

The U.S.-Panama FTA: Lost Opportunities

The United States and Panama signed a free trade agreement on June 28, 2007 – approaching three years ago. On July 11, 2007, the Panamanian government gave formal approval to the FTA. The U.S. Congress has not yet begun debate on the implementing legislation.

Panama is an important market for America's farmers and ranchers, but it slipped in 2009 to \$383 million, from \$463 million the year before. Our top exports to the market are corn, soybean meal, wheat, rice and horticultural products. Our exports could have been much greater if the FTA with Panama had been implemented. This is because less than 40 percent of U.S. agricultural exports currently enjoy duty-free access to the Panamanian market, whereas if the agreement had been implemented, more than 63 percent would now be receiving duty-free treatment.

Under an FTA with the United States, Panama will immediately eliminate duties on high-quality beef, frozen turkeys, sorghum, soybeans, soybean meal, crude soybean and corn oil, almost all fruit products, wheat, peanuts, whey, cotton, distilled spirits and many other processed products. The agreement also provides duty-free tariff rate quotas on standard beef cuts, chicken leg quarters, pork, corn, rice and dairy products.

Once the FTA is in place, the tariff disparity in agricultural trade between the U.S. and Panama will immediately become more balanced. As with many developing countries, the majority of Panama's agricultural exports to the U.S. enter tariff free because of preferential arrangements legislated by Congress. In the case of Panama, more than 99 percent of its agricultural exports enter the U.S. market duty free. In contrast, Panama's average agricultural tariff rate is 15 percent, but many key U.S. export products face much higher rates. Tariffs on meat can be as high as 70 percent, grain tariffs as high as 90 percent, and Panama's tariff on chicken leg quarters is 260 percent. Only by implementing the FTA will the disparity in these tariff levels be reduced and ultimately eliminated.

The American Farm Bureau Federation's economic analysis group estimates that full implementation of the U.S.-Panama FTA could mean increased U.S. agricultural exports to Panama of more than \$195 million a year. That target has shifted farther into the future because of delays in approving the agreement. And with increased competition from other countries, it may already have become less achievable.

Panama concluded an FTA with Chile last August and has concluded negotiations on an FTA with Canada. An FTA with the European Union bloc of 27 countries is also a possibility in the future. The failure to implement our FTA with Panama two years ago has prevented our exporters from getting a head-start on those major agricultural exporting countries, both in terms of preferential tariff rates and the ability to lock in new marketing arrangements in Panama.

Unfortunately, because the Panama FTA has been on hold for two years, the benefits of the agreement during that period – increased U.S. exports and more American jobs – have been lost.

By way of example, U.S. pork exports to Panama currently are restricted by a very limited quota and out-of-quota duties as high as 80 percent. However, the FTA would have provided immediate duty-free treatment for pork variety meats, expanded market access for U.S. pork through tariff rate quotas and phased out tariffs on certain processed pork items within five years.

According to Iowa State University economist Dermot Hayes, the Panama agreement, when fully implemented, would raise hog prices 20 cents above what would otherwise be the case. Therefore, exports to Panama would be worth approximately \$20.6 million to the U.S. pork industry in additional revenue than otherwise would be the case.

But none of this has happened or started to happen. The pork industry is therefore at least two years behind in capturing these new trade opportunities, and the past two years have been tough ones for producers. In those two years, American producers have been hit by the economic crisis, higher feed costs and unwarranted bans on U.S. exports because of the H1N1 flu outbreak. The U.S. pork industry has lost more than \$6 billion since September 2007, and producers have lost an average of \$21.37 on every hog marketed.

Given this crisis situation in the industry, implementation of the U.S.-Panama FTA would have provided a very helpful price boost and would have helped ease the financial stress of all U.S. pork producers. It still could, if Congress would enact the necessary implementing legislation.

U.S. agricultural exports to Panama can be expected to grow not only because of the direct effect of reduced tariffs and other restrictions but also because of the economic growth that will occur as a result of the Free Trade Agreement. As we have seen in other bilateral trade agreements that include agriculture, exports can be expected to expand to the benefit of producers and consumers in both nations.