

# A raw deal for rice under DR-CAFTA

## How the Free Trade Agreement threatens the livelihoods of Central American farmers

The Free Trade Agreement between the United States and the Central American countries together with the Dominican Republic (DR-CAFTA) threatens the livelihoods of thousands of rice farmers in Central America. It opens the door to massive subsidized US rice exports at prices below the cost of production. If the Agreement is ratified and implemented, a flood of subsidized rice will displace thousands of Central American producers from the market. Only a few export and import companies will reap benefits. The dependence on food imports that DR-CAFTA will provoke may also worsen current levels of food insecurity for Central American countries. Oxfam fears that the implementation of DR-CAFTA will have a negative impact on poverty reduction in the Central American region.



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## Summary

The Free Trade Agreement between the United States and the Central American countries together with the Dominican Republic (DR-CAFTA) threatens the livelihoods of thousands of small farmers who already live in poverty. The opening of markets exposes the region's producers to unfair competition from the United States, whose agricultural industry receives enormous amounts of domestic support each year. If ratified by the US Congress, the Agreement will increase misery in a region where 60 per cent of the impoverished population lives in rural areas.

After several months of negotiations, the US administration could not hope for better news: Central American countries will be forced to eliminate their import tariffs, while the US will be allowed to maintain generous financing for its system of internal supports and export credits. No farmer in the region will be able to compete against a US farm program that in 2003 allocated the huge sum of \$17.425bn for total agricultural supports – much higher than the GDP of most of the Central American countries.

The case of rice illustrates the hidden reality behind the US discourse promoting DR-CAFTA. There are an estimated 80,000 rice producers in Central America and the Dominican Republic, and 1.5 million jobs depend on rice production. Rice has become a strategic crop for most of these countries, as it is now part of the basic diet of Central Americans, along with corn and beans.

Approximately 75 per cent of rice producers are small-scale and do not generally have access to credit, technology, or irrigation. A large part of rice production is concentrated in the poorest and most vulnerable areas, such as the Polochic Valley in Guatemala and the Autonomous Region of the North Atlantic (RAAN) in Nicaragua.

The indigenous populations in these regions lack adequate access to the basic resources for producing and marketing rice. In sharp contrast, US rice producers enjoyed subsidies and supports worth \$1.279bn in 2003. This amount is greater than Nicaragua's entire national budget of nearly \$900m for 2004.

The system of supports for rice in the US also gives rise to severe internal inequities. While 349 domestic beneficiaries receive 34 per cent of the huge budget for rice, 80 per cent of beneficiaries receive only 15 per cent of total supports. This inequality has contributed to a growing concentration of rice production in the past decade, when one out of every four rice farmers in the US has stopped growing rice.

Budgetary projections foresee a stable level of support for the US rice sector of close to \$1.2bn a year until 2007. This expenditure is huge when compared with the value of rice produced, which in 2002 was \$844m. These excessive levels of support allow large US companies to dump rice on international markets. Oxfam

estimates that in 2003 the US exported 'paddy' rice<sup>1</sup> to Central America at a price that was 18-20 per cent lower than its cost of production.

Under these conditions, the claim that DR-CAFTA will establish fair and equitable rules for all rice producers is very far from reality. Instead, it will open borders to the dumping of US rice. Although the Agreement foresees a transition period of 18-20 years for the complete liberalization of the sector, experience with similar accords (such as NAFTA) suggests that rice imports from the US will rapidly increase. Beginning in the first year of DR-CAFTA's implementation, the six parties to the Agreement with the US have, together, accepted duty-free import quotas of 352,320 tons of paddy rice and 54,650 tons of milled rice. These quantities are equivalent to one quarter of regional consumption, and their effect on prices may be significant.

Nicaragua, as well as other countries in the region, could learn from the experience of Honduras, whose rice producers have already felt the impact of trade liberalization and dumping. In 1991, the Honduran government decided to abruptly reduce its tariff on rice imports to make up for shortages caused by a drought. This measure led to the import in just a few months of a quantity of rice equal to annual consumption, leaving producers suddenly without a market, and precisely at harvest time.

This episode, known in Honduras as the *arrozazo* (or rice scandal), left the sector immersed in a structural crisis that over the years became more acute. Within ten years, national rice production was reduced by 86 per cent, and the number of producers plummeted from 25,000 to fewer than 2,000. This reduction in the number of producers was not due to lack of economic efficiency, but rather to the fact that they could not compete with the enormous subsidies to the large-scale rice industry in the US. Even worse, liberalization did not translate into a price reduction for consumers. Rather, the price in dollar terms increased by 12 per cent in 10 years.

The Honduran case threatens to repeat itself in the rest of the region. Small-scale rice producers face a double threat in the first years of implementation of DR-CAFTA. To begin with, the agreed quotas will make it possible to import rice at about 20 per cent less than its current price in the region. In addition, a significant drop in US export prices is expected between 2005 and 2007. This sudden price drop may accelerate the process of trade liberalization, as occurred in Honduras, so that not even the transition period will be upheld. Producers in Nicaragua's RAAN or in Guatemala's Polochic Valley will not be able to compete with the subsidized rice exported by large US companies.

The impact on small-scale Honduran rice producers of trade liberalization and dumping is indicative of the consequences for other sectors and countries in the region. Small-scale bean, milk, and meat producers face an uncertain future in light of the imminent flood of unfair imports. Even in the case of white corn, which was excluded from tariff reductions, the outlook is not at all promising. The substitution of white corn in the basic diet by yellow corn or imported wheat threatens the livelihoods of hundreds of thousands of small-scale family corn producers in the region.

Oxfam believes that agricultural trade can help to reduce poverty only if it is governed by a system of rules that are fair. DR-CAFTA will not be a good option for countries in the region as long as it exposes farmers to unfair competition from subsidized US exports.

Therefore, **Oxfam recommends the following:**

- 1 **DR-CAFTA should not be ratified by the legislatures of Central American countries or the United States Congress because it will not reduce poverty.** No bilateral or regional trade agreement should infringe upon the minimal guarantees for development agreed upon at the WTO. Until dumping of agricultural exports has been prohibited, bilateral agreements present too high a risk. For this reason, Oxfam opposes liberalization agreements that deepen inequality and maintain conditions for dumping. Oxfam believes in the need for an alternative form of integration that fosters development and poverty reduction.
- 2 **The WTO Agreement on Agriculture should guarantee the right of developing countries to ensure effective protection of their agricultural sectors to promote development and food security.** The tariff reduction formula should not be based on the principle of proportionality. This would remove the need for developing countries to make large tariff concessions that would have a negative impact on their development. Rather, they should have the flexibility to protect key agricultural products in order to ensure food security and protect rural livelihoods. The inclusion of a Special Safeguard Mechanism and of a list of Special Products that are exempt from market liberalization would help to ensure strategic protection for developing nations.
- 3 **Agriculture must occupy a privileged place in the political agenda of Central American countries in order to reduce rural poverty.** Governments in the region should guarantee producers equal access to resources, increase public spending on agriculture, and regulate the oligopolies that control many of the markets for agricultural products in the region.
- 4 **Countries should agree on a calendar at the WTO for the complete elimination of agricultural export dumping.** Before the end of the Doha Round of WTO negotiations, export subsidies and the subsidy component of export credits should be eliminated, and measures should be established in food aid programs to avoid the displacement of local producers. Criteria for the Green Box classification under the WTO should be clarified, and commitments should be made to restructure Blue Box supports, establishing caps and setting firm reduction commitments.





# 1 Introduction

*'[The US vision] is a vision of a world where a pork farmer from Iowa, a financial consultant from New York, a rancher from Montana, a tractor maker from Illinois, a farmer from Mississippi, or a businessman from California can sell their products or services in Costa Rica or Australia or Thailand, as well as in the rest of America.'* - Robert Zoellick<sup>2</sup>, US Trade Representative

*'Sinking rice prices due to massive imports from the United States had a terrible impact on us: it was like Hurricane Mitch. My husband had to go the United States for years and we survived with the money he sent.'* - María Ángeles Amaya, farmer from Santa Cruz de Yojoa (Honduras)

Rice arrived in Central America in the 18th century, and it came to stay. Along with beans and tortillas, it is part of the basic diet of Central Americans today – particularly the poorest ones. Thousands of farmers in the region make a living by growing rice, and the rice sector provides approximately 1.5 million jobs.

It is precisely because of the importance of rice in the daily efforts of millions of producers to combat hunger and poverty that the FAO declared the year 2004 'International Year of Rice'. However, unfair competition from subsidized rice from the United States and the elimination of import tariffs place at risk the livelihoods of thousands of Central American rice growers.

María Ángeles Amaya is a rice producer from Santa Cruz de Yojoa, in the municipality of Cortés in the north of Honduras. During the 1980s and at the beginning of the 1990s, growing rice allowed her to cover all her family's needs: education for her children, health, food, clothing, and so on. The authorization of massive imports of US rice by the Honduran government in 1991 drove her to bankruptcy. María Ángeles had to abandon farming, and her husband found it necessary to emigrate to the United States. Thousands of small-scale Honduran rice growers like them stopped producing rice due to the flood of imports from the US, which provoked a serious social crisis in the rice-growing regions.

The Free Trade Agreement between the US and Central America (DR-CAFTA) threatens to repeat this bleak scenario in the other Central American countries. DR-CAFTA establishes a period of 18-20 years for the gradual opening of Central American markets to US rice imports. Just as in Honduras, small producers in the region will be unable to

compete with subsidized rice from the US, imported at prices that are below its cost of production.

This situation is further aggravated by the gradual abandoning of the agricultural sector by the State in all the countries on the isthmus. Structural Adjustment Programs have forced the reduction of public spending on agriculture in the majority of countries in the region, and the meager resources that are available are directed towards supporting large producers and agro-industry. The lack of access to land, financing, water, technology, and markets has been forcing small-scale Central American producers out of business since the early 1990s.

The Free Trade Agreement may increase the vulnerability of the Central American region, where 60 per cent of poor people (10 million)<sup>3</sup> live in rural areas and 6.7 million people cannot meet their basic food requirements.<sup>4</sup> There are 8.8 million malnourished people living in the six countries (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua) that signed DR-CAFTA with the US, over 21 per cent of the region's total population.<sup>5</sup> It is particularly alarming that during the 1990s the number of people who were malnourished increased in both absolute and relative terms, indicating that accelerated trade liberalization and agricultural policies contributed to worsening problems of food insecurity.

The recent evolution of the Central American rice-growing sector, before DR-CAFTA, has been different. Guatemala and El Salvador have followed strategies similar to those of Honduras in the 1990s, leaving national production increasingly unprotected in the face of US imports. In these countries, numbers of producers have already fallen over the past decade, and rice production is now very vulnerable to the threatened flood of US rice imports.

Costa Rica and Nicaragua will face the period of tariff reduction established by DR-CAFTA in conditions that are very different from the other countries in the region. Both countries previously opted to apply relatively high tariffs – within the limits allowed by the WTO – to protect a food crop that is strategic both in terms of production and consumption, thus allowing their rice sectors to survive. Precisely because of this, the rice sectors in these countries have the most to lose under DR-CAFTA. In order to assess the possible effects of the Agreement, this document examines in detail the case of Nicaragua, as this country is the main producer of rice in the region.

The document is divided into seven sections. In section two, the links between rice production and poverty in certain countries in the region are reviewed. The third section describes the effect of Honduras' lack of protection in the face of US rice imports in the 1990s. The fourth section briefly analyzes DR-CAFTA and the final agreement on rice. The fifth section details the support system for rice in the US. The sixth section provides an analysis of the possible impacts of DR-CAFTA on the rice sector in Nicaragua, the region's main producer. The final section presents conclusions and recommendations.

## 2 Poverty and rice production in Central America

Rice is one of the three main staples of the Central American diet (along with beans and corn) and has established itself as an important crop. According to data from rice growers' organizations, there are around 80,000 producers in the region, including the Dominican Republic. The Central American Rice Federation estimates that the sector provides around 1.5 million jobs, directly and indirectly.

The conditions required to grow rice differ from those of other basic crops, such as beans or corn. The grain requires a large amount of water, and this dictates the conditions in which it is produced. In most of the countries in the region there is a small group of large producers with access to technology, irrigation, and credits. Approximately 75 per cent of rice growers are at the other end of the spectrum, with small and medium-scale farms that do not have access to technology or irrigation. These farms tend to be concentrated in areas of high rainfall, close to rivers or valleys, which means they are exposed to flooding. It is in these zones that the most vulnerable populations with the lowest incomes in the region are concentrated.

In Guatemala, for example, there are around 26,000 rice producers, according to the Guatemalan Rice Association (ARROZGUA). The greatest number of producers and the largest volume of production are concentrated in the provinces of San Marcos, Izábal, Jutiapa, and Alta Verapaz. In these areas, 75 per cent of rice production is concentrated on small farms that are less than 7 hectares in size.<sup>6</sup>

The province of San Marcos and the Polochic Valley (in Alta Verapaz) are two of the main areas of production. The former suffers from one of the highest levels of poverty in the country, with a per capita GDP of 2,358.2 quetzales in 2003 (equivalent to \$297.50). The main rice-producing municipalities (Malacatán, Pajapita, and San Lorenzo) have poverty levels that range from 73 to 95 per cent. In some cases, extreme poverty reaches 74 per cent.<sup>7</sup>

The situation in the municipalities of the Polochic Valley is very similar. In 2003 the Alta Verapaz province registered the lowest provincial per capita GDP in the country, at 1,933.8 quetzales (\$244). In the valley's rice-growing municipalities, poverty rates are above 79 per cent. Extreme

poverty ranges from 35 to 44 per cent. Illiteracy rates are also extremely high, above 68 per cent.<sup>8</sup>

In Nicaragua, rice production is also polarised. On the one hand there are large-scale rice producers in the Sébaco region who have access to irrigation, technology, and credit. At the opposite extreme are the rice growers – mainly Miskito and Mayagna Indians – of the Autonomous Region of the North Atlantic (RAAN). This region, where there are almost 6,000 rice producers – 34 per cent of the national total<sup>9</sup> – has the lowest levels of electrification in the country, lacks even one single kilometer of paved roads, and has piped drinking water available to only 16.2 per cent of the population. More than a third of farms in this area grow rice, which is an important food crop for indigenous communities. Waspán, where over 77 per cent of farms are dedicated to growing rice, is the second poorest municipality in the country. Extreme poverty in Waspán is above 64 per cent and is almost exclusively concentrated in rural areas. Rice is a key crop for farmers in this region, as it is one of their main sources of income, along with fruit trees and coffee.

### 3 The Honduran *arrozazo* (rice scandal)

*'Prices sank with the rice imports, which arrived just at harvest time. We had no market and nobody wanted to produce. The millers said that for them it wasn't profitable to buy domestic rice, but it was to import. These imports killed the producer.'* - Eduardo Belítez, rice producer in the Jesús de Otoro municipality, Honduras

Farmers in the Honduran rice sector know very well the impact DR-CAFTA may have on agriculture in the region. Honduras began opening up to rice imports from the US in 1991, just as countries have now agreed to do under DR-CAFTA, though in the case of Honduras the move was due to pressure from large import companies. A flood of rice imported from and donated by the US hit the country's rice-producing regions hard. Trinidad Membreño, a producer from Santa Cruz de Yojoa, summed up the crisis suffered by the sector:

*'In the early 1990s, almost 85,000 quintals [of rice: 1 quintal = 100lbs] were produced in Santa Cruz. We began to have problems when the "beneficios"<sup>10</sup> stopped buying our product because it was cheaper for them to import the grain. We had to let the rice rot because we couldn't dry it. In 1991 we came to sell each quintal at 14 lempiras [the usual price was closer to 90 lempiras for paddy rice]. That was the effect of donations and imports. Only around 2,000 quintals are produced now.'*

#### How a sector disappeared in only nine years

In the 1980s, at the height of the growth of the Honduran rice sector, there were 25,000 rice producers, according to data from the country's National Census on Agriculture. The chain of rice production provided approximately 150,000 direct and indirect jobs in 1988, according to the Central American Rice Federation. At the time, rice offered a decent living for thousands of Honduran families by providing the necessary resources to build homes, pave roads, and install access to drinking water and electricity.

This promising scenario changed radically in 1991, when the government decided to abruptly reduce tariffs for rice imports in order to make up for shortages resulting from a drought. This measure led to the import in a few months of over 30,000 tons of milled rice and 11,000 tons of paddy rice from the US.<sup>11</sup> These quantities were the equivalent of the total

annual consumption in previous years, which meant producers suddenly found themselves without a market, just when the crop was ready for sale. This event is known in Honduras as the *arrozazo* (or rice scandal). In just a few months, the torrent of US rice devastated Honduran production forever. Federico Mejía, a rice producer and Vice-President of the Honduras Rice Producers' Association (AHPRA), affirmed: 'The sector never recovered after the *arrozazo*.'

Producers clearly suffered from the impact of the *arrozazo*: prices plunged more than 28 per cent in one year. The fall continued until 1994, when they reached a record low. The collapse of prices was reflected in the reduction of the areas under rice cultivation, which decreased by 35 per cent the following year (1992).<sup>12</sup> This crisis in producer prices drove thousands of rice-growing families to bankruptcy, as they were unable to repay their loans, and many others decided to abandon rice farming. The 1993 Agricultural Census showed that the number of rice producers had been reduced to 19,929 as a consequence of the *arrozazo*.

Between 1995 and 1997, rice imports increased again. This time, however, millers also suffered consequences, as the tariff was set at the same rate for both milled and paddy rice. As a result, importing milled rice became more attractive, since it yields more of the grain for consumption than the paddy variety, which has not been cleaned. This squeezed the profit margins of millers, who saw their costs for paddy rice increase while being faced with stiffer competition from imported milled rice. Their reaction was to refuse to buy almost one third of the domestic rice crop in 1997 in order to force down their costs, leaving thousands of families once again facing bankruptcy. The following year this confrontation between producers and millers led to a decrease of one third in the area dedicated to growing rice. Many small producers were forced to abandon a crop that was losing its market, pushed aside by rice imports from the US.

As if this were not enough, in late 1998 Hurricane Mitch devastated the country. And although there were sufficient rice reserves in Honduras, the decision was made to ask for emergency food aid – most of it from the US.<sup>13</sup> This resulted in further damage to producers.<sup>14</sup> Guadalupe Martínez, a farmer from the Jesús de Otoro municipality, commented on her memories of those days:

*'I don't even want to remember the bad years... It is sad to know that you work and don't get anything. What's the use of producing? What's the use of working so hard to farm?'*

In 1999 the millers tightened their grip further and threatened to stop buying rice from Honduran producers if import tariffs were not reduced for paddy rice. Not even large producers could escape the devastating impact. For example, in the summer of 1999, Marissa Valentine de Sempé, one of the largest producers in the valley of Comayagua, found herself with 40m pounds (400,000 quintals) of rice in warehouses that she could not sell, which meant a loss of nearly half a million lempiras.<sup>15</sup>

In the end, the government gave in to the millers' demands and lowered tariffs to 1 per cent. In return, millers had to pay domestic producers a higher price. However, those who benefited most from this rice accord were large producers with irrigation technology – whose incomes increased perceptibly – and millers, whose profit margins shot up. The great losers were small-scale rice producers who had to finally abandon farming. The accord was the final blow to a sector that had been in crisis for the past eight years. Without a doubt, what happened in the rice sector has contributed to the fact that Honduras suffers the highest levels of rural poverty in the region. In 2002, 86.1 per cent of its rural population was living in poverty, and 69.5 per cent lived in extreme poverty.

In 2002, according to data from the FAO, rice production in Honduras had fallen to 7,521 tons, equivalent to a reduction of 86 per cent since 1991. It is estimated that there are now fewer than 2,000 producers in the entire country. To cover the shortage in the rice supply, 145,441 tons of rice had to be imported from the US in 2002 – the equivalent of 95 per cent of rice consumed – when in 1989 approximately 5,000 tons were imported.

This disaster for producers did not bring the benefits promised to consumers. The price of rice to the consumer in Honduras increased by 140 per cent in nominal terms between June 1994 and June 2004 – from 5 to 12 lempiras per kilo, according to data from the Regional Council for Agricultural Cooperation. Measured in dollars, the price of rice to the consumer rose by 12 per cent in that decade, an increase surpassed only in Costa Rica. Honduras has become totally exposed to fluctuations in the international price of rice, which is one of the most volatile, due to the relatively small volume exported with regard to the total produced.

The massive import of US rice means an additional problem for Honduras' weak economy. In 1989, Honduras paid out less than \$1m for rice imports from the US. By 2003, this expenditure had jumped to \$20.1m. The cost to the economy of this hard-currency expenditure is



enormous, above all since Honduras is a highly indebted country with a large balance-of-payments deficit.

The reduction in incomes from rice sales has had grave consequences on levels of education, health, and malnutrition in rice-producing regions. María Ángeles Amaya, the farmer from Santa Cruz de Yojoa, shared her difficulties in covering education costs for her children:

*'My children cannot go to school like before... Public school enrolment costs 480 lempiras; a calculator is 350 lempiras; uniforms 350 lempiras; excursions... Income from a second job is only 625 lempiras. Only 10 per cent of kids can go to school. They used to study more before because it was cheaper and we had more income.'*

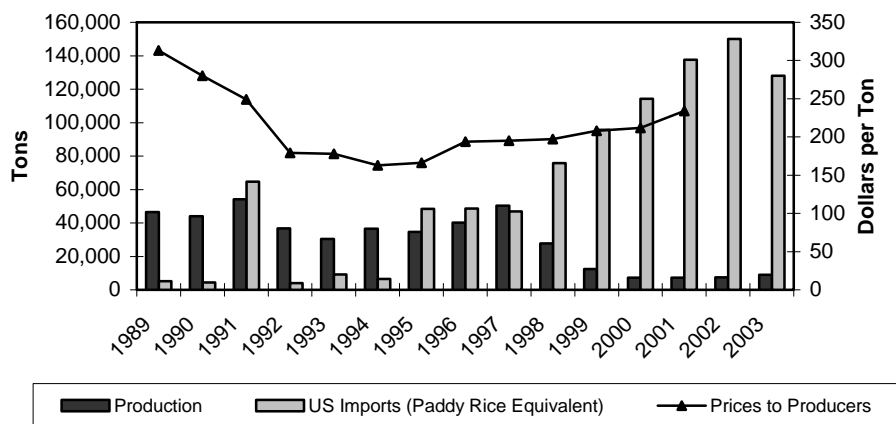
Faced with this difficult situation, the majority of rice farmers have opted to migrate, either to the cities or to the US. In the northern part of Cortés province, which is close to the San Pedro Sula industrial center, the alternative has been to seek employment in the *maquilas* (assembly plants):<sup>16</sup> *'Here all our sons and daughters go to the maquila because they have no other option, although these are precarious jobs that do not solve our economic problems,'* commented Fidel Reyes, a local resident. Many prefer to try their luck in the US. According to estimates by the Honduran Ministry of Foreign Affairs, about 500,000 Hondurans live in the United States.<sup>17</sup> Trinidad Membreño, a farmer from Santa Cruz de Yojoa, illustrated the breadth of the crisis generated by rice imports:

*'Out of 47 of us who were members of the Bijagual Cooperative in the early 1990s, 21 have left for the US. We now survive thanks to the relatives we have there.'*

Some farmers continue to produce rice because they consider it a part of their heritage; they have grown it their entire lives and are not prepared to abandon it. Others, such as José Cándido Sánchez, a farmer from the La Flor community in Cuyamel, near the border with Guatemala, have no other options:

*'We live off rice here because we do not have dry land. It is the only source of income we have to more or less sustain ourselves. With our incomes we frequently don't have enough even for soup. It is clear to us that we are losing money, but here we have no other alternative.'*

**Evolution of Production, US Rice Imports (un-milled rice equivalent) and Prices to Producers in Honduras (1989-2003)**



Source: compiled by Oxfam from FAO and CORECA data.

## Swimming against the current

Besides having to face competition from dumped US rice due to trade liberalization, small-scale Honduran producers also found themselves without government support.

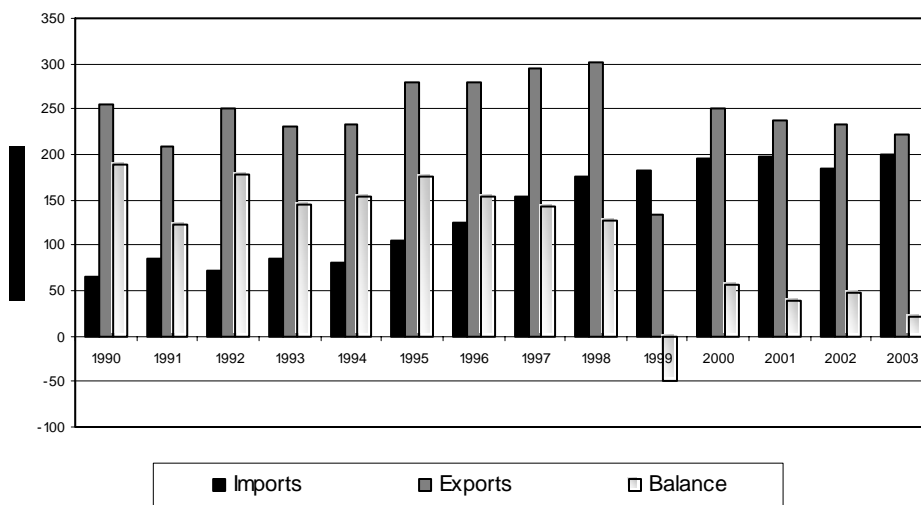
Within the framework of the Structural Adjustment Program promoted by the International Monetary Fund, Honduras approved a decree in February 1991 that outlawed price supports to producers and abolished the state monopoly on external agricultural trade. In 1992 the 'Norton Law'<sup>18</sup> was approved in order to modernize the agricultural sector. This law substantially reduced the role of the State in boosting the sector, reduced the importance of basic grain production, and oriented investment and credit priorities toward non-traditional export crops.

These policies were directed by the IMF and the World Bank. In the 1994 World Bank report that evaluated poverty in Honduras, basic grains were mentioned in an almost disparaging way: '*Basic grains, which occupy a disproportionate amount of debate on agricultural policies, only represent 13 per cent of production.*'<sup>19</sup> The same report assured that '*substituting export crops for basic grains will translate into net gains in jobs and income per hectare.*'<sup>20</sup>

However, structural reforms in the Honduran agricultural sector failed to achieve their objective and indeed exaggerated the sector's problems.

In the period 1990-2001, according to ECLAC (Economic Commission for Latin America and the Caribbean), the production of rice, beans, corn, sorghum, cotton, pineapple, plantains, potato, and beef and pork diminished significantly.<sup>21</sup> Between 1990 and 2003, agricultural exports from Honduras to the US fell by 13 per cent in value, demonstrating that the new measures did not succeed in increasing exports. At the same time, agricultural imports from the US skyrocketed by 209 per cent.<sup>22</sup>

**Agricultural Imports and Exports from Honduras to the US. (1990-2003)**



Source: Department of Commerce, United States Census Bureau, Foreign Trade Statistics.

The reform provoked a significant fall in agricultural credit for the cultivation of basic grains, the sector in which the majority of small producers are concentrated. The rice sector suffered the largest reduction in credit, receiving only 1.3 per cent of total agricultural credit in 2002.<sup>23</sup> Furthermore, these small quantities of credit financed only a small number of rice producers with access to irrigation.

The withdrawal of the Honduran State from providing support to the rural sector also affected prices and research into seeds. Honduras stopped supporting public research on seeds, affecting yields and leaving this area open to large marketing companies from the US. Today, yields for most agricultural products are at the same levels they were in 1990. This stagnation is due to the lack of credit and technical assistance, limited access to technology and the paralysis of State-funded research, among other reasons. In addition, the State's retreat from price

regulation has led to a market system with severe imperfections resulting from information failures, which benefits intermediaries but damages small producers who lack negotiating capacity.

In short, the absence in Honduras of an agricultural policy oriented towards small producers deepened and accelerated the negative effects of opening markets to US rice imports.

## 4 DR-CAFTA and rice

*'This agreement is an important part of our continuing efforts to open foreign markets to US goods and services. This market access is critical if we're going to continue to increase our exports to the world. ... Under the current framework, many products from the CAFTA nations get access to our market, but we don't get the same access to theirs. CAFTA will change that. It'll level the playing field for US producers so they can compete in this vibrant and growing market.'*  
- Senator Chuck Grassley<sup>24</sup>

*'In CAFTA we determine whether we commit suicide or whether we die of natural causes.'* - Sinfiorano Cáceres, President of FENACCOOP (National Federation of Agrarian and Agro-Industrial Cooperatives)<sup>25</sup>

The negotiation process for the Free Trade Agreement between the United States and Central America began in January 2003 and was completed with the ninth round in Washington in December of the same year. After almost five months of legal revision, the Agreement was signed on 28 May 2004, by the US, Costa Rica, El Salvador, Honduras, Guatemala and Nicaragua. The Dominican Republic officially signed the Agreement on 5 August, after accepting the established text and having negotiated terms for market access.

DR-CAFTA establishes a legal framework that determines issues as diverse as access to markets, government procurement, investment, services, intellectual property rights, labor, and environmental issues.

Through this agreement, the Central American countries and the Dominican Republic sought to lock in and increase the unilateral trade benefits the US had provided them since 1983 under the Caribbean Basin Initiative (CBI). The US, for its part, sought to substitute unilateral concessions with an agreement that would ensure total access to Central American markets and would allow it to advance in establishing bilateral accords beyond the norms established by the WTO, thereby laying another stone in the foundation of the Free Trade Area of the Americas (FTAA).

### The negotiating process

An analysis of the negotiating process allows for a better understanding of the results. The US set the rules of the game from the very beginning, establishing the agenda and the negotiating schedule. It pushed rapid negotiations that did not allow the Central American region to present a

united front, thus allowing it to take advantage of internal differences. Also, it repeatedly postponed some of the most sensitive issues – agriculture, textiles, and intellectual property – until the last round, in order to reduce the region’s negotiation margins. During the final legal review of the text, it even pressured the Central American countries to increase quotas or limit the use of WTO safeguards.<sup>26</sup>

For their part, the Central American countries came to the table with little room for negotiation, since in the past decade they had carried out processes of unilateral tariff reduction, often under obligation by international financial institutions. Even tariffs on the most sensitive agricultural products in Central America are extremely low: beans, for example, enter Guatemala duty-free and white corn is protected by a maximum tariff of 20 per cent.<sup>27</sup> Meanwhile, US tariffs for out-of-quota sugar or peanut imports, products that are sensitive for the US, are over 100 per cent.

Finally, during negotiations the US exerted enormous political pressure on Central American country delegations, which resulted, for instance, in Guatemala and Costa Rica leaving the G-20<sup>28</sup> during the negotiation process.

## Outcome of DR-CAFTA

- **No Special and Differential Treatment.** The US refused to establish an agreement that would recognize the enormous asymmetries that exist and the vulnerability of agriculture in Central America. Central American governments gave in to US pressures and agreed to a text that completely opens their markets to US imports for all agricultural products over a maximum period of 20 years (except for potatoes and onions in the case of Costa Rica and white corn for the other countries) and increases duty-free quotas for all products.
- **Removal of tariffs means fewer resources for combating poverty.** Tariff reduction threatens to cut one of the main sources of financing for Central American states, precisely at a time when funds are most needed for poverty reduction. A study by the Economic Commission for Latin America and the Caribbean (ECLAC) concludes that in Honduras, even in an optimistic growth scenario, the estimated loss of fiscal revenues would be 0.73 per cent of GDP at the beginning of the transition period, reaching 0.78 per cent by its end. In several Central American countries, particularly Honduras and Nicaragua, this drain on financing endangers an already precarious fiscal

situation and jeopardizes compliance with the Millennium Development Goals.

- **The US will not revise its domestic support programs for agriculture.** The US opposed a revision of its system of domestic supports and export credits, which allows it to export at prices below the cost of production, under the pretext that such a revision should take place at the WTO level. Yet the US allocated \$17.425bn in subsidies and domestic supports for its agriculture in 2003,<sup>29</sup> an amount that is greater than the GDP of most of the countries in the region. Inadequate progress in the Doha Round of negotiations threatens to maintain a system that legalizes dumping.
- **Tariff elimination and maintaining the domestic support system in the US equal bankruptcy for thousands of Central American farmers.** Agreeing to open the region's markets to US agricultural imports without modifying the structure of domestic supports and subsidies may be catastrophic for thousands of Central American farmers. This is all the more likely as no compensatory measures have been included that would allow Central Americans to defend themselves against US agricultural export dumping. This same issue has become the main problem in the FTAA negotiations, as MERCOSUR countries have refused to eliminate their agricultural tariffs so long as the US fails to revise its domestic support system.
- **The hypocrisy of the sugar industry.** While the US demands the opening of Central American markets, it insists on protecting its own sugar market. Although Central America was able to increase the quotas of sugar it can export above the levels offered under the CBI, it did not manage to eliminate US tariffs on sugar, which is the product that has the greatest export potential for the region. Furthermore, DR-CAFTA includes a Sugar Compensation Mechanism that allows the US to unilaterally compensate Central American sugar exporters in exchange for them not using the established quota.<sup>30</sup>
- **Repeating the Mexican case.** Since the Free Trade Agreement between the US and Mexico came into force, 1.3 million agricultural jobs have been lost in Mexico and immigration to cities and to the US has multiplied, due to unfair competition from subsidized US products and the economic crisis.<sup>31</sup> Food dependency has contributed to an increase in the number of malnourished people in the past decade, from 4.6 to 5.2 million Mexicans.<sup>32</sup>

## *Gallo pinto* made with subsidized US rice<sup>33</sup>

An analysis of the quotas and the timeframes for tariff reduction that were negotiated under the agreement points to rice as the greatest loser in the region. A detailed study of rice provides an understanding of the potential impact of DR-CAFTA on other sensitive products, such as milk, meat, beans, and corn.

In Honduras, Guatemala, Nicaragua, and El Salvador, tariffs on US rice imports will be eliminated in 18 years' time. Costa Rica and the Dominican Republic managed to obtain a slightly longer timeframe of 20 years. During the first 10 years, tariffs will be maintained at current levels, but from the 11th year they will be phased out until their complete elimination in the 18th (or 20th) year.

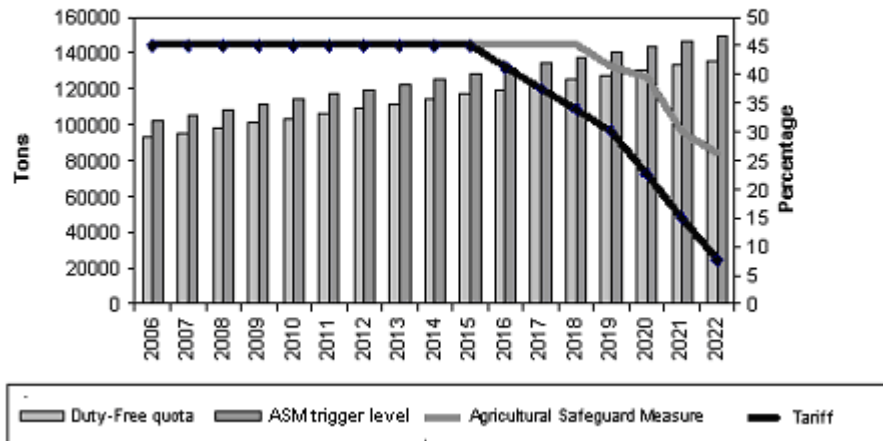
The six countries in the region also ceded duty-free import quotas from the first year totaling 352,320 tons of paddy rice (in the hull) and 54,650 tons of milled rice (hulled). The paddy rice quotas will increase by 2-3 per cent a year from the first year, depending on the country, while quotas for milled rice will increase by 5 per cent a year.<sup>34</sup>

Provisional data from the FAO indicate that 1.15m tons of paddy rice were produced in the region in 2003.<sup>35</sup> Thus, large US rice exporters have ensured themselves a quota equivalent to nearly 40 per cent of Central America's 2003 level of production. The US Rice Federation has reasons to affirm that DR-CAFTA will represent an unprecedented triumph for its sector, particularly taking into account the fact that the US has obtained a duty-free quota that equates to more than 70 per cent of its total exports in 2003.

Some countries have made greater concessions than others. Honduras and Nicaragua each agreed to an initial quota of just over 90,000 tons of paddy rice, which will increase 2 and 3 per cent per year, respectively. In the case of milled rice they made quota concessions of 8,925 and 13,650 tons respectively.<sup>36</sup>



### Results of DR-CAFTA for Nicaragua's Rice Sector



Source: Compiled by Oxfam from USTR information on quotas, tariffs, and safeguards.

With a deluge of US rice threatened, the only temporary protection tool contemplated by DR-CAFTA is the Agricultural Safeguard Measure (ASM). The ASM is a mechanism that increases the applied tariff for out-of-quota imports when these are over 10 per cent of the duty-free quota. This mechanism has three weaknesses: its duration, its incompatibility with other safeguards, and its link to volume.

DR-CAFTA establishes that the ASM can only be applied until the tariff is eliminated, that is to say until the 18th or 20th year. Also, according to the agreement, this mechanism cannot be applied at the same time as the WTO safeguard.<sup>37</sup> It is surprising that the region accepted these conditions, particularly when Honduras, El Salvador, and Nicaragua have proposed broadening the concepts of Safeguard and Special and Differential Treatment in the framework of the WTO in order to protect small producers and food security.

During negotiations, various Central American agricultural organizations requested that the ASM be linked to prices instead of volume, since a fall in prices could make the Safeguard unviable as a defensive mechanism.<sup>38</sup> However, the US did not agree and the ASM was linked to the volume of imports. Interestingly enough, in the Free Trade Agreement between the US and Australia, the US managed to introduce a safeguard linked to prices in order to defend its ranchers from Australian beef imports, demonstrating US hypocrisy in trade negotiations.

To sum up, the Agreement sows the future with uncertainties for small-scale Central American rice producers by making it impossible to revise tariffs for US rice imports. It establishes a calendar for phasing out tariffs, sets very high rice import quotas beginning in the first year, and includes extremely weak and temporary protection mechanisms.

**Box 1: Mexico as a striking example**

Mexico now knows what it means to open up to massive imports of subsidized US rice, particularly since the North America Free Trade Agreement (NAFTA) came into force. In 1993, Mexico was already the main export market for US rice, with imports of over 250,000 tons. Ten years later, imports reached nearly 800,000 tons. At the same time, Mexican production fell by 33 per cent. This increased Mexico's degree of dependence on imported rice to 84 per cent, one of the highest in the region, placing its population's food security at risk.

The average price paid to the Mexican producer in the past seven years has been approximately \$177.25 per ton. Over the same period, in Costa Rica, Guatemala, and Nicaragua, the average price has been over \$230 per ton. These vast differences in price for Mexican producers are explained by the massive imports of subsidized US rice. Swamped by US rice, over 30,000 small producers, approximately two thirds of the total, have abandoned farming since 1985.

As Dr. Juan José Flores, a researcher at the Autonomous University of Chapingo, stated: *'The history of rice in Mexico is even more dramatic than that of corn. The displacement of producers has been dreadful. The signing of NAFTA by Mexico was like sending us to war without weapons.'* Producers from the Cañaveral community stopped growing rice four years ago, according to Santiago Díaz León, a small producer: *'Since NAFTA, life has become very hard. That is why we stopped producing.'*

In 2002, in the face of this very serious crisis, the Mexican Rice Council asked the Ministry of Economy to investigate possible unfair trade practices in terms of pricing by the US and the need to apply anti-dumping measures for long-grain US rice. In June of that year, the Ministry determined that rice imports were dumped at 74 per cent below their cost of production, damaging national production and the well-being of Mexican farmers. For this reason the Ministry established anti-dumping measures against certain large US exporters.

In June 2003, the US decided to file a complaint at the WTO requesting that a dispute settlement panel put an end to Mexico's anti-dumping tariffs for US rice imports. The WTO panel has yet to make its ruling on this case.

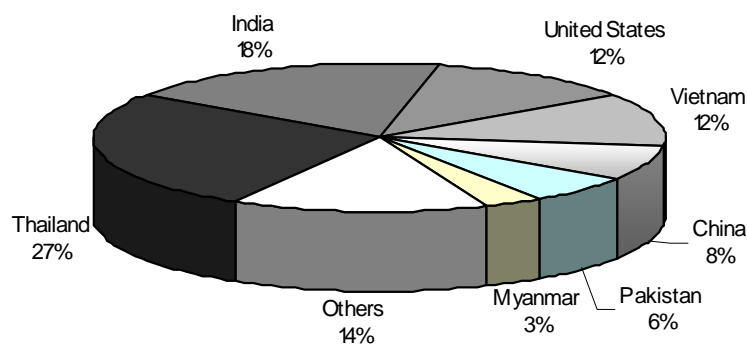
*Source: Victor Reyes Banks, Asociación Agrícola de Campeche Sur, and the FAO.*

## 5 The threat of the large-scale rice industry in the United States

*'We are all on the same team. We are the strongest economy in the world. We have the largest capacity for food production in the world. We have to assume our leadership and drive policies in the right direction in order to ensure greater access for our food exports at reasonable prices in the whole world.'*<sup>39</sup> - Thad Cochran, US Republican Senator for the state of Mississippi

US rice production is concentrated on 8,046 farms in the states of Arkansas, California, Louisiana, Mississippi, Texas, and Missouri.<sup>40</sup> From 1980 to 2002, production increased by 44.3 per cent, and for the first time ever, over 20 billion pounds (200m quintals) of rice were produced in consecutive years (2001 and 2002).<sup>41</sup> This dynamic growth, however, led to a plunge in rice prices of more than 50 per cent between 1998 and 2002.<sup>42</sup> Despite an increase in domestic rice consumption in the US, the enormous growth in production requires an outlet, since close to 50 per cent of it is surplus.

**Market Shares for World Rice Exports (2002)**



Source: FAO.

In 2002, the US exported half its rice production. This makes it one of the largest exporters in the world, along with Thailand, India, Vietnam, and China, although its production is slightly smaller than in these countries. US paddy rice exports are heavily concentrated in the Mexican and Central American markets. In 2003, Mexico absorbed almost 36 per cent of US paddy rice exports, while Central America accounted for nearly 24 per cent.<sup>43</sup> Due to the region's importance for its rice exports, the US put special emphasis on rice during DR-CAFTA negotiations and sought to

ensure its future access to the Central American market. The results favor large exporters as they guarantee a growing market, particularly in Costa Rica and Nicaragua, where exporters have the possibility of obtaining a larger market share, given that, for now, these countries still have a significant level of domestic production.

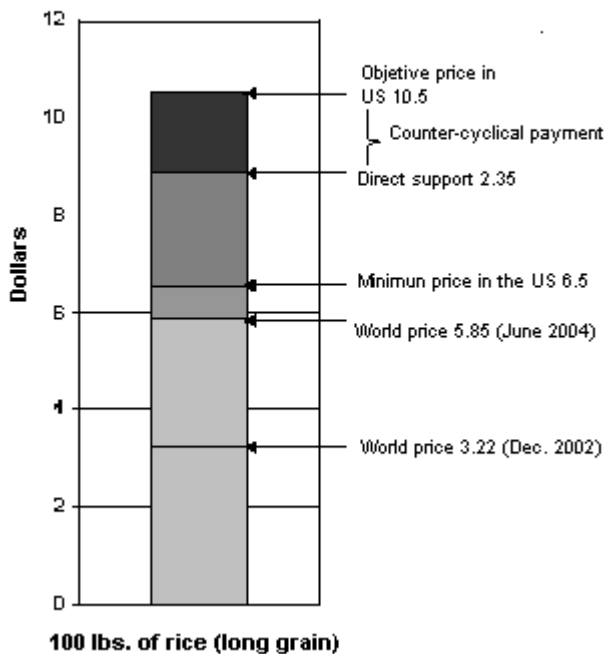
US rice exports are due, in large part, to the system of government supports. In fact, the US rice sector obtains most of its income from extensive subsidies and benefits financed by US taxpayers. However, those most affected by this are the thousands of producers in other countries who suffer from unfair competition from the subsidized rice that is unloaded onto their markets at artificially low prices. US agricultural policies enable the rice sector to keep exporting at unrealistically low prices.

The growth of production and exports since 1998 demonstrates that large rice producers in the US are protected from market realities. While prices to producers have fallen, the sector has seen an increase in production of over 14 per cent and a growth in exports of more than 23 per cent over the period.<sup>44</sup> The system of domestic supports in the US distorts the international market, generates serious inequality among producers by benefiting the largest, and multiplies the negative effects of low prices when they fall.

## The structure of the US government support system

In 2003, rice producers in the US received subsidies and benefits amounting \$1.279bn.<sup>45</sup> This amount is larger than Nicaragua's entire national budget for 2004, which is close to \$900m. In these conditions, to claim that DR-CAFTA will establish just and equitable rules for all rice producers is patently unrealistic.

### Value of US rice (long grain)



Source: Compiled by Oxfam with USDA and FAO data.

In 2002, approximately 35,000 US producers benefited from direct support, counter-cyclical payment, and marketing assistance loan programs. According to the US Department of Agriculture (USDA), direct payments to producers in 2003 totaled \$311.4m and counter-cyclical payments reached \$318.3m. Benefits derived from marketing assistance loans came to \$649m.

#### Box 2: Support and other instruments for US rice exports 2002-2007

**Direct supports** are payments that are proportionate to the historic acreage and production. Rice producers included in this program benefit from a subsidy of \$2.35 per quintal (100lbs) of historic production, calculated according to the base year.<sup>46</sup> USDA estimates that direct payments will remain stable at \$427m annually until 2007. Although the US classifies direct supports under the WTO's Green Box, the Cotton Panel's ruling in the case of Brazil and the US questions whether they are non-distorting in nature.

**Counter-cyclical payments** are made whenever the price of rice is below \$8.15 per quintal. The price for rice producers in the US has not exceeded this level since 1998 and is clearly not expected to do so before 2007. USDA

projections put the budget for counter-cyclical payments at \$318.3m a year, with the exception of 2004, due to a temporary increase in prices. The US intends to include these supports in the WTO Blue Box in the Agreement on Agriculture so that they are not subject to reduction.

**Marketing assistance loans** provide benefits to rice producers when the price is below \$6.50 per quintal. USDA estimates that these benefits will cost more than \$500m per year until 2007. Benefits derived from this program are subject to a reduction under the WTO framework.

**Export credits:** From September 2003 to June 2004, the US granted \$27.7m in export credits for rice to Central America (including Panama and Belize), which accounts for 42 per cent of all export credits granted for rice (\$65.5m). This mechanism for promoting exports has been questioned by developing nations, which consider the credits to be hidden export subsidies. The WTO panel's recent ruling on the cotton dispute between Brazil and the US determined that almost half the export credits granted violated WTO norms.

**Food aid:** According to USDA data, in the period 2001-03 the US sent 37,160 tons of rice to Central America as food aid, with a value close to \$8m. An analysis of prices to rice producers in the US indicates a clear relationship between the price in a particular year and the volume of food aid granted the following year, with the exception of the period following Hurricane Mitch. These numbers show that the US uses rice as food aid in order to find an outlet for its stocks when the price falls and there is an over-supply in the market. However, when the price rises and supply is reduced, the amount of food aid drops.

*Source: US Department of Agriculture.*

USDA projections for the coming years foresee a stable level of support for the rice sector totaling nearly \$1.2bn a year until 2007. This represents a hugely disproportionate expenditure when compared with the value of rice production, which in 2002 reached \$844m. USDA's average support in the coming years will be nearly \$5.9 per quintal (\$129.6 per ton), according to its own estimates. Although in absolute terms other programs have larger budgets, the support per beneficiary for rice producers is one of the highest, thus making rice one of the most privileged products under the current US system of supports.

These excessive levels of support allow large rice companies to flood international markets with subsidized rice. According to USDA's own estimates, the cost of production for rice in the US was \$596.97 per acre in 2003.<sup>47</sup> Consequently, the cost of production would be \$199.12 per ton.<sup>48</sup> However, US rice was exported to Central America at a significantly lower price. In 2003, the average price for paddy rice exports was \$159.1 per ton in Honduras, and \$162.6 per ton in Nicaragua.<sup>49</sup> These data demonstrate that the US exported paddy rice to

Central America at a price that was 18-20 per cent lower than the cost of its production (see Appendix 1). This margin of dumping translates into an implicit subsidy for rice exports to Honduras and Nicaragua, which that year had a value of \$4.7m and \$4m respectively.

## Subsidies for the largest

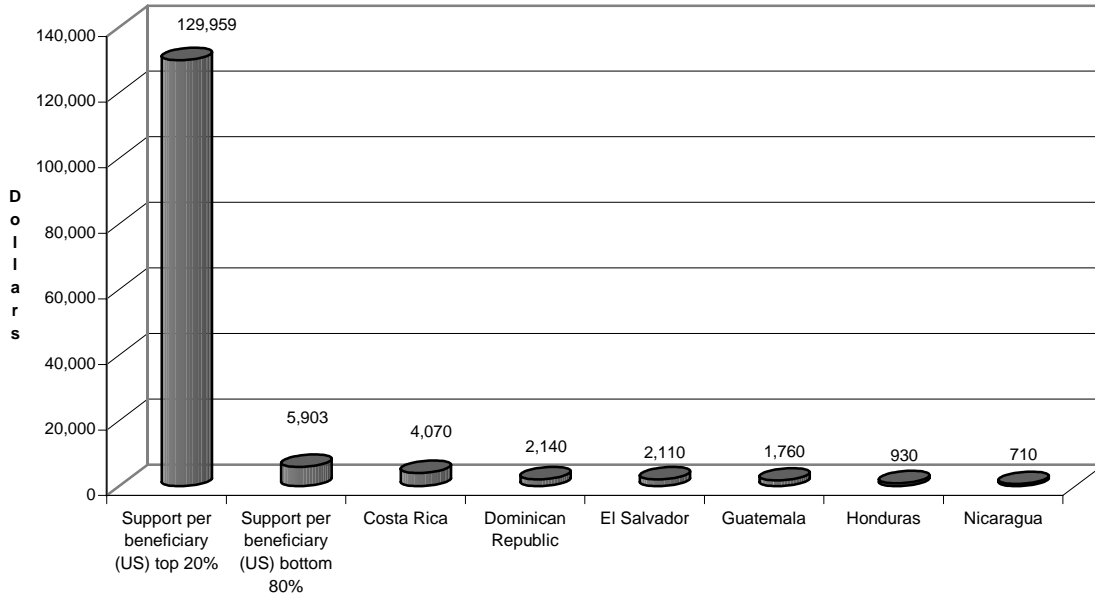
The system of supports for rice producers has also contributed to changes in the structure of production within the US. Since the early 1990s, there has been an accelerated concentration of land ownership and a gradual abandoning of family farming. In the case of US rice, the situation has been more acute due to the high level of technology required to grow the crop. According to the most recent census in 2002, the number of farms dedicated to rice cultivation had decreased by 28 per cent since 1992, while the average amount of land farmed by a single rice producer continued to grow, from 278 acres in 1992 to nearly 400 acres a decade later.<sup>50</sup>

The system of supports for rice clearly benefits large producers, since direct and counter-cyclical payments are based on historic acreage and production. This allows long-standing landowners to continue to claim the largest slice of the subsidy pie. According to data from the Environmental Working Group, 349 beneficiaries received \$366.6m, or 34 per cent of total supports. Meanwhile, small producers only get the crumbs: 80 per cent of beneficiaries receive only 15 per cent of supports.

While subsidies ensure enormous benefits for large-scale landowners and export companies, US family farmers continue to cultivate rice only with great difficulty. Eddie Bryant, an African-American rice producer from Arkansas, stated he has never received more than \$2,700 in a year. *'If you just look at farming as a business, 75 per cent of us would quit,'* he said. His cousin, Joe Bryant, also a rice farmer, added, *'They pay farmers a subsidy, a type of welfare check that only... causes the market to pay us less,'* and affirmed that the system of supports does not favor family farmers.

Agricultural subsidies in the US should have social and environmental objectives and should aim to redistribute resources, in all cases avoiding the promotion of export dumping. Instead of continuing to subsidize exporting companies and big industry, domestic supports should foster sustainable agriculture and promote rural development based on family farming.<sup>51</sup>

**Comparison of Supports for US Rice Farmers  
with Per Capita GDP in Central America**



*Source: World Development Indicators (World Bank) 2002, except Dominican Republic 2000. Environmental Working Group (EWG)*



## 6 DR-CAFTA: the Nicaraguan *arrozazo*?

Nicaraguan trade policy for rice during the 1990s was radically different from that of Honduras. Instead of opting to reduce tariffs, Nicaragua maintained protections that allowed for the survival and growth of national production. Tariffs for imported paddy rice remained at 45 per cent and those for milled rice were up to 62 per cent.<sup>52</sup>

This policy allowed Nicaragua to become the primary producer of rice in Central America. According to the FAO, rice production reached 290,646 tons in 2003.<sup>53</sup> Production growth has permitted Nicaragua to maintain relatively low margins of dependence on rice imports in comparison with El Salvador, Guatemala, and Honduras, where these margins are over 70 per cent.

Nicaragua's rice protection strategy has also permitted growth in consumption of 55 per cent since 1990.<sup>54</sup> This increase has made rice the most consumed food in Nicaragua, above beans or corn, and the greatest source of calories in the daily diet of Nicaraguans, particularly the poorest. Rice is clearly fundamental to the country's food security, given that 1.5 million Nicaraguans still suffer from malnourishment – 29 per cent of the population,<sup>55</sup> a rate that is showing no signs of decline.

Generally, tariff protections are thought to increase prices and thus negatively affect consumption levels, and it is therefore assumed that consumers ultimately have the most to gain from trade liberalization. However, a comparison of Honduras and Nicaragua reveals different results. From 1990 to 2002, per capita consumption of rice in Honduras increased by only 7.8 kilos per capita, whereas in Nicaragua consumption grew by 25.7 kilos per capita. In Haiti and Mexico, countries that gradually opened their borders to rice imports from the US, consumption increased by less than 4 kilos per capita.

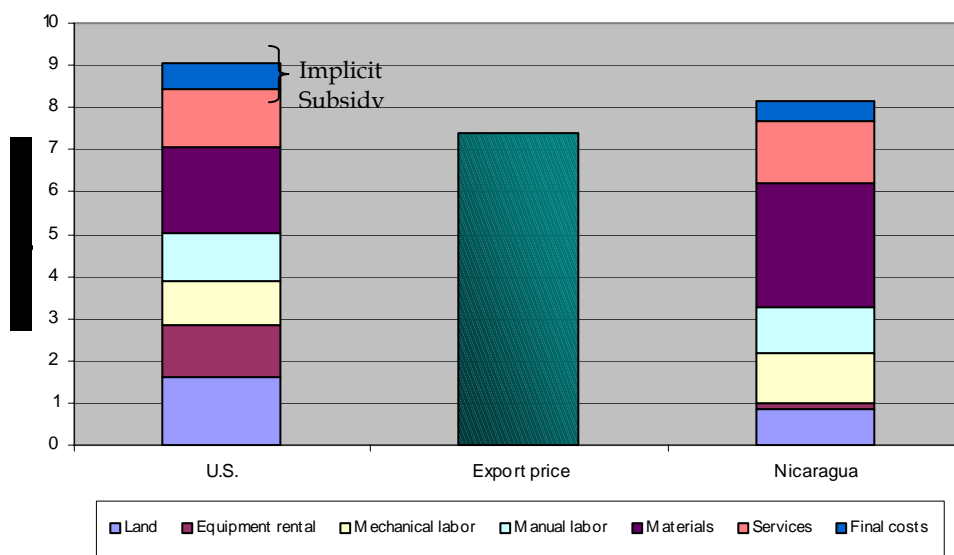
Although other crops are more important in quantitative terms, Nicaragua has approximately 17,000 rice producers, of which the majority farm small, dry-land plots, according to data from the most recent Census on Agriculture in 2001. Overall, it is estimated that the rice sector provides approximately 2 per cent of Nicaragua's GDP, having almost doubled its contribution since 1990, and supports 35,750 jobs a year in agricultural and industrial activities.

## The disappearance of Nicaraguan rice

*'CAFTA will create a problem for us, and not only after 18 years have passed. In year 14, when the [rice] tariff falls below 27 per cent, it will put us out of business.'* - Mario Díaz, President of the Nicaraguan Basic Grains Association (PROGRANO)

DR-CAFTA represents a complete change in a trade policy that has allowed the survival and growth of the rice sector in Nicaragua. The setting of very high quotas, which in the first year alone amount to 92,700 tons of paddy rice and 143,650 tons of milled rice, threatens to destroy the Nicaraguan rice sector within a few years. Tariffs will be phased out until they are completely eliminated in 18 years' time. The vulnerability of the Nicaraguan rice market - and by extension, that of Central America - to US imports is due to three factors: the level of support that US exporters receive, the political power of importers, and structural weaknesses in the production process.

**Production cost in US and Nicaragua vs. Export Prices**



Source: Compiled by Oxfam with data from PROVIA, ERS/USDA and FAS/USDA.

- US exporters would find it difficult to access the Nicaraguan market were it not for government supports for rice. Using USDA data to estimate average productivity, the cost of rice production in the US is close to \$9.05 per 100lbs (without considering transport costs, which should also be included). In Nicaragua, despite input price increases, production costs were \$8.14 per 100lbs, according to 2001 data. Yet the average price of paddy rice exports from the US to Nicaragua in 2003, for example, was \$7.32 per 100lbs, including an implicit subsidy of \$1.73. According to the estimation model explained in section 4, the US supports its rice producers to the tune of \$5.90 for every 100lbs produced.<sup>56</sup>
- The Nicaraguan rice market is dominated by a small group of importers who can pressure the government to modify its tariff policy, stop buying domestic crops to pressure producers, and establish prices to consumers because there is no competition. This small pressure group strives to maximize its benefits, thus directly affecting import trends and prices paid to the producer. For this reason, the majority of rice imports are of the paddy variety, as these provide greater profit margins for importers.<sup>57</sup>
- Another reason for the vulnerability of the Nicaraguan rice sector lies in the quality of the grain itself. Because the quality of Nicaraguan rice is lower than that of imported rice, it yields less when milled and sells to consumers at a lower price.

**Box 3: Crisis in the first years of DR-CAFTA**

Nicaraguan rice producers will face a double threat in the first years of DR-CAFTA. On the one hand, the quotas that have been established will allow for the import of subsidized rice that is nearly 20 per cent cheaper.<sup>58</sup> On the other, according to USDA estimates, a significant fall in US export prices is expected, and prices are expected to stay below \$130 per ton from 2005 to 2007. Not even the 45 per cent tariff ensures effective protection for national production when the export price is so low (see Appendix 2).

The competitiveness of US rice in Nicaragua depends fundamentally on two variables (transportation costs are assumed to be fixed): import tariffs and export prices. According to Oxfam estimates, US rice begins to be competitive when it reaches Nicaragua with a price below \$350 per ton, approximately.<sup>59</sup> If the price of US rice upon arrival in Nicaragua (its export price plus transportation costs and applicable tariffs) is below \$175 per ton, domestic production could be almost entirely displaced (see Appendix 2). During the period 2005-07 this price would at no point be above \$235, despite the application of the 45 per cent tariff to out-of-quota imports. The consequences would be dramatic for Nicaraguan rice growers, replicating the serious social crisis that occurred in Honduras.

It follows that the fall in prices and the increase in imports would provoke a decrease in the area under cultivation over the following years, as was the case in Honduras with the *arrozazo*.<sup>60</sup> This process could also lead to an acceleration of tariff reductions due to pressures from rice importers – as was the case in Honduras in 1999.<sup>61</sup>

Curiously enough, the combination of a good harvest and high international prices could also destabilize the market. As was the case in Honduras in 1997, this scenario could lead to a refusal by millers to purchase a significant part of national production, since their profit margins would be reduced.<sup>62</sup> In the case of Nicaragua, it could be assumed that as a reaction to this lack of a market, there would be a reduction in crop acreage of 20 per cent – a conservative estimate when compared with the Honduran case. The following year, millers would force producer prices down in order to maintain their profit margin.<sup>63</sup> In reaction to this price drop, the area under cultivation would fall another 25 per cent in the third year, forcing the country to import over 100,000 tons of out-of-quota paddy rice.

At this point, faced by the need to meet rice shortages with imports, the government could decide to accelerate the removal of protections. Under this scenario, the domestic production system could collapse in a few years, for reasons unrelated to the market functioning.

In conclusion, the livelihoods of thousands of Nicaraguan rice producers are threatened by DR-CAFTA's lack of protection and rice export dumping by the US. As was the case in Honduras, in less than ten years this sequence of events could destroy national production, which has survived, in part, thanks to tariff protection. The dismantling of the rice sector would eliminate thousands of jobs and would put many of the most vulnerable farmers on the Atlantic coast out of business. As a result, Nicaragua would be forced into dependence on the US for one of its main food staples. This is even more concerning as it is a country that continues to suffer from extremely high levels of malnourishment.

*Source: Compiled by Oxfam with data from FAO, PROVIA and USDA.*

## The 18 years of rice under DR-CAFTA

Nicaraguan negotiators and their Central American counterparts claim that 18 years of protection will provide enough time to transform their rice sectors and prevent their collapse. Nevertheless, trends dating back to the 1990s lead to worrying conclusions regarding the rice sector specifically and the agricultural sector in general, and could bring into question their survival.

- **Low yields.** Rice yields have essentially remained at about 3 tons per hectare, indicating the lack of attention the Nicaraguan government has given to modernization in this sector. Based on current trends, in

18 years' time yields will barely be over 4 tons per hectare. Within these parameters it is impossible to compete with large US rice exporters who receive government support and currently enjoy yields greater than 7 tons per hectare.

- **Insufficient access to credit.** In 2002, only 1.8 per cent of total financing for agriculture went to the rice sector,<sup>64</sup> and this went fundamentally to large producers with access to irrigation technology.
- **Marketing problems.** The lack of local markets and infrastructure – particularly on the Atlantic Coast – reduces the income of small producers in Nicaragua and at the same time benefits middlemen, or so-called *coyotes*. Francisco Florián Zaldívar, a farmer from Rosita, commented: *'We have no trade. If there were a market that at least paid regularly...'*. Ricardo Blandón, President of the Cooperativa de Servicios Múltiples de Campesinos Agropecuarios de Rosita (Multiple Services Cooperative for Rosita Farmers), complained: *'Middlemen still buy up to 70 per cent of production in the municipality, paying a rate of 70 or 75 cordobas, then they process it and sell it back to us very expensively.'*
- **Reduced public spending on agriculture.** Government spending on agriculture was only 2.7 per cent of Nicaragua's total budget in 2002, conspicuously one of the lowest levels in the region. This amount is worryingly low, considering the fact that the agricultural sector provides approximately 20 per cent of GDP and that most of the rural population lives in poverty.
- **Policies that favor large producers and importers.** An accord in effect since 2001 has allowed millers to import paddy rice at a 20 per cent tariff rate up to a quota of 100,208 tons, while the out-of-quota tariff is 45 per cent. In return, part of this tariff benefit is intended to be passed on in the form of a better price for domestic producers for paddy rice purchased by these companies. However, small-scale producers have barely been able to benefit from better prices, while importers and large producers have noticeably increased their profits.
- **Imperfect market.** The market for rice in Central America, like those for other basic grains, works extremely badly. In Nicaragua, the exaggerated negotiating power of certain private enterprises, such as Agricorp, allows them to fix prices to both producers and consumers, ensuring large profit margins for themselves.

Analysis of the rice market in Nicaragua clearly shows serious structural weaknesses, with meager progress made in recent years. It is therefore difficult to imagine a real transformation of the sector over the next 18 years, the transition period established for rice under DR-CAFTA.

## The same winners on both sides

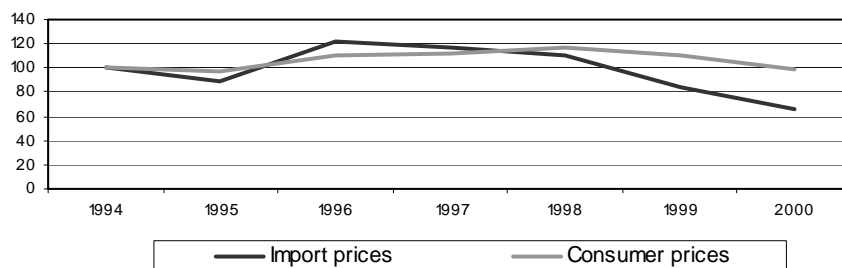
The biggest winners under DR-CAFTA are the large-scale US rice exporters (as they themselves have declared), since they are ensured a captive market for the future that already absorbs one quarter of their exports. The US Rice Federation played a key role in the DR-CAFTA negotiations. Bob Cummings, the Federation's Vice-president, made clear the intentions of large exporters: *'The Federation has worked carefully on these negotiations because the principles established in CAFTA will become the basis for future trade negotiations. The freer we can make trade in this Agreement, the greater will be the results we will obtain in the future.'*

On the Central American side, the clear winners are the importers. Marketing of rice in Central America is concentrated in the hands of a few companies with the means to influence their governments' trade policies and modify the rules of the game. Agricorp in Nicaragua and Arrocera San Francisco in El Salvador will also benefit from the flood of imported rice. In many cases these companies are subsidiaries of, or are partially owned, by large US rice exporters, as is the case with Agricorp.<sup>65</sup> Therefore, the same people benefit at both ends, with greater market share and higher profit earnings.

Simply by establishing import quotas, importers ensure higher profits. In Nicaragua, for example, importers will be saving more than \$3m in tariffs each year, and probably more due to lower prices paid to local producers. These savings on tariffs imply an equivalent loss of revenue for the Nicaraguan state, thus indirectly harming the population by reducing the available resources essential for the country's social and economic development.

The case of Agricorp in Nicaragua is particularly illustrative. In recent years, thanks to the accord mentioned above, the company has imported 85,177 tons of paddy rice annually at a 20 per cent tariff rate, or 85 per cent of the quota. Assuming that Agricorp obtains a proportional part of the quota for paddy rice established under DR-CAFTA, it will be saving approximately \$2.5m due to reduced tariffs in the first year alone.

Comparison of import prices and consumer prices in Honduras  
1994-2000. (1994=100)



Source: Compiled by Oxfam with data from CORECA.

The Central American and US governments claim that this saving in tariffs will benefit consumers and will allow the most vulnerable members of the population access to cheaper food. However, the Honduran case shows that consumers were not the winners in a liberalization process similar to the one that will take place under DR-CAFTA. While the price of rice imports fell by almost 40 per cent between 1994 and 2000, there was no reduction in the price to consumers.

## And the most vulnerable lose out

The most vulnerable rice producers are the farmers from the Autonomous Region of the North Atlantic (RAAN) in Nicaragua. Due to the enormous structural weaknesses of agricultural production and, particularly, marketing mechanisms, DR-CAFTA threatens to displace rice producers in this region.

More than one third of Nicaraguan rice producers are concentrated in the RAAN, according to the most recent agricultural census. Many of these producers are indigenous Miskito and Mayagna farmers, for whom growing rice is an ancestral tradition that involves all members of the family.

According to the 2001 census, less than 4 per cent of RAAN producers had access to credit, technical assistance and/or training. Only 3 per cent had the use of work animals or tractors. The rest had only hand tools.<sup>66</sup>

In this region of Nicaragua, the crisis for farmers began long before DR-CAFTA. Some small-scale, dry-land rice producers in the RAAN have already had to abandon rice growing as a result of rising costs, low yields due to lack of quality seed, and increased imports of subsidized rice from the US. Francisco Florián Zaldívar, a farmer from Rosita, explained:

*'I had been growing rice for 16 years, but for the past three consecutive years the price of paddy rice has not gone over 85 cordobas per 100lbs (quintal). At this price level, the producer suffers an almost 50 per cent net loss, due to the fact that costs of production are very high. I figured that only if I produced 80 quintals (8,000lbs) per manzana (1.75 acres) would I make a small profit. Therefore, when productivity dropped I decided to produce only for consumption.'*



## 7 Conclusions and recommendations

The Honduran *arrozazo* indicates the harmful impact of a lack of tariff protection in the face of unfair competition from imported US rice. The Central American region can expect similar results from DR-CAFTA. The consequences for Honduras have been terrible: the number of rice producers has dropped from 25,000 to fewer than 2,000; employment, direct and indirect, has fallen from 150,000 jobs to 11,200; production has contracted by 86 per cent in 11 years; food dependency is now over 90 per cent; and hard-currency expenditure on rice imports has from \$1 to over \$20m annually. Large-scale US exporters and Honduran marketing companies have benefited the most, since the price to the consumer in dollar terms has actually increased by 12 per cent over the past 10 years.

The situation for Central American bean, milk, and beef producers due to the imminent flood of imports is equally disturbing. Even in the case of white corn, which was excluded from tariff reductions, the outlook is not encouraging. Its substitution in the basic diet by imported yellow corn or wheat threatens the livelihoods of hundreds of thousands of small-scale family corn farmers in the region.

The results of liberalization in Honduras reinforce the need to prioritize development objectives in trade negotiations, if the aim is for trade to become a tool for poverty reduction. Yet under DR-CAFTA, US negotiators have managed to completely open Central American markets without having to modify their own agricultural programs and policies, which lead to export dumping. The Agreement ignores the initial objectives of the negotiations and assumes all countries are entering under equal conditions.

The US has succeeded in obtaining an agreement that goes beyond WTO requirements in most aspects of trade: intellectual property, agriculture, government procurement, investment, and so on. Central American countries have given way even in areas that are currently under negotiation at the WTO, thus reducing their negotiating ability in the Doha Round. In fact, the WTO may lose relevance for Central American countries, since DR-CAFTA restricts both current and potential rights enshrined by the organization. The strategy of bilateral and regional trade negotiations severely undermines multilateral negotiations.

Oxfam believes that agricultural trade can help to reduce poverty only if trade is governed by a system of rules that are fair. DR-CAFTA cannot become a tool for poverty reduction as long as it exposes farmers in the region to unfair competition from subsidized US exports.

Therefore, Oxfam recommends the following:

1 **DR-CAFTA should not be ratified by the legislatures of Central American countries or the United States Congress because it will not reduce poverty.** As a principle, no bilateral or regional trade agreement should infringe upon the minimal guarantees for development agreed upon at the WTO. Until dumping of agricultural exports has been prohibited, bilateral agreements present too high a risk. For this reason, Oxfam opposes liberalization agreements that deepen inequality and maintain conditions for dumping. Oxfam believes in the need for an alternative form of integration that fosters development and poverty reduction, and therefore proposes:

- Certain issues should be removed from the regional trade agenda, to be addressed in the multilateral arena. Multilateral negotiations are necessary to achieve global coherence and allow poor countries to work and negotiate collectively to defend their interests. The proliferation of regional and bilateral trade agreements that go beyond the scope of the WTO, promoted through US political and economic pressure, is undermining the possibility for developing countries to defend their interests in the multilateral arena.
- Special and differential treatment that seeks compensation for the enormous asymmetries among countries in the region should be the point of departure for regional integration. Compensation programs and mechanisms should be developed that prioritize cooperation for development, with support measures for less developed regions, based on the experience of European integration.
- Intra-regional integration should be promoted, as in the case of Central America, to foster trade relations and complementarity among Southern countries, as well as greater access to markets in the region. An intra-regional interdependence that seeks to promote domestic and regional markets and allows for the free movement of the labor force would offer greater potential to generate sustainable growth and poverty reduction.

2 **The WTO Agreement on Agriculture should guarantee the right of developing countries to ensure effective protection of their agricultural sectors to promote development and food security.** This includes the following measures:

- The tariff reduction formula should not be based on the proportionality principle, thereby ensuring that developing countries need not make large tariff concessions that would have a negative impact on their development. Rather, they should have the flexibility to protect key agricultural products in order to ensure food security and protect rural livelihoods.
- Until supports that promote dumping are eliminated, developing countries should retain the possibility of using tariff protections in the face of subsidized imports. To this end, an automatic compensation mechanism should be triggered when developing countries face unfair competition.
- The Agreement on Agriculture should formally incorporate a Special Safeguard Mechanism that can be used by all developing countries, without restrictions on the number of products. The mechanism should be made available on the basis of simple development indicators.
- A list of Special Products should be exempted from liberalization commitments. The list could be defined by each developing country, and would include the possibility of renegotiating tariff commitments agreed upon during the Uruguay Round when these affect crops and other products essential to food security.

3 **Agriculture must occupy a privileged place in the political agenda of Central American countries in order to reduce rural poverty.** This includes the following measures:<sup>67</sup>

- Agricultural expenditures should increase in all countries in the region, given the sector's economic, social, and cultural importance. This expenditure should stop sustaining and supporting only large producers and agro-industry, and instead should be primarily oriented to benefit small-scale producers.
- Producers should be ensured equal access to resources: land, water, seeds, financing, and technology.
- Laws on cooperatives should be strengthened in the region.

- Central American markets should undergo deep reforms to enable regulation of market oligopolies and monopolies that harm producers and consumers. Anti-monopoly laws should be passed.
  - In the context of the WTO negotiations on agriculture, Central American participation and leadership should be strengthened in order to defend the priorities of small-scale producers.
- 4 **Countries should agree on a calendar at the WTO for the complete elimination of agricultural export dumping.** This should include the following measures:
- All forms of government support for exports should be eliminated before the end of the Doha Round. The subsidy component of export credits should be eliminated, and measures should be established in food aid programs to avoid the displacement of local producers.
  - Commitments should be made to restructure Blue Box supports, establishing caps and setting firm reduction commitments. Necessary measures should be agreed upon to estimate the export subsidy component of direct payments, establishing limits to their use for export products.
  - In the case of the Green Box, classification criteria should be clarified in such a way as to include only subsidies that are minimally distorting. At the same time, measures should be established to regulate the use of several boxes for the same product.
  - Developed countries should guarantee that their agriculture support systems (whether or not these are linked to production) are used toward social and environmental ends and not to stimulate production and ensure a presence in international agricultural export markets.



## Appendix 1

### Estimates of US Dumping of Rice Exports in Honduras

	2000	2001	2002	2003
(1) Cost of production (\$/acre)	582.7*	587.4*	592.2*	596.97
(2) Acres planted	3,060	3,334	3,240	3,005
(3) Total expenditure (\$)	1,782,918,964	1,958,348,064	1,918,595,437	1,793,894,850
(4) Production (100,000lbs.)	190.9	215.3	211.0	198.2
(5) Production (mt) (4)x22	8,677,273	9,786,364	9,590,909	9,009,091
<b>(6) Cost of production (\$/mt) (3)/(5)</b>	<b>205.5</b>	<b>200.1</b>	<b>200.0</b>	<b>199.1</b>
<b>(7) Export price (\$/mt)</b>	<b>152.5</b>	<b>151.4</b>	<b>108.3</b>	<b>159.1</b>
(8) Difference between cost of production and export price (6)-(7)	53.0	48.7	91.7	40.0
(9) US exports to Honduras (mt paddy rice)	107,756.3	132,648.0	138,634.2	116,297.2
<b>(10) Dumping margins (\$ thousand) (8)x(9)/1,000</b>	<b>5,707.8</b>	<b>6,461.3</b>	<b>12,718.7</b>	<b>4,654.3</b>

\* Estimates

1 acre = 0.504 hectares

mt = metric ton (1,000 kilos)

### Estimates of US Dumping of Rice Exports in Nicaragua

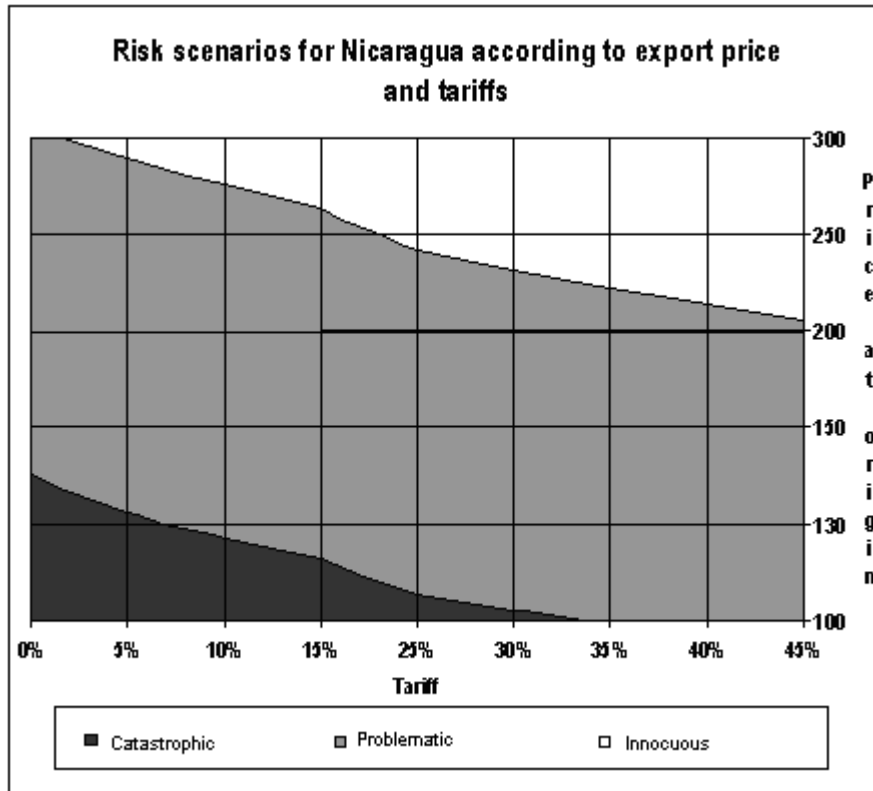
	2000	2001	2002	2003
<b>(6) Cost of production (\$/mt) (3)/(5)</b>	<b>205.5</b>	<b>200.1</b>	<b>200.0</b>	<b>199.1</b>
<b>(11) Export price (\$/mt)</b>	<b>160.0</b>	<b>160.8</b>	<b>117.8</b>	<b>162.6</b>
(12) Difference between cost of production and export price (6)-(11)	45.5	39.3	82.2	36.5
(13) US exports to Nicaragua (mt paddy rice)	73,648.4	135,091.4	106,726.3	111,741.2
<b>(14) Dumping margin (\$ thousand) (12)x(13)/1,000</b>	<b>3,348.8</b>	<b>5,310.4</b>	<b>8,777.5</b>	<b>4,080.8</b>

(1) Data from the United States Department of Agriculture (USDA) Economics Research Service (2),

(3), (4) USDA.

(7), (9) and (11) Compiled by Oxfam with data from the USDA Foreign Agriculture Service.

## Appendix 2



## Notes

<sup>1</sup> Paddy rice refers to the whole grain taken off the plant at harvest, prior to any cleaning or processing.

<sup>2</sup> Article from *La República* (Costa Rica) available at [Hhttp://larepublica.terra.co.cr/news/articulo/html/2004/03/12/rep13665.htm](http://larepublica.terra.co.cr/news/articulo/html/2004/03/12/rep13665.htm)H

<sup>3</sup> Data from the International Center for Tropical Agriculture (CIAT). Available at [Hhttp://www.ciat.cgiar.org/indicators/camproj.htm](http://www.ciat.cgiar.org/indicators/camproj.htm)H

<sup>4</sup> Data from *The State of Food Insecurity 2003*. FAO, Rome.

<sup>5</sup> Ibid.

<sup>6</sup> *Granos Básicos: Producción y Comercialización, Situación Actual y Perspectivas (1998)* [*Basic Grains: Production and Trade, Current Situation and Perspectives (1998)*], Ministry of Agriculture, Guatemala.

<sup>7</sup> Data obtained from Guatemala's Ministry of Planning and Programming. Available at [Hhttp://www.segeplan.gob.gt](http://www.segeplan.gob.gt)H

<sup>8</sup> Ibid.

<sup>9</sup> CENAGRO, *III Nicaraguan National Census of Agriculture*, INEC, FAO, MAGFOR, and UE.

<sup>10</sup> Plant where agricultural products are processed.

<sup>11</sup> Paddy rice refers to the whole grain taken off the plant at harvest, prior to removing the hull or processing. Milled rice, however, has had all unwanted hulls and chaff removed. Many countries establish different tariffs for the import of paddy and milled rice to defend their domestic millers. In many cases, small-scale producers in Central America have to sell their product in paddy form, whereas large-scale producers process and sell their rice already milled. Small-scale producers are thus more vulnerable.

<sup>12</sup> FAO statistics. Available at [Hhttp://faostat.fao.org/faostat/collections?version=ext&hasbulk=0&subset=agriculture](http://faostat.fao.org/faostat/collections?version=ext&hasbulk=0&subset=agriculture)H

<sup>13</sup> According to FAO data, Honduras received 22,857 tons of milled rice as food aid in 1998, of which 16,277 came from the United States.

<sup>14</sup> 'When Hurricane Mitch struck Honduras, there were sufficient stocks of grain in inventory to provide emergency food aid. However, these stocks were not purchased from domestic producers; rather, the decision was made to import food aid, which harmed domestic production for the future.' Economic Commission for Latin America and the Caribbean (ECLAC) report, *Istmo*



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*Centroamericano: Los Retos de la Sustentabilidad en Granos Básicos* [The Central American Isthmus: Challenges to Sustainability for Basic Grains]. 2003.

<sup>15</sup> Rice producers state that imports and donations drive them to bankruptcy. See [Hhttp://www.laprensahn.com/econoarc/9907/e08004.htm](http://www.laprensahn.com/econoarc/9907/e08004.htm)

<sup>16</sup> A *maquila* is an assembly plant that provides low wage jobs that require little skill.

<sup>17</sup> Poverty and war have forced 4.5 million Central Americans to emigrate. See [Hhttp://www.laprensahn.com/natarc/0008/n30001.htm](http://www.laprensahn.com/natarc/0008/n30001.htm)

<sup>18</sup> Roger Norton, agricultural economist, was contracted by USAID to draft a law for the modernization of agricultural development. This law adjusted agrarian, agricultural, and forest policies in Honduras to the agro-export model.

<sup>19</sup> Honduras Country Economic Memorandum/Poverty Assessment, 17 November 1994. Report No. 13317-HO.

<sup>20</sup> Ibid.

<sup>21</sup> ECLAC, *Información Básica del Sector Agropecuario Subregión Norte de América Latina y el Caribe, 1990-2002*. [Basic Information on the Agrarian Sector in the Northern Subregion of Latin America and the Caribbean, 1990-2002.]

<sup>22</sup> Data from the United States Department of Agriculture. Available at [Hhttp://www.fas.usda.gov/ustrade](http://www.fas.usda.gov/ustrade)

<sup>23</sup> ECLAC, *Información Básica del Sector Agropecuario Subregión Norte de América Latina y el Caribe, 1990-2002*.

<sup>24</sup> Press release from Senator Grassley in support of the signing of CAFTA. [Hhttp://grassley.senate.gov/releases/2004/p04r05-28.htm](http://grassley.senate.gov/releases/2004/p04r05-28.htm)

<sup>25</sup> Article 'En el TLC definimos si nos suicidamos o si morimos de muerte natural', ['In the FTA we define if we commit suicide or die from natural causes'], *Journal Envío*, number 259. October 2003. Nicaragua.

<sup>26</sup> Article 'TLC: Agro cada vez más vulnerable', ['FTA: Agro more vulnerable all the time'], Eduardo Smith, *Prensa Libre*. Guatemala

<sup>27</sup> Data from the Consejo Agropecuario Centroamericano included in the ECLAC study *Istmo Centroamericano: El Reto de la Sustentabilidad de los Granos Básicos* [The Central American Isthmus: the Challenge of Sustainability for Basic Grains], May 2003.

<sup>28</sup> The G-20 is a group of developing countries established on 20 August 2003, in the final stages of the preparations for the Vth Ministerial Conference of the WTO held in Cancun from 10-14 September 2003. Its focus is on agriculture, the central issue of the Doha Development Agenda. The Group is currently comprised of 19 member countries: five from Africa (Egypt, Nigeria, South Africa, Tanzania, and Zimbabwe), six from Asia (China, India, Indonesia,

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Pakistan, the Philippines, and Thailand) and eight from Latin America (Argentina, Bolivia, Brazil, Chile, Cuba, Mexico, Paraguay, and Venezuela).

<sup>29</sup> Table 35, Commodity Credit Corporation (CCC) net outlays updated to February 2004. Available at

[Hhttp://www.fsa.usda.gov/dam/bud/05PresBud/05PresBudTable35.pdf](http://www.fsa.usda.gov/dam/bud/05PresBud/05PresBudTable35.pdf)H

<sup>30</sup> Article 3.16: Sugar Compensation Mechanism: 'In any year, the United States may, at its option, apply a mechanism that results in compensation to a Party's exporters of sugar goods in lieu of according duty-free treatment to some or all of the duty-free quantity of sugar goods established for that Party in Appendix I to the Schedule of the United States to Annex 3.3. Such compensation shall be equivalent to the estimated economic rents that the Party's exporters would have obtained on exports to the United States of any such amounts of sugar goods and shall be provided within 30 days after the United States exercises this option. The United States shall notify the Party at least 90 days before it exercises this option and, on request, shall enter into consultations with the Party regarding application of the mechanism.'

<sup>31</sup> John J. Audley, Demetrios G. Papademetriou, Sandra Polaski, and Scott Vaughan (2003), *NAFTA's Promise and Reality*, p.21. Carnegie Endowment for International Peace.

<sup>32</sup> *The State of Food Insecurity in the World*, FAO, 2003.

<sup>33</sup> *Gallo pinto* is a typical Central American dish made of rice and beans.

<sup>34</sup> United States Trade Representative (USTR) Fact Sheet on agriculture in CAFTA. Available at

[Hhttp://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2004/asset\\_upload\\_file793\\_5328.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2004/asset_upload_file793_5328.pdf)H

<sup>35</sup> FAO statistics. Available at

[Hhttp://faostat.fao.org/faostat/collections?version=ext&hasbulk=0](http://faostat.fao.org/faostat/collections?version=ext&hasbulk=0)H

<sup>36</sup> United States Trade Representative (USTR) Fact Sheet on agriculture in CAFTA. Available at

[Hhttp://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2004/asset\\_upload\\_file793\\_5328.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2004/asset_upload_file793_5328.pdf)H

<sup>37</sup> Official text of DR-CAFTA. Article 3.15., paragraph 4. 'No Party may apply an agricultural safeguard measure and at the same time apply or maintain: (a) a safeguard measure under Chapter Eight (Trade Remedies); or (b) a measure under Article XIX of the GATT 1994 and the Safeguards Agreement; with respect to the same good.'

<sup>38</sup> For example, if the price for imported rice is usually close to \$200/ton and the tariff is 45 per cent, the final price is \$290, which allows for the survival of domestic production. However, if the price of imports is reduced to \$80, with the same tariff the final price rises only to \$116, an insufficient level to protect small-scale rice producers.

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<sup>39</sup> Fragment from Senator Thad Cochran's article 'Cochran Swears to Defend Farm Bill', 26 December 2003, *Delta Farm Press*.

<sup>40</sup> Table 42 of the United States Agricultural Census in 1997. Available at [Hhttp://www.nass.usda.gov/census/census97/volume1/us-51/us1\\_42.pdf](http://www.nass.usda.gov/census/census97/volume1/us-51/us1_42.pdf)H

<sup>41</sup> USDA fact sheet on rice. Summary of the period 2002-2007. Available at [Hhttp://www.fsa.usda.gov/pas/publications/facts/rice03.pdf](http://www.fsa.usda.gov/pas/publications/facts/rice03.pdf)H

<sup>42</sup> Ibid.

<sup>43</sup> Compiled by Oxfam with USDA statistics on rice exports. Available at [Hhttp://www.fas.usda.gov/ustrade/USTExFatus.asp?QIH](http://www.fas.usda.gov/ustrade/USTExFatus.asp?QIH)

<sup>44</sup> USDA fact sheet on rice. Summary of the period 2002-2007. Available at [Hhttp://www.fsa.usda.gov/pas/publications/facts/rice03.pdf](http://www.fsa.usda.gov/pas/publications/facts/rice03.pdf)H

<sup>45</sup> Table 35, Commodity Credit Corporation (CCC) net outlays, updated to February 2004. Available at [Hhttp://www.fsa.usda.gov/dam/bud/05PresBud/05PresBudTable35.pdf](http://www.fsa.usda.gov/dam/bud/05PresBud/05PresBudTable35.pdf)H

<sup>46</sup> Analysis of Agrarian Policy by USDA and the Economic Research Service. Analysis from Chapter 1 on commodities support. Available at [Hhttp://www.ers.usda.gov/Features/farmland/titles/titlecommodities.htm](http://www.ers.usda.gov/Features/farmland/titles/titlecommodities.htm)H

<sup>47</sup> Estimates of production costs for main crops, 2003-04, USDA Economic Research Service. Available at [Hhttp://www.ers.usda.gov/Data/CostsAndReturns/data/Forecast/cop\\_forecast.xls](http://www.ers.usda.gov/Data/CostsAndReturns/data/Forecast/cop_forecast.xls)H

<sup>48</sup> To this production cost should also be added the cost of drying and other necessary treatments, as well as transport. Therefore, the level of dumping becomes even greater.

<sup>49</sup> Compiled by Oxfam from USDA statistics on rice exports. Available at [Hhttp://www.fas.usda.gov/ustrade/USTExFatus.asp?QIH](http://www.fas.usda.gov/ustrade/USTExFatus.asp?QIH)

<sup>50</sup> Table 42 of United States Agricultural Census of 1997. Available at [Hhttp://www.nass.usda.gov/census/census97/volume1/us-51/us1\\_42.pdf](http://www.nass.usda.gov/census/census97/volume1/us-51/us1_42.pdf)H and Table 34 of United States Agricultural Census of 2002. Available at [Hhttp://www.nass.usda.gov/census/census02/volume1/us/st99\\_1\\_034\\_034.pdf](http://www.nass.usda.gov/census/census02/volume1/us/st99_1_034_034.pdf)H

<sup>51</sup> US family farm advocates favor an overhaul of US agricultural policies so as to promote social and environmental objectives, redistribute resources, and promote environmental stewardship by controlling overproduction, achieving fair prices for farmers, and putting an end to dumping.

<sup>52</sup> In addition to those tariffs, an accord in effect since 2001 allows millers to import paddy rice at a 20 per cent tariff rate up to a quota of 100,208 tons. In

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return, part of this tariff benefit should be passed on in the form of a higher price paid to domestic producers for rice purchased by these companies.

<sup>53</sup> FAO data.

<sup>54</sup> ECLAC, *Información Básica del Sector Agropecuario Subregión Norte de América Latina y el Caribe, 1990-2002*.

<sup>55</sup> *The State of Food Insecurity in the World*, FAO, 2003.

<sup>56</sup> Average support of \$5.9 per 100lbs is obtained by dividing the sum of rice subsidies and benefits by the quantity of rice produced. The implicit subsidy of \$1.73 is the difference between the export price and the cost of production.

<sup>57</sup> The decision to remove protections from paddy rice harms small-scale producers in particular, due to the fact that they sell their product without any processing. However, large producers sell their product as milled rice, giving them higher profits.

<sup>58</sup> Until DR-CAFTA takes effect, a quota of 100,208 tons was set with a preferential tariff of 20 per cent. DR-CAFTA establishes a duty-free quota of 92,700 tons.

<sup>59</sup> This is due to the fact that imported rice yields more milled rice and the sale price to the consumer is also higher. Therefore, US rice can compete in Central America at a slightly higher price, particularly because it offers better profit margins to importers than Central American rice.

<sup>60</sup> According to the FAO, the area of cultivation in Honduras in 1992 was reduced by 35 per cent from the previous year as a consequence of the *arrozazo*.

<sup>61</sup> The removal of protection in Mexico also accelerated when imports surpassed the quota levels established by NAFTA. In 1996, only two years after NAFTA came into effect, corn imports were over 6 million tons, when the established quota was less than 3 million tons.

<sup>62</sup> According to the FAO, the area of cultivation in Honduras in 1998 was reduced by 33 per cent compared with the previous year.

<sup>63</sup> These estimates and hypotheses are derived from an equilibrium model inferred from the Honduras case. The profit margin of millers was dependent on the difference between the price to consumers and their own costs, this latter amount consisting of the import price of US rice and the price paid to local producers.

<sup>64</sup> According to ECLAC data, the situation is even more dramatic for corn and bean producers, whose share of the credit portfolio in 2002 was 0.1 per cent and 0 per cent respectively. See page 185 of the document [Hhttp://www.eclac.cl/publicaciones/Mexico/8/LCMEXL598/L598-10.pdf](http://www.eclac.cl/publicaciones/Mexico/8/LCMEXL598/L598-10.pdf)H

<sup>65</sup> Article from *Confidencial*, 16 May 2004. Nicaragua. Available at [Hhttp://www.confidencial.com.ni/2004-388/especial2g-388.htm](http://www.confidencial.com.ni/2004-388/especial2g-388.htm)H

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<sup>66</sup> CENAGRO, *III Censo Nacional Agropecuario de Nicaragua*, INEC, FAO, MAGFOR and UE.

<sup>67</sup> Some of these points have been extracted from the CID Initiative's document, 'Desafios y propuestas para sector ambiental, laboral y agropecuario de Nicaragua ante la firma del CAFTA' ['Challenges and proposals for Nicaragua's environmental, labor and agricultural sector with the signing of CAFTA'].

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