Posted on Fri, Sep. 24, 2004

Dominican President Won't Veto Tax

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SANTO DOMINGO, Dominican Republic - President Leonel Fernandez will not veto a 25 percent import tax on corn syrup despite warnings from U.S. officials that it could bring an end to a free-trade agreement between the two countries, an official said Friday.

"We don't want friction with the United States, but trying to redo this package would be difficult and time consuming," said Roberto Rodriguez, a presidential spokesman.

The Dominican Senate passed the tax Thursday, bucking warnings from U.S. trade officials that it violated a free-trade agreement reached in August. Lawmakers said without the tax, corn syrup competition would devastate the Caribbean nation's sugar cane industry, one of its largest and most lucrative.

The syrup import tax is 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.

The legislation presents a major dilemma for Fernandez because he needs passage of the reform to restart negotiations with the International Monetary Fund for some $600 million in loans to give the struggling economy a boost.

But losing the free-trade agreement would be seen as a major political defeat, and it could damage relations with the United States, the Dominican Republic's No. 1 trading partner.

The United States exported 29.8 metric tons (32.85 U.S. tons) of corn syrup, or $25,000 worth, to the Dominican Republic in 2003, according to the U.S. Census Bureau.

Rodriguez said Fernandez would sign the reform package into law next week but could send a separate bill later to have the syrup tax removed. The president had urged Congress to drop the tax.

Earlier Friday, a U.S. Rep. Jerry Weller, an Illinois Republican, urged Fernandez to veto the bill.

The president "has the political capital to tell Congress it's a mistake ... that it jeopardizes our free-trade agreement," said Weller, who helped negotiate the free-trade pact.

Proposal detractors say losing the free-trade agreement would weaken the Spanish-speaking nation against competing countries in Central America.

"If Central America gets its free-trade agreement and we don't, the free-trade zone industry will be shoved to the side and jobs will be lost," said Sen. Jose Thomas Perez.

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.

Companies operating in free-trade zones are a leading employer in the Dominican Republic, with 530 of them employing 170,833 people in 2002.

In a letter to Fernandez last week, U.S. Trade Representative Robert Zoellick said if the corn syrup tax becomes law, "I could not recommend including the Dominican Republic in the free-trade agreement package for consideration by U.S. Congress."