INTRODUCTION

Chairman Chambliss, Senator Harkin, 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. As I have stated on several occasions personally and in public, the Office of the U.S. Trade Representative greatly appreciates the hard work of this Committee, and I commend in particular Chairman Chambliss and a number of members of the Committee, 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.

This agreement 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. The Central America-Dominican Republic FTA 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 this agreement 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. This is particularly true for agriculture, where our exports face WTO-allowed tariffs in the region that average around 50% while our market is effectively open -- nearly all products we import from the region enter duty-free under our preference programs, the most important of which was made permanent by Congress. As I will detail, the agreement turns this situation around for our farmers, ranchers and food processors and provides new opportunities for practically all of our productive sectors. The wide-spread support this agreement has achieved from agriculture groups is reflected by two letters signed by producer groups representing sectors that account for about 90% of the cash receipts in U.S. agriculture. I request that those letters be included in the record.

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, 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 the Central America-Dominican Republic FTA.

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 this agreement 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. U.S. agriculture exports to this region were $1.8 billion in 2004, despite the substantial tariff barriers and the administrative burdens we currently face and which will be eliminated when the agreement is implemented. 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 American countries and the Dominican Republic are physically small, they are clearly large markets for U.S. products and services. The American Farm Bureau Federation is supporting this agreement because they have estimated the Central America-Dominican Republic FTA 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 this FTA 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. 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. Farmers and Workers

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 over 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, this agreement will lock in those benefits and expand on them, helping to promote U.S. investment in the region.

The chief effect of the Central America-Dominican Republic FTA 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. This agreement 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. In the important area of services, the Dominican Republic and the Central American countries will accord substantial market access across their entire services regime. 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. The agreement breaks new ground, providing strong anti-corruption measures in government contracting and other matters affecting international trade or investment. 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.

Important for this Committee, however, the agreement will also expand markets for U.S. farmers and ranchers. The Central America-Dominican Republic FTA will level the playing field for American farmers and workers. It will further open regional markets to our products and services, which currently face very high average tariffs or non-tariff barriers. For example, in agriculture: Central American and Dominican tariffs on U.S. fresh and processed vegetables range from 15 % to 47%; ours are zero. U.S. fruits and nuts face a tariff as high as 25% while products in this same sector enter our market duty free. U.S. pork is charged a tariff of 15-47% and U.S. poultry faces a tariff as high as 164%, while the U.S. tariff for both of these commodities is zero.

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 this FTA.

Agriculture: A big win for U.S. producers and processors

Perhaps no sector has such clear cut gains from the agreement as agriculture.

We currently have a trade deficit with the region in agriculture because we have unilaterally decided to open our market to their products. This has had many positive benefits for the United States, as American consumers have benefited from exotic fruits and vegetables, coffee, and other products not grown here, enjoyed year-round provision of fresh fruits and vegetables and have had our cuisine enriched by regional specialties that were originally imported to service recent immigrants but are now enjoyed by broader segments of our society. By providing opportunities and jobs for millions of people in the region through a market-based mechanism, this policy helped stabilize the region politically and economically, which has incalculable benefits for our national security.

In turn, we face many barriers when trying to export into the region. All the Central American countries and Dominican Republic are currently obligated to do for us is keep their tariffs below limits set in the WTO. The average allowed tariff in Costa Rica is 41%, Dominican Republic, 49%; El Salvador ,40%; Honduras,60%; Guatemala ,35%; and Nicaragua 60%. Individual tariffs can exceed 100% on some of our priority exports. The Central America-Dominican Republic FTA changes all of that: all tariffs will be eliminated (except for white corn in El Salvador, Honduras, Guatemala, and Nicaragua and fresh onions and potatoes in Costa Rica) and immediate tariff reductions will be afforded to all our priority products, with many receiving immediate tariff elimination or zero-duty tariff-rate quotas that grow over time.

Not only will the agreement get rid of trade barriers to our exports, but it will help turn the 45 million customers in the region, who already buy over $1 billion a year of our agricultural products, into better customers: more wealthy, more closely linked to U.S. market trends and marketing channels, and more likely to choose American products because of tariff preferences we enjoy under the agreement. Just as Mexico has grown into our second largest agricultural export market, these nearby neighbors can become much better customers.

Let me provide you some examples of how this agreement will work for our producers.

Beef: U.S. exports face duties ranging from 15 to 30% with WTO tariff bindings ranging from 35 to 79%. Imports from the region are allowed in duty-free under our WTO TRQ that has not been filled since it was established in 1995 as part of the Uruguay Round. The agreement immediately eliminates tariffs on our top export priority - prime and choice quality beef - in the Central American countries and establishes a zero-duty tariff-rate quota in the Dominican Republic. Other exports of U.S. beef will face declining tariffs, which are eliminated in at most 15 years. The National Cattlemen's Beef Association's economic analysis of the agreement suggests that U.S. beef and beef variety meat exports to these nations could triple. The United

States will also phase-out our out-of-quota duty on beef over 15 years, and in the interim provide marginal increased access under our TRQ to some of the countries, but only if the WTO TRQ fills first. That is why the National Cattlemen's Beef Association and American Meat Institute support this agreement. Related industries such as the National Renderers Association and the US Hide, Skin and Leather Association also support this agreement.

Pork: U.S. exports face duties ranging from 15 to 47%, and the WTO permits tariffs as high as 60%. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement immediately eliminates tariffs on some pork products, such as bacon and offal, and phases out all tariffs in at most 15 years. In addition, each of the countries will open duty-free tariff-rate quotas for U.S. exports for pork cuts in year one, which will expand by 5 to 15 percent annually until duties are eliminated. A recent economic analysis conducted by Iowa State University economist Dermot Hayes shows that, as a direct result of this FTA, U.S. pork exports to the region will grow by 20,000 tons on an annual basis and average profits to U.S. pork producers will increase by 4.5% once the agreement is fully phased-in. That is why the National Pork Producers Council and U.S. Meat Export Federation support this agreement.

Poultry: U.S. exports face duties as high as 164% on both fresh and frozen product, and the WTO permits duties as high as 250 percent. Imports into the United States from the region are already allowed in duty-free into the United States. For chicken leg quarters, each of the countries will open duty-free tariff-rate quotas for U.S. product in year one of the agreement, which will grow over time until the tariff is eliminated in 17 to 20 years. Duty elimination on other poultry products, such as turkeys, other chicken parts, and mechanically deboned poultry meat will occur more quickly, with many items duty free within ten years. That is why the National Chicken Council, USA Poultry and Egg Export Council, Georgia Poultry Federation, National Turkey Federation and United Egg Producers support this agreement.

Dairy: U.S. exports face duties ranging from as high as 66 % and the WTO permits duties as high as 100 %. Imports into the United States from the region face no duties, except for access allowed under our tariff-rate quota system. The agreement entails reciprocal access commitments: tariffs in all countries will be phased-out over 20 years and equivalent zero-duty tariff-rate quotas will be established in all countries - ton-for-ton, country-for-country. For some dairy products, tariffs on U.S. exports will be eliminated more rapidly. A National Milk study estimates this agreement will result in an additional $100 million for US dairy producers in the first few years. That is why The U.S. Dairy Export Council, International Dairy Foods Association and the National Milk Producers Federation support this agreement.

Fruits and Vegetables: U.S. exports face duties as high as 47% and the WTO permits duties as high as 60 percent. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement immediately eliminates tariffs on a number of our export priorities such as french fries, apples, cherries, grapes, raisins, pears, peaches, blueberries, canned peaches, canned sweet corn, almonds, walnuts, pistachios and frozen concentrated grapefruit juice to all countries, and tomato paste and frozen concentrated orange juice by all Central American countries. All tariffs on fruits and vegetables will be eliminated in at most 15 years (except for fresh onions and fresh potatoes in Costa Rica, which will have expanded tariff-rate quota access). That is why the Western Growers Association, California Table Grape Commission, California Can Peach Commission, California Fig Advisory Board, Valley Fig Growers, California Strawberry Commission, California Walnut Commission, U.S. Dry Bean Council, Sunkist Growers, Produce Marketing Association, Sunmaid Growers of California, Sunsweet Growers, Northwest Horticulture Council, Washington State Potato Commission, National Potato Council, American Potato Trade Alliance, U.S. Apple Association, Florida Citrus Mutual and Blue Diamond Growers support this agreement.

Wheat and Barley: U.S. grain suppliers will benefit from zero duties immediately on wheat and barley, as well as on some processed grain products. The WTO generally permits duties up to 60 % for these products, but allows duties as high as 112% on common wheat. Imports into the United States from the region are already allowed in duty-free into the United States. That is why the National Association of Wheat Growers, Wheat Export Trade Education Committee, U.S. Wheat Associates, Wheat Export Trade Education Committee, North American Millers Association and the National Barley Growers Association support this agreement.

Corn: U.S. exports face duties as high as 45%, and the WTO permits tariffs as high as 75%. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement immediately eliminates tariffs in Costa Rica and the Dominican Republic, and phases out all tariffs in at most 15 years, including for corn products such as high fructose corn syrup. In addition, the other four countries will open duty-free tariff-rate quotas for U.S. exports in year one, which will grow over time. That is why the Corn Refiners Association, the National Corn Growers Association, National Grain Trade Council, North American Export Grain Association, U.S. Grains Council and National Grain and Feed Association support this agreement.

Rice: U.S. exports face duties ranging from 15 to 60%, and the WTO permits tariffs as high as 90%. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement phases out all tariffs in 18 - 20 years. In addition, each of the countries will open duty-free tariff-rate quotas for U.S. exports in year one of over 400,000 metric tons, which will grow over time, including with special allocations to milled rice, ensuring market access for this product for the first time. That is why the USA Rice Federation and U.S. Rice Producers Association support this agreement.

Soybeans and soybean meal: U.S. exports face duties ranging from zero to 20%, and the WTO permits duties as high as 90%. The agreement will provide immediate duty-free access for soybeans. Duties on soybean meal and flour will be eliminated immediately in most of the FTA countries. Additionally most countries will immediately eliminate duties on crude soybean oil, and the current duties on refined soybean oil phased out over 12 to 15 years. That is why the American Soybean Association, Institute of Shortening and Edible Oils and the National Oilseed Processors Association support this agreement.

Cotton: U.S. exports face duties ranging from zero to 1%, and the WTO permits duties of up to 60%. Imports into the United States from the region are already allowed in duty-free into the United States under our tariff-rate quota system. The agreement immediately eliminates tariffs on U.S. cotton exports to the region. U.S. out-of-quota duties will be phased out over 15 years. That is why the cotton industry supports this agreement including the National Cotton Council.

It is also worth noting that the National Council of Textile Organizations, American Fiber Manufacturers Association, American Textile Machinery Association, Carpet and Rug Institute, and Association of the Nonwoven Fabrics Industry also support this agreement.

Peanuts: U.S. peanuts and peanut butter face duties up to 20% and the WTO permits tariffs as high as 60%. The agreement provides U.S. peanuts and peanut butter with preferential access as tariffs are immediately eliminated in some countries, while tariffs are reduced and eliminated over 5 to 15 years for others. That is why the American Peanut Product Manufacturers support this agreement.

Processed Products: U.S. exports of bakery products, soups, wine, pet food and similar products face duties as high as 40%. Imports into the United States from the region are already allowed in duty-free into the United States. The agreement phases out all tariffs in at most 15 years, with tariffs on U.S. export priorities eliminated immediately or in short periods of time in many countries, including bottled wine, pet food, soups, breakfast cereals, cookies, and whisky. That is why the Grocery Manufactures of America, Wine Institute, Distilled Spirits Council of the United States, Food Marketing Institute, Food Products Association, Petfood Institute and American Frozen Food Institute support this agreement.

It is important to note that the agreement contains no new disciplines on domestic support, despite strong efforts by the Central American and Dominican Republic countries to do so. The United States continues to reserve commitments on domestic support to the WTO negotiations, where the other major subsidizers, in particular the EU and Japan, are at the negotiating table.

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. The Central America-Dominican Republic FTA will not have a destabilizing effect on the U.S. sugar program, because even with a modest increase under this agreement, U.S. imports will still fall comfortably below levels set for sugar imports in the current law affecting the domestic sugar program.

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. The increased amounts under this agreement 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 a little over 1% of U.S. consumption.

In addition, the Agreement includes a mechanism that allows the United States, at our option, to provide alternative compensation to exporters in place of imports of sugar.

To put sugar imports under the Central America-Dominican Republic FTA into perspective, the increased imports in the first year under this agreement amount to about a teaspoon and half per week per American. That compares with average consumption of 70-140 teaspoons of added sugar per week for most Americans. The amount of additional sugar allowed into the United States under this FTA is minuscule. Claims that the Central America-Dominican Republic FTA 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 this agreement 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. The Central America-Dominican Republic FTA will level the playing field, helping our farmers and workers sell to countries that already enjoy virtually unlimited access to the U.S. market and it handles sensitive commodities with great care.

We believe this agreement 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. The Central America-Dominican Republic FTA makes eminent sense for America, and for Central America and the Dominican Republic.

Thank you.