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# Gender Equity in Micro and Small Rural Enterprises

IICA

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# The internacional context in which **Central America's rice sector operates**[1]

*An analysis of the exogenous factors affecting Central America's rice sector as it prepares for trade liberalization and the CAFTA-RD in particular*

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Rice is a staple food for Central Americans and for over half the world's population. Given the acreage involved and the large number of people who depend on it, many regard rice as the world's most important crop. Over 40% of the world's population depends on it for 80% of their diet and it provides 20% of the per capita caloric intake worldwide.

Due to the grain's importance for food security in Central America, this article provides a quantitative description of the three main variables (production, consumption and trade) in relation to the rest of the world. It also analyzes the level of support that developed countries give their rice sectors and describes the main commitments that the Central American countries assumed in signing free trade agreements.

The article is intended to provide the private and public sectors involved in rice production and trade with solid facts for analyzing the question of trade liberalization.

## 1. The Central American region in figures: production, consumption and trade

### Production

Rice production is highly concentrated in geographic terms, with Asia accounting for 90% of the world total. Between them, China and India produce over half the world's rice (51.2%). With total production of 608 million tons in 2004, paddy rice was the third most important grain produced worldwide, with production levels similar to those of wheat and corn, the world's two leading grains.

Brazil is the number one non-Asian producer (it accounts for 2.2% of world production), followed by the U.S. (1.6%). Latin America and the Caribbean (LAC), minus Brazil, account for 2% of world production, while the European Union (EU)[2] produces

[1] Article based on the IICA document: "El Entorno Internacional del Sector Arrocero Centroamericano," also written by Henry Benavides and Oswaldo Segura, for the Central American Federation of Rice Growers (FECARROZ).

[2] Refers to EU-25.

*Central America consumes around 800,000 tons of rice per year, equivalent to 0.2% of world consumption and 5% of consumption in LAC.*

only 0.4%. Italy and Spain account for 50% and 33% of the rice produced in the EU, respectively.

Central America produces 0.45% of world production (2.7 million tons in 2004), a figure that has remained stable since 1996. The main producers are Panama (31% of regional production), Nicaragua (29.4%) and Costa Rica (27%).

### Consumption

The countries produce rice basically for domestic consumption. The Asian nations are the world's number one consumers, as well as producers, of rice. As much as 90% of the world's milled rice is consumed in those countries. China and India are the chief consumers, accounting for 30.3% and 23.9% of world consumption, respectively.

The non-Asian country that consumes most rice is Brazil (1.9% of world consumption), while the European Union consumes 0.7% and LAC, minus Brazil, 2.2%. The Central American region consumes nearly 800,000 tons of rice, equivalent to 0.2% of world consumption and 5% of LAC consumption.

### Internacional trade

The quantity of rice traded on world markets is small in comparison with the amount produced and consumed. Consequently, changes in the production or consumption of certain countries can trigger large variations in the volume traded worldwide and, therefore, in prices. Thus, the world rice trade is segmented, somewhat volatile and subject to major price swings.

It is estimated that 25-27 million tons of rice are trade internationally each year, or barely 5-6% of world production. This makes it one of the world's smallest grain markets (around 113 million tons of wheat and 80 million tons of corn are traded each year).

The market is highly volatile because rice is not a homogeneous product. Trade in the grain is stratified according to the types of rice involved. For example, people in some countries would sooner eat less rice than use a kind to which they are unaccustomed. Therefore, meeting the demands of the market means providing rice of the type, form, class and quality that local tastes demand.

According to FAO, 26.1 million metric tons of rice were traded in 2004, compared with 27.7 in 2003.

The Asian countries are the largest regular exporters (Thailand, India and China accounted for 57.6% of world exports in 2003) but a relatively important quantity of rice is exported by developed countries, such as the United States (19.45%) and Europe (4.23%, from Italy and Spain). There are also several important exporters in Latin America, mainly Argentina (0.8%) and Uruguay (2.91%). Central America accounts for less than 0.1% of world exports.

The Far East is the main focus of imports and exports. The world market is expected to grow by 3% per year in the medium term. However, there is a good deal of uncertainty, since the performance of middle and low-income importing countries is highly unpredictable due to the vulnerability of their economies. Imports are less concentrated than exports, but even so the five main countries account for 23% of world trade.

In Central America, the main producers and the countries with the biggest rice acreage are Costa Rica and Nicaragua. In 2002, El Salvador enjoyed the highest productivity, as less productive farmers abandoned the activity. Nevertheless, the entire production of the five Central American countries represented only 6.1% of U.S. production. The region's total acreage is equivalent to only 12.4% of that of the United States. Productivity levels in the U.S. were also much higher for the year in question.

***The Central American region is a net importer of rice.*** Its main supplier is the United States (over 90% of El Salvador's imports come from that country). Nicaragua and Costa Rica, the area's biggest producers, impose the highest tariffs for rice imports. Although the rate for certain types of rice in El Salvador is 40%, the country has a tariff quota for paddy rice. This has fueled imports at the expense of local production, to such a degree that no imports of seed rice were recorded in 2001.

*In 2002, the production of the five Central American countries represented only 6.1% of U.S. production. The region's rice acreage was equivalent to 12.4% of the U.S. total. U.S. productivity levels were also much higher.*

### *The conditioning factors of the world rice market*

**There are several points to consider in conducting an objective analysis of the conditions that affect world trade in agricultural products, and especially rice:**

**a) Rice is produced basically to supply the countries' domestic markets, hence the world rice market deals in *surpluses*. The surpluses are mostly due to the large state support for domestic production granted by several developed nations.**

**b) *Rice producers* in the developed countries *receive more support from their governments than any others* (equivalent in some cases to as much as 80% of their income[4]).**

**c) The rice sector subsidies that distort international trade are unlikely to be eliminated in the near future. The objective of the WTO Agreements and the ongoing agricultural multilateral negotiations under the Doha Round (aimed at *opening up* world markets further, *without discriminating* against third parties and *with transparent* national trade and sectoral policies), *will be achieved gradually* (in the medium and long term) *and at the pace that the countries decide.***

**d) *Granting subsidies* to productive sectors *is not illegal*. The Agreement on Agriculture (AoA) differentiates between trade-distorting agricultural policies; and establishes a set of non-distorting policies that are legally permitted (currently, the "Green Box" policies) and that countries can apply to the productive sectors they consider strategic if they have the financial wherewithal to do so.**

[4] *Data culled from Agricultural Policy in OECD Countries: Monitoring and Evaluations. 2003*

Rice flour deserves special mention, as all the Central American countries regularly import this product, except for El Salvador, which between 1997 and November 2002 was a net exporter of this byproduct of the rice industry.[3]

## *2. Is the world rice market really free?*

The competitiveness of Central America's rice sector is affected by endogenous factors specific to the countries (level of productivity, infrastructure, the region's trade policies, etc.), and exogenous factors over which they do not have direct control. Perhaps the chief exogenous factor is the large subsidies that rice growers in developed countries receive directly or indirectly.

In 2003, rice did not receive the most support in dollar terms but it was the product to which the developed countries afforded the greatest protection (nominal protection of 337%). In other words, thanks to tariff and non-tariff barriers the price of imported rice in these countries is 3.37 times higher than that of locally produced rice.

In the developed countries, state support accounts for three quarters of a rice farm's gross income (PSE of 74). In other words, 74

[3] Rice flour is one of the ingredients of the beverage known as "cebada" and of pupusas, products that very popular with Salvadorians living in the U.S.

***The Central American region's main rice supplier is the United States; over 90% of El Salvador's imports come from that country.***

out of every 100 dollars reported as income come from government subsidies.

A consumer of rice in a developed country pays 3.88 times more for locally produced rice than imported rice, which is like having a hidden tax included in the price. In 2002, consumers transferred roughly US $19.7 billion to the rice sector in this way.

A large slice of the total income of rice producers in the United States and Mexico, two of Central America's main trading partners, came from their governments (52% and 32%, respectively). The figure for the European Union was 37%, while in countries like Japan and Korea assistance of this kind makes up over 80% of total income.

The nominal protection for the rice sector in Korea and Japan, perhaps the two most protectionist countries as far as rice is concerned, was 516% and over 600%, respectively. The protection levels in Mexico, the United States and Europe are not as high as in Korea or Japan, but are still 145%.

Table 1
**Assistance for the rice sector in OECD countries**

| Products | US$xbillion | % PSE | % NPC | % NAC |
|---|---|---|---|---|
| **Rice** | 20.5 | 74 | 3.37 | 3.88 |
| **Sugar** | 7.1 | 56 | 2.37 | 2.26 |
| **Beef** | 33.6 | 35 | 1.28 | 1.54 |
| **Chicken** | 6.6 | 17 | 1.18 | 1.20 |
| **Milk** | 47.4 | 49 | 1.87 | 1.96 |
| **Corn** | 9.2 | 21 | 1.06 | 1.27 |
| **Oilseeds** | 7.1 | 22 | 1.03 | 1.28 |
| **Wheat** | 16.9 | 37 | 1.10 | 1.60 |
| **Average** | 257.3 | 32 | 1.31 | 1.46 |

*Source: IICA, Trade Policies and Negotiations Unit, with data from the OECD.*

Table 2
**Main indicators of assistance to the rice sector in selected countries**

| Country or region | %PSE* | | %NPC** | | %NAC** | |
|---|---|---|---|---|---|---|
| | 1986-88 | 2002 | 1986-88 | 2002 | 1986-88 | 2002 |
| **Mexico** | -38 | 32 | 0.63 | 1.30 | 0.73 | 1.45 |
| **United States** | 52 | 52 | 1.45 | 1.87 | 2.21 | 2.09 |
| **Europe** | 57 | 37 | 2.53 | 1.30 | 2.34 | 1.58 |
| **Japan** | 84 | 84 | 5.81 | 5.96 | 6.20 | 6.21 |
| **Korea** | 82 | 81 | 5.59 | 4.84 | 5.62 | 5.16 |

* Producer Support Estimate
** Producer Nominal Protection
*** Producer Nominal Assistance

*Source: IICA, Trade Policies and Negotiations Unit, with data from the OECD.*

Given the levels of protection and assistance enjoyed by the rice sectors of the developed countries, world trade in rice can hardly be said to observe the rules of the free market. On the contrary, these supports make their rice sectors appear competitive and profoundly distort the international rice market. World supplies increase when they dump their surpluses on the international market, impacting market prices.

The effects of these distortions are more marked in the Central American region following the negotiation of the CAFTA, as the United States refused to discuss domestic supports, saying the issue would have to be dealt with in the multilateral context of the Doha Round. Nor was a clause negotiated to protect the region's agricultural sector in the event that the multilateral conversations on domestic supports fail to bring about a sizable reduction.

## 3. *The central region's commitments regarding trade policy for rice*

Trade policy commitments exist at three levels; at the international level, negotiated at the World Trade Organization (WTO); at the regional level, as part of the commitments assumed under the Central American Common Market (CACM); and, at the bilateral level, through the agreements signed with trading partners.

### A. *What was negotiated in the Uruguay Round of the WTO*

#### *Tariffs*

In the Uruguay Round, the Central American countries bound different tariffs for rice (tariff item 10.06 and subitems). Belize and Guatemala established the highest levels of protection for the end of the period concerned (2005), with tariffs of around 100% and 90%, respectively. Costa Rica and Honduras are the countries that can apply the lowest tariffs for imports from third countries outside the central region, with levels of 35%.

All the countries of the region, except Belize and Honduras, negotiated the use of the agricultural special safeguard (SSG)[5] for rice, which is triggered if the volume of imported rice reaches the level negotiated or if international prices fall to a point where the tariff to be applied is not high enough to protect national production. Trigger levels were negotiated and form part of the tariffs on agricultural goods bound in the Uruguay Round.

Table 3
**Central America: Tariffs bound in the Uruguay Round for rice**

| *Country* | *Initial 1995* | *Final 2005* | *Agricultural Special Safeguard* |
|---|---|---|---|
| **Belize** | 110 | 110 | |
| **Costa Rica** | | | |
| **-Seed rice** | 55 | 45 | * |
| **-All other** | 55 | 35 | * |
| **El Salvador** | 50 | 40 | * |
| **Guatemala** | 100 | 90 | * |
| **Honduras** | 35 | 35 | |
| **Nicaragua** | 70 | 60 | * |

*Source: IICA, Trade Policies and Negotiations Unit.*

Although there are similarities between what the various Central American countries negotiated for rice in the Uruguay Round, the terms are quite different from those agreed by other nations. For example, Japan and South Korea negotiated the "prohibition" of rice imports; while countries like the USA and Canada did not use ad valorem tariffs but specific ones of up to two U.S. cents per kilo and 3.5 Canadian dollars per metric ton, respectively. India bound a final tariff of over 100%, Thailand levels of over 50% while countries that traditionally have consumed less rice, such as the European Union, established specific tariff commitments of over 200 ECUs per metric ton. Mexico, our closest trading neighbor, established levels of over 45%.

[5] The special safeguard mechanism makes it possible to increase the tariff above the bound ceiling when imports reach a previously established level or international prices fall below the level also established in the negotiations.

***The main exogenous factor affecting the activity is the high subsidies that rice producers in developed countries receive, directly or indirectly.***

### *Tariff-rate quotas*

In addition to the tariff, Costa Rica, Guatemala and Nicaragua pledged to guarantee the importation of rice via quotas at tariffs lower than those established in the Uruguay Round. Costa Rica permits imports of a little over 9000 tons, with a tariff of 35% for all types of rice, including seed rice, for which it had bound a tariff of 45%. Guatemala permits a little over 14,000 tons with a tariff of 35%, 55 percentage points below its bound amount, and Nicaragua 5040 tons, which pay 40% and not the bound tariff of 60%.

Table 4

**Central America: Tariff-rate quotas bound under the Uruguay Round for rice (metric tons and ad valorem tariff applicable under quota)**

| Country | Initial 1995 | Final 2005 |
|---|---|---|
| **Costa Rica** | **5440 (55%)** | **9067 (35%)** |
| **Guatemala** | **11,100 (55%)** | **14,015 (35%)** |
| **Nicaragua[6]** | **3025 (40%)** | **5042 (40%)** |

*Source: IICA, Trade Policies and Negotiations Unit.*

## *B. The commitments of the CACM*

The different tariffs negotiated in the Uruguay Round are the reason why there is no Common External Tariff (CET) regulating the import of rice from countries outside the Central American region. It is important to bear in mind that if the countries were to consider establishing a CET for rice, the benchmark would have to be the lowest bound tariff of all the countries (i.e., the 35% set by Honduras and Costa Rica). This could affect the countries whose tariff level is insufficient to protect their domestic production.

All the countries but one established a zero ad valorem tariff for seed rice for third parties (i.e., countries outside the region). Guatemala decided to charge 23.7% (see Table). The tariffs vary for other types of rice but all are below those bound under the Uruguay Round.

[6] Nicaragua established its quota in *quintales*, with an initial commitment of 6,576,000 rising to 1,096,000 (1 quintal = 46 kilos).

Table 5

**Central America: Tariffs applied to rice (as of July 2004)**

| Country | Seed rice 1006.10.10 | Others 1006.10.90 |
|---|---|---|
| Costa Rica | 0% | 35% |
| El Salvador | 0% | 0 / 40% |
| Guatemala | 0 / 23.7% | 0 / 23.7% |
| Honduras | 0% | 45% |
| Nicaragua | 0% | 20 / 45% |

*Source: IICA, Trade Policies and Negotiations Unit, based on sieca.org.gt.*

Rice may be traded freely within the region (a zero tariff) provided that the established standards of origin are respected (the product must have been harvested in Central America).

## C. The commitments contained in the recently signed bilateral agreements

Given the lack of progress in the negotiations aimed at creating the Free Trade Area of the Americas (FTAA), the Central American countries' bilateral negotiations with their chief trading partners have assumed greater importance - primarily with Mexico, Chile, Canada the Caribbean and, most recently, the United States. All these agreements include a commitment to permitting access to markets for rice.

In the case of the agreement between ***Central America and Mexico***, Guatemala, Honduras and El Salvador managed to exclude rice. Costa Rica agreed to open up trade in seed rice with Mexico immediately, charging only a 2% tariff, and in all other types of rice in 10 equal annual stages, starting 1 January 1995.[7] Mexico, in turn, will open up its rice market to Costa Rica in 10 years, starting with a basic tariff of 10% for broken and paddy rice and 20% for husked rice.

In the ***Costa Rica-Chile*** agreement, the latter country pledged to eliminate tariffs on rice within 16 years, beginning 1 January 2001 and ending 1 January 2015. The initial tariff negotiated was 8.4%; it will be reduced gradually in equal annual installments.

Under its agreement with Central America, ***Canada*** granted free access to rice from the region and allowed the product to be excluded from the negotiations. Costa Rica agreed to notify Canada at least 22 days in advance whenever it relaxes its quotas to cover shortages, giving the country more negotiating power and guaranteed access at a zero tariff.

## D. Rice in the bilateral agreement with the United States (CAFTA-DR)

This bilateral trade agreement is especially important. Given the support for rice production in the United States described in the previous section and since Central America is constantly importing the grain from that country, the terms of the CAFTA will have a decisive impact on the future of Central America's rice sector.

[7] The tariff base for the negotiated phaseout was 55% and 46% for broken rice and paddy rice.

**Table 6**
**CAFTA: Quantitative commitments negotiated for rice by the Central American countries**

| Country | Tariffs | | Quotas for tariff-free access (TM) | | | | Trigger levels |
|---|---|---|---|---|---|---|---|
| | Tariffs | Phaseout | Paddy Rice | | Husked rice | | |
| | | | First year | Annual growth | First year | Annual growth | |
| Costa Rica | 35% | 20 years<br>First 10 years no reduction<br>Years 11-15 40%<br>Years 16-19 60%<br>Zero tariff starting in year 20 | 51,000 | 1000 MT per year. Year 20 unlimited imports | 5250 | 250 MT per year. Year 20 unlimited imports | 110% of paddy quota<br>110% of husked quota |
| Guatemala | 29.2% | 18 years<br>First 10 years no reduction<br>Years 11-14 33%<br>Years 15-17 67%<br>Zero tariff as of year 18 | 54,600 | 2600 MT per year. Year 18 unlimited imports | 10,500 | 500 MT per year. Year 18 unlimited imports | 110% of paddy quota<br>110% of husked quota |
| Honduras | 45% | 18 years<br>First 10 years no reduction<br>Years 11-14 33%<br>Years 15-17 67%<br>Zero tariff as of year 18 | 91,800 | 1800 MT per year. Year 18 unlimited imports | 8925 | 425 MT per year. Year 18 unlimited imports | 110% of paddy quota<br>110% of the husked quota |
| El Salvador | 40% | 18 years<br>First 10 years no reduction<br>Years 11-14 33%<br>Years 15-17 67%<br>Zero tariff as of year 18 | 62.220 | 1220 MT per year until year 5<br>Year 6 4220 MT<br>Years 7-17 1229 MT per year<br>Year 18 unlimited imports | 5625 | 375 MT per year until year 5<br>Year 6 1000 MT<br>Rest period 320 MT<br>Year 18 unlimited imports | 110% of paddy quota<br>110% of husked quota<br>110% of precooked quota |
| Nicaragua | Paddy 45%<br>Husked 62% | 18 years<br>First 10 years no reduction<br>Years 11-14 33%<br>Years 15-17 67%<br>Zero tariff as of year 18 | 92,700 | 2700 MT per year. Year 18 unlimited imports | 13,650 | 650 MT per year. Year 18 unlimited imports | 110% of paddy quota<br>110% of husked quota |

*Source: IICA, Trade Policies and Negotiations Unit. Revista InterCambio. Volume II-2004.*

As a result of the CAFTA negotiations, the Central American countries agreed to phase out the tariff ceiling bound in the Uruguay Round (WTO) within a period of 18 years (20 for Costa Rica) and establish rising annual quotas, with a zero tariff both for husked and paddy rice.

In the case of tariff quotas, the Central American countries negotiated different volumes of rice in line with the amount they need to import each year, both for husked and paddy rice. In the first year of the CAFTA, imports of 352.300 thousand tons of paddy rice and 43.900 tons of husked rice will be permitted at a zero tariff. The quotas will increase each year, until unlimited access is achieved in year 18 (year 20 for Costa Rica).

**Table 7**

**CAFTA: Evolution of the quantitative commitments negotiated for rice by the Central American countries (metric tons)**

| Year | Guatemala | | El Salvador | | Honduras | | Nicaragua | | Costa Rica | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Paddy | Husked | Paddy | Husked | Paddy | Husked | Paddy | Husked | Paddy | Husked |
| 1 | 54,600 | 10,500 | 62,220 | 5,625 | 91,800 | 8,925 | 92,700 | 13,650 | 51,000 | 5,250 |
| 2 | 57,200 | 11,000 | 63,440 | 6,000 | 93,600 | 9,350 | 95,400 | 14,300 | 52,000 | 5,500 |
| 3 | 59,800 | 11,500 | 64,660 | 6,375 | 95,400 | 9,775 | 98,100 | 14,950 | 53,000 | 5,750 |
| 4 | 62,400 | 12,000 | 65,880 | 6,750 | 97,200 | 10,200 | 100,800 | 15,600 | 54,000 | 6,000 |
| 5 | 65,000 | 12,500 | 67,100 | 7,125 | 99,000 | 10,625 | 103,500 | 16,250 | 55,000 | 6,250 |
| 6 | 67,600 | 13,000 | 71,320 | 8,125 | 100,800 | 11,050 | 106,200 | 16,900 | 56,000 | 6,500 |
| 7 | 70,200 | 13,500 | 72,540 | 8,445 | 102,600 | 11,475 | 108,900 | 17,550 | 57,000 | 6,750 |
| 8 | 72,800 | 14,000 | 73,760 | 8,765 | 104,400 | 11,900 | 111,600 | 18,200 | 58,000 | 7,000 |
| 9 | 75,400 | 14,500 | 74,980 | 9,085 | 106,200 | 12,325 | 114,300 | 18,850 | 59,000 | 7,250 |
| 10 | 78,000 | 15,000 | 76,200 | 9,405 | 108,000 | 12,750 | 117,000 | 19,500 | 60,000 | 7,500 |
| 11 | 80,600 | 15,500 | 77,420 | 9,725 | 109,800 | 13,175 | 119,700 | 20,150 | 61,000 | 7,750 |
| 12 | 83,200 | 16,000 | 78,640 | 10,045 | 111,600 | 13,600 | 122,400 | 20,800 | 62,000 | 8,000 |
| 13 | 85,800 | 16,500 | 79,860 | 10,365 | 113,400 | 14,025 | 125,100 | 21,450 | 63,000 | 8,250 |
| 14 | 88,400 | 17,000 | 81,080 | 10,685 | 115,200 | 14,450 | 127,800 | 22,100 | 64,000 | 8,500 |
| 15 | 91,000 | 17,500 | 82,300 | 11,005 | 117,000 | 14,875 | 130,500 | 22,750 | 65,000 | 8,750 |
| 16 | 93,600 | 18,000 | 83,520 | 11,325 | 118,800 | 15,300 | 133,200 | 23,400 | 66,000 | 9,000 |
| 17 | 96,200 | 18,500 | 84,740 | 11,645 | 120,600 | 15,725 | 135,900 | 24,050 | 67,000 | 9,250 |
| 18 | Free | Free | Free | Free | Free | Free | Free | Free | 68,000 | 9,500 |
| 19 | | | | | | | | | 69,000 | 9,750 |
| 20 | | | | | | | | | Free | Free |

*Source: IICA, Trade Policies and Negotiations Unit, based on the final text of the CAFTA.*

It was to be expected that the quota levels negotiated for rice would be below the countries' historical import levels, to guarantee and control supplies from overseas, and to ensure they did not compete with national production. However, only El Salvador and Costa Rica granted access at lower levels. Guatemala, Nicaragua and Honduras, on the other hand, agreed levels of 114.9%, 136.9%, and 252%, respectively, in relation to the average level of imports of equivalent husked rice for 2000-2003.

**Table 8**
**CAFTA: Tariff-rate quota negotiated for the first year and as a percentage of the volume of imports between 2000 and 2003 (metric tons x 000)**

| Country or Region | TRQ negotiated under CAFTA (Year1 2001) | | | | % of average imports 2000-2003 | | |
|---|---|---|---|---|---|---|---|
| | Paddy | Paddy Equiv. Husked | Husked | Total Equiv. Husked | Paddy | Husked | Total Equiv. Husked |
| Guatemala | 54.6 | 38.2 | 10,5 | 48.7 | 101.1 | 228.3 | 114.9 |
| El Salvador | 62.2 | 43.5 | 5,6 | 49.2 | 91.1 | 76.0 | 89.1 |
| Honduras | 91.8 | 64.3 | 8,9 | 73.2 | 234.2 | 557.8 | 252.0 |
| Nicaragua | 92.7 | 64.9 | 13,7 | 78.5 | 146.2 | 105.0 | 136.9 |
| Costa Rica | 51 | 35.7 | 5,3 | 41.0 | 51.1 | 308.8 | 57.2 |

*Source: IICA, Trade Policies and Negotiations Unit, based on the final text of the CAFTA and the WTO-UNCTAD's COMTRADE database.*

*Given the levels of protection and assistance enjoyed by the rice sectors of the developed countries, world trade in rice can hardly be said to observe the rules of the free market.*

With regard to safeguards,[8] the countries negotiated a trigger level (a percentage of the quota). In the case of Costa Rica and El Salvador, this percentage was 110%. The trigger levels rise each year in line with the quotas.

Furthermore, the United States granted rice imports from the Central American countries immediate unlimited access.

Although the conditions negotiated under the CAFTA are different for each country, it is worth examining whether they are sufficient to safeguard the interests of their national rice sectors.

## Conclusions

**a)** Rice is a staple of the diet of the Central American population. Therefore, it is important that governments in the region be able to guarantee supplies in the medium and long term.

**b)** Although supplies could be guaranteed by the terms negotiated in the CAFTA-DR, under which there will be a zero tariff for U.S. rice in 18 years (20 years in the case of Costa Rica), the terms could also have a negative impact on the region's rice growers and processors.

**c)** There are two basic reasons why this could happen: a) the huge subsidies that U.S. rice producers receive, giving them an "artificial" level of competitiveness in comparison with domestic producers; and b) the terms regarding husked rice, under which supermarkets will be able to freely import rice ready for consumption. In such circumstances, businesspeople and producers would feel the negative consequences directly.

**d)** Although during the first 18 years of the CAFTA-DR increases in quotas will be controlled via "level of performance" clauses, these will cease to apply at the end of that period (in 20 years in the case of Costa Rica).

**e)** However, as the world rice market is a market of surpluses, and climatological factors regular affect the world's main rice-producing areas (in Asia), international rice prices fluctuate wildly. These changes in prices have had a direct impact on the rice business in the region, making it more profitable to produce rice domestically at certain times and cheaper to import it at others.

**f)** This means that there is no certainty in the medium and long term as far using imports to supply the market is concerned. In such circumstances, maintaining a regional base of production to guarantee part of the population's dietary needs is an important alternative that the public and private sectors involved in the rice business need to study.

**g)** To support the rice-producing sector, the countries have a long list of possible alternatives, regulated and set out in the Agreement on Agriculture of the World Trade Organization (WTO), specifically in Annex 2 (Green Box Policies). Support for a sector regarded as strategic for the economy, in this case the rice sector, is legitimate provided that assistance programs follow the guidelines contained in the WTO agreements.

**h)** It is important to bear in mind that the issue of "Special Products" is being negotiated within the framework of the multilateral Doha Round. Products that guarantee food security or play a key role in the countries' rural development will be treated differently from other products. This issue should be discussed by national and regional

[8] A trade policy instrument whereby the tariffs applied to a product can be raised beyond the bound tariff rates when the volume of imports or international prices reach the trigger level negotiated and agreed on previously.

***Given the support for rice production in the United States and the fact that Central America is constantly importing the grain from that country, the terms of the CAFTA will have a decisive impact on the future of Central America's rice sector.***

producer associations. They could then discuss with the public sector the possibility of classifying rice as a "special product."

**i)** With regard to the CAFTA-DR specifically, the region granted access to its rice market without making it contingent on the United States reducing domestic supports. Considering the negative effect of the subsidies granted by the United States on the region's rice sector, it would be advisable to take advantage of the review of the agreement in year 14 to propose some sort of "exclusion" or "review" mechanism to guarantee "cross-conditionality."

**j)** In seeking regional financing, it would be advisable to consider the possibility of lobbying regional political bodies (CAC) to request financing for initiatives in support of the region's rice sector. Insofar as the countries' fiscal situation and private resources permit, actions could be coordinated with a view to guaranteeing a region-wide production base that would safeguard the staple foods of Central America's inhabitants.

**k)** A crucial element is the organization of the national and regional private sector. Incorporating new stakeholders (supermarkets, for example) in the competitiveness agreements will be important if they are to work well. Mechanisms for dialogue and consensus building could not only lead to financial savings in organizing joint activities but also give governments and private actors in the region valid representatives who could defend their interests in efforts to develop policies.

**l)** The direct involvement of private actors in the management of trade treaties is important to ensure that the negative factors negotiated in them are limited basically to what is stated in the "texts."

**m)** With regard to this document, it would be advisable to provide follow-up to the quantitative variables and qualitative elements, so that the stakeholders in the rice chain have the up-to-date information they need to make better-informed decisions.

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