Associated Press

U.S.-Dominican Free-Trade Plan Suspended

09.27.2004, 07:40 PM

The U.S. government has suspended plans to ratify a free-trade agreement with the Dominican Republic after lawmakers passed a 25 percent import tax on corn syrup last week, a top U.S. official said Monday.

The Dominican Senate passed the tax Thursday, bucking warnings from U.S. trade officials that it violated a free-trade agreement reached in August, which is still pending approval by the congresses of both countries.

"This constitutes a violation of the free-trade agreement and impedes us from recommending (to Congress) that the Dominican Republic be included along with the Central American agreements," U.S. Ambassador Hans Hertell said Monday.

The syrup import tax was part of a larger fiscal reform package that includes 10 to 20 percent tax hikes on domestic beer and tobacco sales, international travel and the general sales tax.

President Leonel Fernandez, who was against the tax, decided to sign the legislation because he needed the reform package to restart negotiations with the International Monetary Fund for some US$600 million in loans - desperately needed as the country suffers its worst economic crisis in decades.

Fernandez spokesman Roberto Rodriguez said Monday the president planned to send a separate bill to Congress eliminating the tariff.

The proposal likely has little chance of passing, considering Fernandez had urged lawmakers not to include the tax and Congress is controlled by the opposition Dominican Revolutionary Party.

The United States exported 29.8 metric tons (32.8 U.S. tons) of corn syrup, or US$25,000 worth, to the Dominican Republic in 2003, according to the U.S. Census Bureau. Much of the corn syrup is used for soft drinks.

Despite the small amount, lawmakers argued that without the tax, corn syrup competition would eventually devastate the Caribbean nation's sugar cane business, one of its largest and most lucrative agricultural industries.

Critics of the tax said that if the trade pact is lost, companies with factories in free-trade zones would move to countries that do have such an agreement.

"The government must be agile and find a way not to lose an agreement with its biggest trading partner," said Jeannette Dominguez, member and former president of the National Association of Free Trade Zones.

Free-trade zones are areas where companies can manufacture goods without having to pay import taxes on raw materials or export taxes on the final product.

A handful of Central American countries also have a free-trade agreement pending approval by the U.S. Congress.

Companies operating in free-trade zones - from shoe manufacturers to garment makers - are leading employers in the Dominican Republic, with 530 of them employing 170,833 people in 2002, the last year for which figures are available.

(pp-imj)