

## **CAFTA & Agriculture: Will the *campesinos* survive?**

**Summary:** While CAFTA's agriculture provisions are viewed as a mixed bag for US agriculture interests, the agreement could create major disruptions for Central American farmers. Unfortunately, Central American countries have very limited resources to adjust and assist their farmers. CAFTA is likely to create significant economic and social dislocations in rural communities.

**Background:** Agriculture in Central America is a large proportion of the economy and a critically important source of livelihoods. Approximately 5.5 million Central Americans depend on agriculture for their survival. Between 15 to 30 percent of GDP in Guatemala, Honduras and Nicaragua is derived from agriculture, and approximately one third of employment in the region is based on agriculture. Even Costa Rica, the only upper-middle income country among the five Central American countries, derives about 20 percent of employment from agriculture and nearly 10 percent of GDP<sup>i</sup>. Although Central America has about one-tenth the US population, the region has more farmers and farm workers than the US

In addition to the economic and employment significance of agriculture, there is an important poverty dimension to the sector. Some 16 million people or 46 percent of Central Americans live in poverty, with a disproportionate 60 percent in rural areas where livelihoods depend on agriculture.

Agriculture is the centerpiece of CAFTA for Central American countries, requiring them to eliminate tariffs on nearly all agricultural products and commodities. As such, CAFTA sets up a potentially ruinous competition between a highly efficient US agriculture sector and the relatively undeveloped, small scale farmers of Central America.

While many U.S farmers are very efficient, they are also heavily subsidized. Although many US farmers hardly benefit from farm payments, the resulting production is often dumped onto international markets at prices significantly below the costs of production. In 2002, US rice was sold onto international markets at an average price of 35 percent below cost of production, and US corn was sold at an average price of 13 percent below cost of production.<sup>ii</sup>

Central American producers of basic grains, such as corn, rice, beans and sorghum, as well as poultry, swine, livestock and dairy farmers, will face a flood of imported US products that may destroy their livelihoods. Only a handful of products will continue to receive some long-term protection under CAFTA: fresh onions and potatoes in Costa Rica, white corn in the other four Central American countries and sugar in the United States.

**Repeating past mistakes:** Although increased trade and economic integration is a worthy goal, the CAFTA agreement may create new social and economic problems for Central American countries. The case of Mexico under NAFTA is an important example of the risks to developing country small farmers. Since 1994, real prices for corn have declined by 70 percent. Much of this price depression is the result of a flood of US imports, which have tripled from pre-NAFTA levels. The crash in corn prices has been a disaster for the 15 million Mexicans who depend on corn. Unfortunately, lower corn prices for farmers have not also translated into lower costs for consumers: the price for a kilo of tortillas has tripled, in real terms, since 1994.

Although corn is only one example it is an important one. CAFTA will open the gates for US dumping of corn on Central America. Costa Rica will eliminate tariffs on yellow corn beginning the first year under CAFTA, while in the remaining four countries, more than 1 million tons of yellow corn can be imported under tariff rate quotas (TRQs). For Nicaragua, this means that 10 times as much yellow corn may enter tariff-free than prior to the agreement. Corn prices in the region are likely to suffer a dramatic drop, seriously affecting producers of yellow corn and sorghum (sorghum is also used for animal feed and is a substitute for yellow corn).

Similar scenarios are likely for other commodities, like rice. Under CAFTA, small and medium-scale rice farmers in Central America will likely face an immediate surge in US imports that will force many of them out of business. In CAFTA's first year, the US will be able to export more than 380,000 tons of rice, tariff-free, to the region. Currently, Central America produces approximately 600,000 tons and has tariff rates as high as 62 percent in some countries. Rice is one of the most heavily subsidized US crops: the three largest recipients of US farm payments are corporations that produce and export rice.

**Constrained opportunities:** CAFTA offers Central American agricultural producers some new export opportunities in the US market. But, it is important to note that many of the potential opportunities are constrained by provisions contained in CAFTA. The most prominent example is sugar, where CAFTA denies Central American producers free trade in sugar by limiting access and retaining prohibitive tariffs. In addition, the US retains a number of legal and regulatory hurdles that make it difficult for Central American exporters to access the US markets for many of their agricultural goods. For example, much of the region's tropical fruit products are plagued by the Mediterranean fruit fly and, therefore, cannot be exported to the United States.

**Humanitarian dimensions:** Unfortunately, Central American countries do not have much room for error in creating new policies. Already more than 8 million Central Americans face hunger and unemployment, according to the World Food Program. In recent years, declining agricultural markets have created serious humanitarian problems. For example, a crisis in the coffee market has caused major dislocations in Central America. Coffee-growing regions have reported increased hunger and even famine-related deaths in Nicaragua and Guatemala. The declining prices for coffee – and other agricultural commodities – have created pressures on rural populations to migrate in search of employment. CAFTA will only exacerbate this problem by opening the region's markets to a flood of US agricultural goods that will force out of business many small and medium-scale farmers who produce for the domestic market

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<sup>i</sup> UN Human Development Report, 2003

<sup>ii</sup> Source: IATP, [www.tradeobservatory.org](http://www.tradeobservatory.org)