Trade Facts

Office of the United States Trade Representative
Washington, DC 20508
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Free Trade With Central America

Highlights of the U.S.-Central America Free Trade Agreement

- ***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 in Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) immediately, with remaining tariffs phased out over 10 years. Key U.S. export sectors will benefit, such as information technology products, agricultural and construction equipment, paper products, chemicals, and medical and scientific equipment.

- ***Expanded 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, processed food products, and wine, 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.

- ***Sugar in Perspective***: In the first year, increased sugar market access for Central American countries under CAFTA will amount to about 1.2 percent of U.S. sugar production, and about 1.1 percent of U.S. sugar consumption. This will grow very slowly over fifteen years to about 1.7% of production and 1.6% of consumption by year 15. Sugar imports have declined by about one-third since the mid-nineties. CAFTA would not even come close to returning U.S. imports to those levels. There is no change in the prohibitively high above-quota tariff on sugar.

- ***Textiles and Apparel***: Textiles and apparel will be duty-free and quota-free immediately if they meet the Agreement's rule of origin, promoting new opportunities for U.S. and Central American fiber, yarn, fabric and apparel manufacturing. The agreement's benefits for textiles and apparel will be retroactive to January 1, 2004. An unprecedented provision will give duty-free benefits to some apparel made in Central America that contains certain fabrics from NAFTA partners Mexico and Canada. This provision encourages integration of the North and Central American textile industries, and is a step to prepare for an increasingly competitive global market.

- ***Access to Services***: 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. Central American countries have agreed to change "dealer protection regimes" and loosen restrictions that lock U.S. firms into exclusive or inefficient distributor arrangements.

> *"Five small countries took a courageous decision last year to seek a free trade agreement with their giant neighbor to the North. They placed their faith in free markets, in openness, and in democracy. We have worked with them to produce an agreement that will bring benefits to workers, farmers and consumers in all our countries."*
>
> *Robert B. Zoellick*
> *U.S. Trade Representative*

May 25, 2004

- ***Telecommunications and Insurance:*** Costa Rica agreed to undertake significant regulatory reforms to open its state-monopoly telecommunications and insurance markets. It made specific commitments to gradually open its telecommunications market in three key areas - private network services, Internet services, and wireless services – and committed to establishing a regulatory framework to help foster effective market access. Costa Rica also committed to fully open its insurance market to competition, with the vast majority of the market opening by January 1, 2008, and full opening of the sector by January 1, 2011. The other four Central American countries also made significant commitments, such as permitting insurance branching within 3-4 years.

- ***A Trade Agreement for the Digital Age***: State-of-the-art protections and non-discriminatory treatment are provided 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.

- ***Strong Protections for Worker Rights***: Goes beyond Chile and Singapore FTAs to create a three-part strategy on worker rights that will ensure effective enforcement of domestic labor laws, establish a cooperative program to improve labor laws and enforcement, and build the capacity of Central American nations to monitor and enforce labor rights.

- ***An Innovative Environment Chapter***: Goes beyond Chile and Singapore FTAs in seeking to develop a robust public submissions process to ensure that views of civil society are appropriately considered, and for benchmarking of environmental cooperation activities and input from international organizations.

- ***Strong Protections for U.S. Investors***: The agreement establishes a secure, predictable legal framework for U.S. investors in Central America, and contains a commitment to develop an appellate mechanism for investor-state disputes.

- ***Open and Fair Government Procurement***: Provides ground-breaking anti-corruption measures in government contracting. U.S. firms are guaranteed a fair and transparent process to sell goods and services to a wide range of Central American government entities.

- ***Increased Transparency***: The agreement's dispute settlement mechanisms call for open public hearings, public access to documents, and the opportunity for third parties to submit views. Transparency in customs operations will aid express delivery shipments and will require more open and public processes for customs rulings and administration. Agreement also contains strong anti-bribery commitments, including criminalization.

Central America: Fragile Democracies, Large Markets

- Economic reform in Central America has already helped to raise incomes and fight poverty. For example, since 1991 El Salvador worked to tackle inflation, cut spending, crack down on corruption, privatize inefficient state-run businesses, and open the country to trade. As a result, per capita incomes in El Salvador grew 10 times faster in the 1990s than in the 1980s.

- The United States exported nearly $11 billion in goods to the five Central American countries in 2003, more than U.S. exports to Russia, India and Indonesia combined. Two-way trade was over $23 billion in 2003. When the Dominican Republic is added to the CAFTA-5, two-way trade increases to $32 billion. The CAFTA-5 plus the Dominican Republic will create the second largest export market in Latin America, behind only Mexico.

- Most Central American goods already enter the U.S. duty-free. Under the Caribbean Basin Initiative (CBI), other U.S. preference programs, and MFN duty-free trade, nearly 77% of regional imports entered the U.S. duty-free in 2003. A free trade agreement would be reciprocal, giving U.S. goods duty-free treatment in Central America.