.

Stronger protections for patents & trade secrets

- Innovation has historically been a driving force in U.S. industry. Competitive advantage based on innovation needs to be protected and defended. U.S. companies need access to legal tools in all markets across the globe.

Tough penalties for piracy and counterfeiting

- The high level of enforcement required by the Agreement will benefit industry and set a precedent throughout the region.

GOVERNMENT PROCUREMENT

Governments are typically the single largest purchasing entity in any market. Government procurement is generally ten to fifteen percent of a country's GDP. Total GDP of our six CAFTA-DR trading partners is over $83 billion, thus total procurement for these countries is estimated to be between $8 billion and $12 billion.

The Agreement's government procurement provisions provide for non-discriminatory access to the procurements of the largest purchasing entities in the CAFTA-DR region. These procurements include sectors where U.S. goods and services companies are very competitive, including aerospace, energy, health care, construction, environmental technology, and information communication technology (ICT).

The Agreement covers the purchases of most Central American and Dominican Republic central government entities, including key ministries and state-owned enterprises. Central America and the Dominican Republic also agreed to include a vast majority of their provinces and municipalities. U.S. companies will immediately benefit as CAFTA-DR governments implement the Agreement's procurement obligations. Some of these benefits are highlighted below.

- Under the CAFTA-DR, Honduras will eliminate the requirement that foreign firms act through a local agent in order to participate in public tenders.

- The CAFTA-DR requires Parties to apply fair and transparent procurement procedures, and just as importantly, provide timely and effective bid review procedures, should there be concerns about award of the bids.

- The CAFTA-DR addresses current inadequate notification procedures and prescribes that bids be open for a minimum of forty days.

- The CAFTA-DR clarifies that build-operate-transfer contracts (BOTs) are within the scope of government procurement. BOTs act as financing vehicles for large-scale construction projects and the building or rehabilitation of public work facilities and figure prominently in CAFTA-DR governments' infrastructure financing plans. The Chile Free Trade Agreement was the first free trade agreement to contain this provision and it is significant that the CAFTA-DR also contains the guarantee that U.S. suppliers receive non-discriminatory and transparent treatment when competing for BOT contracts.

- The Dominican Republic will phase out association and participation requirements placed on foreign companies that want to do business with the government.

Key CAFTA-DR Procurement Provisions

- Central American governments, ministries and departments cannot apply "buy local" provisions that discriminate against U.S. suppliers and the Dominican Republic is phasing out such provisions. Low-value contracts are excluded and the U.S. small business set-asides program remains unchanged

- The CAFTA-DR imposes strong disciplines on government procurement procedures, such as requiring advance public notice of purchases, provision of information to all interested suppliers regarding covered procurement opportunities, as well as timely and effective bid review procedures.

- The Agreement contains strong provisions to ensure integrity in government procurement. CAFTA-DR governments must also institute debarment procedures to weed out suppliers that engage in fraudulent or illegal actions related to procurement. This is a groundbreaking provision.

Governments are particularly important customers in a number of sectors. For example, the Costa Rican Social Security System buys approximately 85 percent of the medical equipment in Costa Rica. El Salvador's 1998 Environmental Law requires environmental impact studies for major new investments, including public sector projects. Its Ministry of Environmental and Natural Resources as well as private industries are starting projects to recycle and treat solid waste material.

CUSTOMS ADMINISTRATION AND TRADE FACILITATION

The CAFTA-DR requires transparency and efficiency in administering customs procedures. U.S. exporters to Central America and the Dominican Republic should realize significant gains once the Agreement's custom administration and trade facilitation provisions are fully implemented.

Each day saved in shipping time is worth an estimated 0.8 percent ad-valorem for manufactured goods[1] CAFTA-DR customs and trade facilitation measures will provide significant savings to U.S. exporters in terms of time and money.

[1] *Time as a Trade Barrier* by Hummels, David, July 2001

Businesspersons frequently face unclear rules, inconsistent interpretation of customs regulations and directives, and arbitrary clearance procedures that often delay the importation of merchandise for lengthy periods. Furthermore, exporters to the Dominican Republic must obtain from a Dominican Republic consulate in the United States a "consular invoice" for their goods, and get related documents "legalized." This involves paying a fee and can result in exporting delays.

The Agreement's chapter on customs administration and trade facilitation address these and other customs-related exporter concerns.

- *Enhanced Transparency* - The CAFTA-DR governments must publish their customs laws, regulations and administrative procedures on the Internet, thereby greatly increasing transparency.

- *Elimination of the Consular Transaction* - The consular transaction requirement is eliminated for U.S. exports.

- *Heightened Predictability* - Currently U.S. exporters do not have the ability to interact with Central American Customs authorities prior to exporting goods. Under the CAFTA-DR, exporters may obtain binding advance rulings on tariff classification, origin determinations and other areas. This important provision will provide exporters predictability through eliminating varying interpretations of product classification and minimize related delays at the port of entry.

- *Greater Accountability* - Under the CAFTA-DR's customs administration provisions, U.S. companies have rights to a level of administrative review independent of the employee or office that made the decision, and they also have recourse to use judicial review as an alternative.

- *Improved express delivery service* - The demand for express-delivery services is increasing rapidly as a result of the growth of electronic commerce, the internationalization of business, and rising demand by manufacturers for outsourced logistic services. The CAFTA-DR responds to that demand by requiring that, within one year after the date the Agreement takes effect, governments must provide a separate, expedited customs procedure for express shipments. They must also change their regulations to allow the processing of customs information related to the express shipment prior to the arrival of the shipment itself. Most importantly, the CAFTA-DR obligates the Agreement countries for the first time to clear express shipments from the port within six hours of submission of all necessary documents.

- *Greater Customs efficiency through technology* - Responding to U.S. exporters' requests, the CAFTA-DR promotes the use of technology, including the electronic submission of information. This will help expedite procedures for the release of goods, thereby saving companies time and money.

The Agreement's customs-related obligations will phase in over three years. In anticipation of the entry into force of the Agreement, the Central American countries have already made progress on customs and trade facilitation. The countries are working together with the goal of harmonizing documentation and procedures, allowing electronic transmission of customs information, and permitting electronic prepayment of charges, tariffs and taxes.

CONCLUSION

Approving and implementing the Dominican Republic-Central America-United States Free Trade Agreement is in the best interest of United States commerce. The comprehensive Agreement not only slashes tariffs, but also reduces barriers for services, provides for leading-edge protection and enforcement of intellectual property, keeps pace with new technologies, ensures regulatory transparency, and requires enforcement of domestic labor and environmental laws. With the Agreement in place, doing business in Central America and the Dominican Republic will be easier, faster, and more transparent.

[1] Global Trade Atlas.
[2] IMF Direction of Trade.
[3] Population data – World Bank, 2003 *World Development Indicators Database*.
[4] USDOC/Office of Trade and Industry Information, Derived from Exporter Data Base, International Trade Administration and Bureau of the Census.
[5] Industry sector summaries drafted by USDOC, Office of Latin America and the Caribbean, with significant contribution by USDOC's Office of Trade Policy Analysis and Commercial Service.
[6] Services Trade Statistics provided by USDOC, ITA/Office of Service Industries, based on Bureau of Economic Analysis and Bureau of Labor Statistics data.
[7] U.S. Embassy reporting cable.
[8] U.S. Embassy reporting cable.
[9] U.S. Embassy reporting cable.
[10] U.S. Embassy reporting cable.