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## EMERGENCY COMMITTEE FOR AMERICAN TRADE

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May 14, 2004

The Honorable Marilyn R. Abbott  
Secretary  
U.S. International Trade Commission  
500 E Street, S.W.  
Washington, D.C. 20436

**PUBLIC DOCUMENT**

Re: U.S. Free Trade Agreement with Central America and the Dominican Republic: Potential Economywide and Selected Sectoral Effects, Investigation No. TA-2104-13 – Post-Hearing Submission

Dear Secretary Abbott:

In accordance with the March 18, 2004 notice of the U.S. International Trade Commission and my request for extension, please find attached the post-hearing submission on behalf of the Emergency Committee for American Trade (ECAT) and the Business Coalition for U.S.-Central America Trade. This submission responds to several of the questions presented to me at the hearing of the International Trade Commission on April 27, 2004 with respect to the above-captioned investigation.

Thank you for your consideration of our views.

Sincerely,

Calman J. Cohen  
President

**Post-Hearing Submission of the Emergency Committee for American Trade  
And the Business Coalition for U.S.-Central America Trade**

**Regarding U.S.-Free Trade Agreement with Central America  
And the Dominican Republic**

**May 14, 2004**

As detailed in testimony before the U.S. International Trade Commission (Commission) on April 27, 2004, the Emergency Committee for American Trade (ECAT) and the Business Coalition for U.S.-Central America Trade (Business Coalition) believe that the U.S.-Central American and Dominican Republic Free Trade Agreement (FTA) represents the type of comprehensive and high-standard agreement that will provide concrete benefits to U.S. farmers, manufacturers, service providers and workers here in the United States, while also promoting economic growth, stability and the rule of law in each of the six countries of Central America and the Caribbean that reached this agreement: Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. It is a comprehensive agreement that breaks new ground with respect to issues as broad as regional integration and as detailed as dealer distribution.

At the hearing, several questions were asked which required additional analysis that ECAT and the Business Coalition committed to provide after the hearing. That information is provided below.

Regional Integration

As discussed at the hearing, one of the distinguishing factors about the U.S.-Central American and Dominican Republic FTA is that it represents a multilateral agreement that will promote not only greater liberalization between the United States and each of the countries, but also greater liberalization between the six countries of Central America and the Caribbean. The five Central American countries – Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua – began the formal process of regional economic integration in 1961 with the entry into force of the Treaty on Central American Economic Integration. That Treaty was intended to create a free trade area among the five countries, while establishing a common external tariff. Progress was made under this agreement, but then was essentially suspended during the political and military conflicts in Central America in the 1970s. In 1990, the Central American presidents recommitted themselves to revitalizing integration efforts. In 1995, the five countries agreed on a schedule to lower their external tariffs, ranging from zero to 15 percent by the end of 2000, although there are significant exceptions, with slower reductions for items such as poultry, meat, dairy products, cigarettes and textiles. In March 2002, the Central American Presidents agreed to the Plan of Action for Central American Economic Integration, which aims for full tariff harmonization, removal of obstacles to trade internally, common customs administration and a common external trade policy. Work on this integration continues.

Despite the substantial progress, the work of creating a common market within Central America remains unfinished and obviously does not include the Dominican Republic. It is expected that the provisions of the U.S.-Central American and Dominican Republic FTA will help promote further regional integration by eliminating tariffs and non-tariff barriers for agricultural and industrial goods and services where those barriers remain within the Central American common market. Particular areas of interest include agriculture, to address the

remaining tariff, technical and other non-tariff barriers between the countries; energy, to address differing technical standards and similar barriers between the countries; and other services sectors, to address limitations on cross-border service and investment in key sectors.

This integration will expand the opportunities available for U.S. farmers, manufacturers and service providers and their workers by creating economies of scale and making a reality of the combined market, which already represents the 13<sup>th</sup> largest export market of the United States.

### Tariff Elimination

As discussed at the hearing, the U.S.-Central American and Dominican Republic FTA will immediately eliminate tariffs on more than 80 percent of U.S. industrial exports to these six countries upon the entry into force of the agreement. All tariffs will be removed within 10 years. Tariff elimination will represent a substantial advantage for U.S. exporters given that Central America's average applied industrial tariffs are 30 to 100 percent higher than U.S. applied industrial rates.

Tariffs will be eliminated immediately in the following sectors, which are of the among the highest export interest to the United States: information technology, certain paper products, a range of important chemicals and pharmaceuticals, and construction, agricultural, and medical and scientific equipment. The Dominican Republic, Guatemala, Honduras and Nicaragua will join the WTO Information Technology Agreement (ITA), thereby committing to zero tariffs and the elimination of non-tariff barriers on a wide range of information technology products. (Costa Rica and El Salvador already participate in the ITA).

The industrial market access chapter is comprehensive, with no exemptions or exceptions. In the areas where tariffs are not immediately set at zero, the following commitments were made. Another five percent of U.S. exports will be duty-free within five years and the remainder of tariffs on U.S. consumer and industrial exports will be phased out over ten years. In some cases, differences reflect the different commitments made by individual countries. Products of interest to U.S. exporters for which immediate duty-free treatment was not fully achieved include the following:

Chemical paints, polishes and cleaners:	Most immediately duty-free, some phase out in 5 to 10 years
Medium/heavy trucks:	Many immediately duty-free depending upon destination, but some 10-year phase-outs
Metals:	Some immediately duty-free, many phase out in 5 to 10 years
Motor vehicle parts:	Most immediate, some phase out in 5 to 10 years
Paper:	Most traded items immediately duty-free, some phase out in 5 to 10 years
Passenger vehicles:	10-year phase-out

Plastics:	Some immediate, many phase out in 5 to 10 years
Wood:	Most traded items (including raw lumber) immediately duty-free, some value-added wood products phase out in 5 to 10 years

### Telecommunications and Insurance Commitments

After discussing the commitments that Costa Rica made on telecommunications and insurance, the Commission requested additional comments on the commitments made by the other five countries. As a preliminary matter, it is important to note the six countries made commitments in the services and investment chapters based on a negative list – meaning that any exceptions from liberalization must be specifically identified. This is the reverse of the World Trade Organization’s General Agreement on Trade in Services (GATS) and represents a much fuller form of liberalization, particularly since the commitments of each of these countries in the GATS was relatively limited.

#### Telecommunications

The five countries (with the exception of the Costa Rica, which is discussed further below) made commitments to ensure access to and use of public telecommunications networks on a nondiscriminatory basis. Each of the countries also agreed to an independent regulatory authority to ensure fairness and neutrality in regulating each country’s telecommunications sector. The countries also agreed to binding language ensuring technology neutrality in the communications sector. As well, the countries agreed to new international cost-oriented interconnection obligations for fixed traffic no later than January 1, 2007.

Costa Rica currently has a monopoly in the telecommunications sector and had refused, until the very end of the negotiations, to any liberalization in its telecommunications sector. At the end of the negotiations, Costa Rica agreed to liberalize telecom services in three areas – Internet and private data (no later than January 1, 2006) and wireless services (no later than January 1, 2007). Although the resulting commitments are not as broad as the other countries, Costa Rica’s commitments represent a substantial improvement over the status quo and will create concrete opportunities for U.S. telecommunications service providers and U.S. manufacturers of communications products.

#### Insurance

The insurance markets of these countries are relatively open already, but the insurance commitments in the U.S.-Central American and Dominican Republic FTA represent significant improvements over the current GATS obligations of each of these countries. In particular:

- The five countries (with the exception of Costa Rica) generally have committed to provide national treatment and market access with respect to the cross-border supply of and investment in all major aspects of insurance, including life, non-life, reinsurance, intermediation and auxiliary insurance, as well as key cross-border insurance products and services such as marine, aviation and transport. The commitments are very similar with respect to the Dominican Republic, El Salvador, Guatemala, Honduras and

Nicaragua, with differences primarily in terms of the timing of commitments. In the area of branching, Honduras already permits branching operations; El Salvador will lift restrictions in three years; and the Dominican Republic, Guatemala and Honduras will eliminate restrictions in four years.

- Under the agreement, Costa Rica agreed to a gradual opening of its insurance market, which is currently monopoly-controlled. Cross-border access will be provided upon entry into force, and establishment of insurance services will be guaranteed starting in 2008. Branching will also be permitted starting in 2008, but restrictions will continue on certain limited areas – third-party auto liability and workman’s compensation until 2011.
- All six of the countries agreed to important commitments on transparency, the objective and impartial application of regulations, and expedited availability of new products.

These commitments represent significant liberalization that will provide concrete opportunities to U.S. insurance service providers and ensure more open competition and transparent competition in each of the markets.