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CAFTA:

Sweet Deal for Special Interests

BY BENJAMIN POWELL AND NICOLAS ROTSKO

Should the recent passage of the Central America Free Trade Agreement (CAFTA) be viewed as a positive step in the direction of free trade? In some ways yes, but the agreement fails to measure up to the standard of genuine free trade.

A true free trade agreement need not be long. A short sentence-- something like "The undersigned countries agree not to impose any tariffs, quotas, or regulatory restrictions not required of our own domestic products on any products originating from each others' countries"--would accomplish most of the work. Yet CAFTA runs 3,681 pages. What else does the agreement include? Like all other products of Washington, CAFTA is full of concessions to special interests.

U.S. sugar producers received one of the sweetest deals. Sugar is one of the most heavily protected industries in the United States, which is why Americans pay two to three times more than the average world price for sugar. The U.S. sugar program does not use direct subsidies, but instead relies on a guaranteed price floor, import quotas, and very high (over 100%) tariffs on any imports above the quotas. These favors combine to shelter the sugar industry from international competition.

Benjamin Powell, Ph.D., is the director of the Center on Entrepreneurial Innovation at the Independent Institute, an Oakland-based policy think tank and a professor of economics at San Jose State University. **Nicolas Rotsko** is an Intern at the Independent Institute and a Graduate Student of Economics at San Jose State University.

The sugar industry was distraught by the passage of CAFTA. One sugar beet farmer quoted in the Minneapolis *Star Tribune* claimed that after the House passed the bill, he "saw dogs running by about

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that after the House passed the bill, he was done weeping by about 1 a.m.” However, he needn’t cry because, unfortunately for consumers, CAFTA won’t make sugar’s shelter any less cozy. It leaves the sugar price floor in tact and loosens import quotas just slightly.

In the first year after the agreement takes effect, Central American sugar producers will be permitted to export an additional 107,000 tons to the U.S. This may sound like a lot of sugar, but in 2003 the U.S. consumed 10 million tons of sugar. So, CAFTA will permit an increase in sugar imports of about 1.1 percent of domestic demand.

CAFTA does ensure that import quotas are eased over several years, but this reduction is too small for U.S. sugar consumers to celebrate. Fifteen years after CAFTA goes into effect, sugar imports can rise to only 1.7 percent of the 10 million tons we consume. CAFTA doesn’t introduce free trade in sugar. It makes a trivial improvement while retaining sugar’s traditional protection.

CAFTA also retains policies that protect the U.S. textile industry from having to compete with low-priced imports. Scrapping quotas and tariffs on textile imports would save the U.S. economy \$9 billion to \$14 billion a year, according to a 2004 study by the International Trade Commission. Unfortunately, CAFTA will do little to promote free trade in textiles because it restricts what sort of apparel produced in Central America will be granted duty-free access to the U.S.

The 1983 Caribbean Basin Trade Partnership Act offered the CAFTA countries duty-free access to the U.S. market for apparel exports on one condition: The garments needed to be made from yarn and fabrics produced in the U.S. CAFTA modifies this favoritism only slightly by permitting Central American apparel producers to use fabric from Mexico and Canada for a small percentage of their yearly inputs. However, this privilege will only be extended to Mexico and Canada if they offer reciprocal benefits to U.S. textile producers.

It’s not just sugar and textiles that remain protected. CAFTA provides favors for other industries by establishing long tariff phase-out periods and retaining import quotas. Among the protected products are cotton, tobacco, wool, cashmere, and, oddly enough, hairnets. Import quotas will remain on beef, peanuts and peanut butter, and a range of dairy products including milk and cheese. Consumers in the U.S. would enjoy the lower prices on beef, peanut butter, and dairy products that free international competition brings. It’s too bad CAFTA doesn’t ensure this.

CAFTA is not all bad. Many tariffs on U.S. goods bound for Central America are lowered or eliminated. This will help spur some businesses in the United States and improve living standards for our neighbors to the south. But despite all the political uproar caused by CAFTA, the agreement is really only a very marginal freeing of trade.

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