

## U.S. - Colombia Trade Agreement (CTPA) Analysis



Before discussing the economic impact analysis of the CTPA, an understanding of the agreement's content is important. Some important aspects of the agricultural sections of the CTPA are summarized below.

### Major CTPA Provisions

Under the CTPA, more than 80 percent of current U.S. exports to Colombia will become duty-free immediately. Agricultural items that receive immediate duty-free treatment include high-quality beef, cotton, wheat, soybeans, soybean meal, apples, pears, peaches, cherries and some processed food products. In addition, the United States and Colombia have worked to resolve sanitary and phytosanitary barriers to agricultural trade, including food safety inspection procedures for beef, pork and poultry. Some of the other specific provisions of the agreement are discussed further below.

#### All Commodities Included in the Agreement

The CTPA requires an eventual elimination of *all* tariffs on *all* agricultural products exported by the United States to Colombia. Most agricultural products from Colombia already enter the United States duty-free under the Andean Trade Preference Act. (See section above.) The CTPA would level the playing field by ensuring the same open market access for U.S. exports to Colombia as Colombian exports currently receive in the United States. Tariffs on U.S. farm products are phased out completely over 19 years. The agreement not only eliminates the lower, applied tariffs currently levied on agricultural imports from the United States, but would also preclude the possibility of Colombia shifting to the much higher bound tariffs for farm products at anytime in the future. This elimination of both applied tariffs and bound tariffs ensures the United States open access, regardless of market developments that might lead Colombia to revert to their higher bound rates on record with the World Trade Organization.

#### Price Band System Eliminated

As a part of the CTPA, Colombia has agreed to immediately eliminate its use of the price band system on U.S. products. Elimination of the price band will prevent any additional costs or charges, above the market price in Colombia, from being added to U.S. agricultural products. In addition, this elimination will allow the Colombian market to operate freely and without any manipulation on market prices that would be caused by the price band system.

#### Tariff Rate Quotas in the Agreement

In the CTPA, both parties utilized tariff rate quotas as a transition vehicle to open markets for a variety of agricultural products. A tariff rate quota, also known as a TRQ, is a two-leveled tariff, where the tariff rate charged on imports depends on the volume or quantity of imports. A lower tariff, called an in-quota tariff, is charged on imports that fall within the quota volume. These tariffs are generally low and not very trade distorting. A higher tariff, called an over-quota tariff, is imposed on imports in excess of the quota volume.

The United States will utilize TRQs to open its markets for beef, fluid milk and cream, butter, cheese, processed dairy products, ice cream, tobacco and sugar. With the exception of sugar (see the Sugar section below), all U.S. TRQs will be eliminated and the markets will be fully opened within 15 years. Colombia will also utilize TRQs as a means of transition to completely open markets. All Colombian TRQs will be eliminated and markets will be fully opened within 19 years. The table below shows the commodities for which Colombia will utilize a TRQ, the average U.S. export of these selected commodities (from 2006 to 2008) and the TRQ values for year one and year ten of the agreement's implementation.



## Colombia's TRQ Commitments

(Values in Metric Tons)

Commodity	Size of TRQ in:		TRQ
	Year 1	Year 10	Unlimited In
Dried Beans	15,750	Unlimited	10 Years
Standard Quality Beef	2,100	Unlimited	10 Years
Beef Variety Meats	4,642	Unlimited	10 Years
Spent Fowl (Chickens)	412	538	18 Years
Chicken Leg Quarters	27,040	38,486	18 Years
Yellow Corn	2,100,000	3,257,789	12 Years
White Corn	136,500	211,756	12 Years
Milk Powder	5,500	12,969	15 Years
Yogurt	110	259	15 Years
Butter	550	1,297	11 Years
Cheese	2,310	5,447	15 Years
Ice Cream	330	778	11 Years
Processed Dairy Products	1,100	2,594	15 Years
Sorghum	21,000	32,578	12 Years
Glucose	10,500	Unlimited	10 Years
Pet Food	8,640	Unlimited	8 Years
Animal Feed	194,250	301,346	12 Years
Rice	79,000	117,402	19 Years
Crude Soybean Oil	31,200	Unlimited	10 Years

To ensure that these TRQs are administered in a manner that facilitates opening markets for these protected products, the agreement provides specific guidelines on how to operate these TRQs. The agreement states, "Each Party shall make every effort to administer its TRQs in a manner that allows importers to fully utilize them." Specifically, the agreement requires that TRQ administration be transparent, that administration will be done by government authorities and that TRQ quantities are made in commercially viable amounts.

### Safeguard Mechanisms in the Agreement

The CTPA allows either country to impose a safeguard measure on selected agricultural commodities in the event that the domestic market for the commodity is disrupted and the domestic producers are harmed by a surge in imports. A trigger level was set for each commodity in the text of the agreement and an additional duty (that varies by commodity) may be charged *temporarily* if this trigger is reached.

### Sugar in the Agreement

The CTPA requires the United States to expand its current sugar quota for Colombia. Under the 2007 sugar TRQ allotment, Colombia was authorized to export 30,760 metric tons of sugar to the United States that year. Under the CTPA, Colombia's sugar quota would increase immediately by 50,000 metric tons and by 750 metric tons each year thereafter.

However, the text of the agreement (Article 2.19) provides for a "sugar compensation mechanism." The United States has the right to compensate Colombia for their increased sugar quotas in lieu of actually importing the sugar. This provision is similar to that provided in the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). However, the CTPA explicitly explains how this compensation will



occur. The agreement states, “Such compensation shall be equivalent to the estimated economic rents that Colombia’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 exercise this option.” In other words, the United States may compensate Colombia with a payment equal to the estimated cost of the sugar to be exported to the United States by Colombia.

Also similar to the DR-CAFTA, Colombia must meet a “net-exporter” provision (or export more sugar than they import) in order to send any additional product in the U.S. market.

### Analysis Methodology

On Tuesday, April 12, 2011, USDA-ERS released new trade numbers that estimated the overall impact that the pending FTAs would have on U.S. agricultural exports. Upon close review, it was determined that the USDA-ERS economic model and AFBF economic model share similar assumptions regarding trade margins of preference, population growth, GDP growth, per capita GDP growth, and base years with the ERS model. Given the similarity of our models, AFBF believes the figures projected by ERS to accurately project the gains U.S. agriculture would realize from the free trade agreements in the current economic climate. AFBF Economic Analysis staff further refined the commodity categories to more fully reflect the U.S. agricultural industry on both a national- and state- level.

### Agriculture Shares in General Gains

Focusing specifically on the farm-sector impact indicates that U.S. agriculture would be a net gainer with the CTPA in place. The CTPA would essentially complete the trade liberalization initiated under Andean Trade Preference Act and ensure the United States the same open access to Colombia’s market that the United States has extended to Colombia for more than a decade. In this setting, CTPA-related expansion in United States farm exports to Colombia is likely to significantly outpace expansion in United States imports of farm products from Colombia.

Looking at the major commodities, the United States faces a small increase in sugar imports related to Colombia’s quota increase. The follow table shows that, by the 2026 end of the implementation period, the 64,250 ton increase in the U.S. sugar quota permitted under the CTPA, if filled, would translate into a **\$32.4 million** increase in sugar imports.

#### Impact of CTPA on U.S. Sugar Imports

	<u>Without an Agreement</u>		<u>With an Agreement</u>	
	2007	2027	2007	2027
In 1,000 MT				
Export Quotas <sup>1</sup>	30.8	30.8	30.8	30.8
Increase in Quota w/ CFTA	0.0	0.0	50.0	64.3
Total Colombia Quota	30.8	30.8	80.8	95.0
In \$1,000,000 <sup>2</sup>				
Export Quotas <sup>1</sup>	15.5	15.5	15.5	15.5
Increase in Quota w/ CFTA	0.0	0.0	25.3	32.4
Total Colombia Quota	15.5	15.5	40.8	48.0

*1 Assumes import quotas for other countries and allocation to Colombia does not change from 2007 levels*

*2 Priced at \$505 per ton*



However, the CTPA will provide an opportunity for the United States to expand exports of grains, oilseeds, fiber and livestock products. The increased total U.S. agricultural exports likely with a CTPA in place could exceed \$370 million if other agricultural and processed products grow at the same pace. The table below shows the value of these increased exports, by commodity.

### Summary of CTPA Benefits to U.S. Agriculture

Agricultural Product	Current Imports from U.S.		Estimated Gains
	2006-2008 Avg	2009-2010 Avg	
	<i>(Values in U.S. Dollars)</i>		
Rice	584,900	13,193,500	28,600,000
Wheat	234,443,400	159,251,800	90,100,000
Corn	588,056,800	195,707,100	68,537,700
Other Grains	4,398,100	6,300,300	762,300
Fruits, Vegetables and Nuts	31,445,700	46,315,200	2,500,000
Soybeans & Products	320,609,300	199,432,900	62,969,400
Other Oilseeds & Products	21,518,800	26,176,900	7,230,600
Cotton	64,127,200	91,393,400	9,600,000
Beef	440,600	649,400	17,500,000
Poultry	14,840,000	21,518,900	12,670,000
Pork	8,534,500	12,372,500	5,430,000
Other Livestock Products	22,136,300	16,658,000	2,400,000
Dairy	8,340,400	5,001,700	2,300,000
Processed Food and Fish Products	50,001,200	98,131,900	55,900,000
Other Agriculture	134,230,700	143,761,500	4,100,000
<b>Total</b>	<b>1,503,707,900</b>	<b>1,035,865,000</b>	<b>370,600,000</b>

Looking at some of the specific commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on the following commodity opportunities in what will be a fast-growing market overall:

- Colombia's growth in imports of **grains and oilseed products**, related both to growing food demand for wheat and vegetable oils and to growing domestic livestock demand for feed grains and protein meals, is likely to be substantial. The trade agreement puts the United States in a strong supplier position to compete on a level playing field with other preferential trade partners.
- Gains in **cotton** imports are key, due to increased domestic demand for cotton and import demand from the U.S. for finished textiles and apparel. The CTPA would put the United States in a position to price competitively and boost market share.
- Gains in **other agricultural products** could also be substantial. The United States exports a diverse basket of farm products to Colombia. The commodities noted specifically above



account for two-thirds of the United States total exports. Other commodities or commodity groupings of importance include fruits, vegetables, tallow and other processed products.

### **Potential Losses**

In addition to detailing the potential gains to U.S. agriculture a review of CPTA would be incomplete without discussing the potential losses of continued inaction on CPTA. In 2009, the AFBF Department Economic Analysis estimated that the increased total U.S. agricultural exports likely with a CTPA in place could exceed \$815 million. AFBF models used at that time accurately reflected the potential gains from trade that would have been experienced given the agricultural trade situation of the 2005 to 2008 base period.

However, since that time there have been several significant global economic changes affecting trade, including increased energy and agricultural commodity prices, a worldwide financial crisis, newly enacted SPS and TBT measures, and considerably shifted global trade patterns. These changes, and the continued inaction on the Colombian Free Trade Agreement has caused and will continue to result in considerable losses for U.S. agricultural exports to the Colombian market.

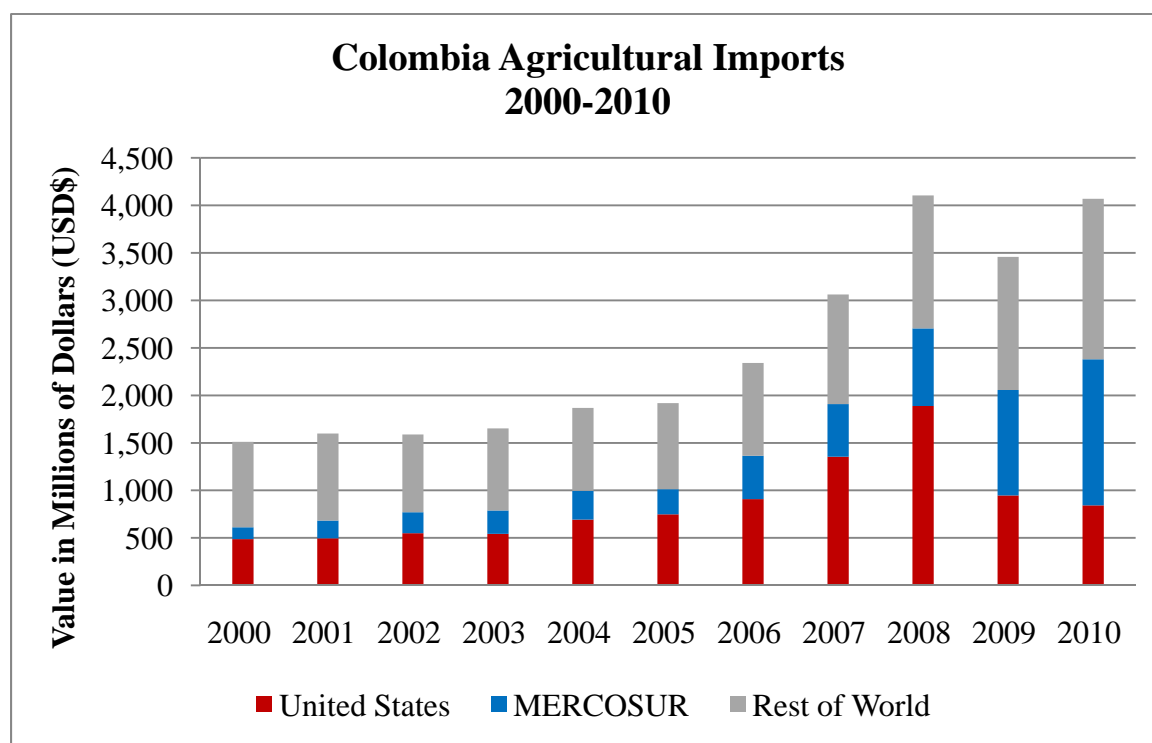
While passage of CPTA has languished in the United States, our competitors such as Brazil, Argentina, Uruguay, and Paraguay (MERCOSUR) have passed their own agreements with Colombia, granting them preferential access to this growing market, at the expense of U.S. exporters. With Colombia continuing to negotiate and sign free trade agreements with additional U.S. competitors, such as the European Union and Canada, combined with further implementation of the MERCOSUR agreement, the U.S. competitive position will continue to erode, likely closing the U.S. out of the Colombian market if CPTA is not enacted. As a result, potential trade losses grow larger with each day CPTA is not passed. This inaction could lead to U.S. Agricultural export losses in excess of \$1.1 billion annually. Substantial annual losses for the state are detailed in the table below.



**Estimated Losses from Non-Passage of the Pending Colombia FTA  
United States**

Agricultural Product	2006-2008 Average			2009-2010 Average			Potential U.S. Loss
	Imports from World	Imports from United States	U.S. Market Share	Imports from World	Imports from United States	U.S. Market Share	
	<i>\$US Dollars</i>						
RICE	43,866,200	584,900	1%	31,365,600	13,193,500	42%	-10,100,000
WHEAT	417,479,700	234,443,400	56%	353,782,400	159,251,800	45%	-166,400,000
CORN	677,674,100	588,056,800	87%	729,834,700	195,707,100	27%	-115,500,000
OTHER GRAINS	115,688,500	4,398,100	4%	110,145,800	6,300,300	6%	-1,270,500
FRUITS, VEGETABLES, AND NUTS	246,869,500	31,445,700	13%	340,163,200	46,315,200	14%	-85,600,000
SOYBEANS & PRODUCTS	629,120,400	320,609,300	51%	831,439,600	199,432,900	24%	-98,445,750
OTHER OILSEEDS & PRODUCTS	155,713,000	21,518,800	14%	240,341,800	26,176,900	11%	-11,304,250
COTTON	76,739,000	64,127,200	84%	94,814,400	91,393,400	96%	-347,200,000
BEEF	7,283,600	440,600	6%	11,443,300	649,400	6%	-350,000
POULTRY	21,425,600	14,840,000	69%	32,428,600	21,518,900	66%	-14,500,000
PORK	23,298,100	8,534,500	37%	31,896,000	12,372,500	39%	-13,100,000
OTHER LIVESTOCK PRODUCTS	55,587,500	22,136,300	40%	60,054,900	16,658,000	28%	-8,000,000
DAIRY	75,405,300	8,340,400	11%	73,003,500	5,001,700	7%	-14,566,000
PROCESSED FOOD AND FISH	280,973,900	50,001,200	18%	384,900,000	98,131,900	25%	-207,700,000
OTHER AG	416,092,200	134,230,700	32%	486,398,300	143,761,500	30%	-60,000,000
<b>TOTAL</b>	<b>3,243,216,600</b>	<b>1,503,707,900</b>	<b>46%</b>	<b>3,812,012,100</b>	<b>1,035,865,000</b>	<b>27%</b>	<b>-1,154,036,500</b>

Source: American Farm Bureau Federation Economic Analysis



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