

Private Sector *Trade Note*



Impact of US-Colombia Free Trade Agreement on CARICOM Cement Export into Colombia

►Background

The United States-Colombia Free Trade Agreement¹ also known as the US/Colombia Trade Promotion Agreement was signed on November 22, 2006. The agreement entered into force on May 15, 2012 with the intention to eventually remove tariff and all other barriers to the trade of goods and services between the United States and Colombia. The agreement also provides for what is termed “preferential investment”², which facilitates the increased protection of investors from both parties. Also, industrial products from the United States, cement, for example, will have preferential access to a market of almost fifty million people. As it relates to government contracts above a specified value (threshold), the agreement allows United States and Colombian exporters of cement to receive advance notice of purchases and effective bid review procedures.³

CARICOM Member States have also entered into a free Trade Agreement with Colombia. This agreement provides preferential market

access for some products, including specific cement products. The CARICOM-Colombia Free Trade Agreement, also known as the Agreement on Trade, Economic and Technical Cooperation, entered into force in 1995 and was amended in 1998. The Agreement aims to strengthen trade relations between the parties in terms of promoting and protecting investments, promoting private sector activities and facilitating joint ventures among the two parties.

This brief assesses the extent to which exporters of cement products from the USA to Colombia enjoy comparable preferential market access to CARICOM exporters.

►What does the US-Colombia FTA say about cement?

The US-Colombia Free Trade Agreement provides for the duties on originating goods on a specified list (category C of a Party’s Schedule) to be removed in ten equal annual stages beginning on the date the Agreement entered into force, to be duty free on January 1, 2022. Among the goods listed in category C (i.e. the ten year phased reduction list) are Clinker, white cement and other Portland cement.⁴ Presently, exports of these cement products from The USA to Colombia attract a 10% tariff⁵

¹ See Villarreal, M. (2012). *The US-Colombia FTA: Background and Issues*. Retrieved at: <http://www.fas.org/spp/crs/row/RL34470.pdf>

² See Trade Watch, Volume 10, Issue 4. Retrieved at: [http://www.ey.com/Publication/vwLUAssets/Teaser_TradeWatch_-_December_2011/\\$FILE/YY2607_TradeWatch_newsletter_Dec_e.pdf](http://www.ey.com/Publication/vwLUAssets/Teaser_TradeWatch_-_December_2011/$FILE/YY2607_TradeWatch_newsletter_Dec_e.pdf)

³ See article “US-Colombia FTA: Increasing US Competitiveness. Retrieved at: <http://www.ustr.gov/uscolombiatpa/facts>

⁴ See Annex 2.3 (Tariff Elimination Schedule) of US-Colombia FTA.

⁵ See Colombia’s Tariff Schedule of the US-Colombia FTA. Retrieved at: http://www.ustr.gov/sites/default/files/uploads/agreements/fta/colombia/asset_upload_file276_10186.pdf

► What does the CARICOM-Colombia FTA say about cement?

The CARICOM/ Colombia Free Trade Agreement of 1994, along with its 1998 Protocol, allow duty free access for certain CARICOM goods to Colombia. As such, Colombia grants CARICOM duty free access to its market for products found in Annex 1⁶. Among these are “unpulverised cement (clinker)” and “other Portland Cement”⁷. To receive this duty free access, the clinker and other Portland cement must meet the CARICOM-Colombia Free Trade Agreement rules of origin which requires, *inter alia*, a change in tariff sub heading.

►Cement Trade between CARICOM and Colombia

Cement is one of the main industrial sectors in Colombia. Cement is in high demand as evidenced by Colombia’s global imports in 2011 which amounted to \$US 14, 628,000, increasing significantly from \$US 5,500,000 in 2009⁸. Colombia is an important market for Caribbean Cement with CARICOM generating \$US 486,000 from exporting Portland cement and Clinker to Colombia in 2011⁹. Colombia is also a significant producer of cement and has several large successful cement companies with its largest cement company, Cementos Argos, supplying over 50% of the international cement market.¹⁰

►Cement trade between the United States and Colombia

The United States is one of the main exporters of cement to Colombia. The value of the United States cement export to Colombia increased significantly from \$US680, 000 in 2009 to \$US 2,056,000 in 2011¹¹. Cementos Argos has also bought over several cement plants located in the United States with capital expenditure totaling \$US 760 million¹².

►Rules of Origin: Exporting Cement to Colombia from CARICOM member-states

In order for CARICOM exports of “clinker” and “other Portland cement” to receive duty free access into Colombia they must meet the criteria for the rules of origin set out under the CARICOM-Colombia Free Trade Agreement. As such, cement will receive duty free access if it is “wholly manufactured” from materials originating in the CARICOM countries that are parties to the agreement. Cement will also receive duty free access if it has regional value content not less than 40 per cent¹³. Thirdly, CARICOM cement would also receive duty free treatment if it has undergone a change in tariff sub-heading, for example, from clinker of HS heading 252310 to Other Portland cement of HS Heading 252329. A change to any other subheading such as from clinker to HS heading 252321, Portland cement, will not be granted duty free treatment.¹⁴

►Rules of Origin: Exporting cement from the United States to Colombia

Annex 4.1 of the US Colombia Free Trade Agreement sets out the product specific rules for each product and posits that white cement, clinker and Portland cement are the only cement products that will be given duty free access, in the year 2022, providing that they meet the agreement’s rules of origin. Similarly, cement being exported to Colombia from the United States must be wholly obtained or produced entirely in the territory of the United States in order to receive duty free access.

Cement will be classified as an originating good and receive duty free access if it has a regional value content of not less than 40 per cent. Also, cement will be classified as an originating good if it had a change in sub heading to HS 252310 (clinker) from any of the other chapters, for example from clinker to HS

252321 (Portland cement¹⁵).

►Conclusion

The CARICOM-Colombia trade agreement provides immediate duty free access (where rules of origin requirements are satisfied) to CARICOM for exports of clinker and other Portland cement. Exporters from the United States have no immediate duty free access for their exports of white cement, clinker and other Portland cement, but will have that access (where rules of origin are satisfied) by January 1, 2022. Over a ten year period, duties will be systematically reduced on select United States cement products entering Colombia. As such the duty preference that CARICOM exporters enjoy for Clinker and other Portland cement relative to imports from the United States will erode and be totally removed by the year 2022. At that time, the United States will enjoy an added advantage over CARICOM of having duty free access for its exports of white cement, , which CARICOM does not receive.

This becomes an increasingly important strategic factor, bearing in mind that Cementos Argos also has FDIs in the United States that could benefit from the provisions of the US-Colombia FTA. These plants could be sources of imports to supplement their local production and reduce the need to import from CARICOM sources.

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⁶ Products for which immediate duty free concession will be offered by Colombia on imports originating in CARICOM member states who are parties to the agreement.

⁷ See chapter 11, Article 5 of CARICOM-Colombia FTA

⁸ See Trade Map International. Retrieved from: http://www.trademap.org/Bilateral_TS.aspx

⁹ See trade map International. Retrieved at : http://www.trademap.org/Bilateral_TS.aspx

¹⁰ See magazine article “Colombia: Investors take note. Retrieved at http://www.worldcement.com/sectors/cement/articles/Colombia_investors_take_note.aspx

¹¹ See Trade Map International. Retrieved from: http://www.trademap.org/Bilateral_TS.aspx

¹² See article “Colombian Cement Company buys plant in US for 760 million”. Retrieved at: <http://colombiareports.com/colombia-news/economy/16219-colombian-cement-company-buys-plants-in-us-for-760-million.html>

¹³ See article “Exporting under the CARICOM-Colombia FTA”. Retrieved at: http://www.tradeboard.gov.jm/tb/exp_cert/caricom_colombia.html

¹⁴ See Annex 2, product-specific rules of Harmonized System (HS). Retrieved at <http://www.asean.org/22200.pdf>

¹⁵ See chapter 4 of US_Colombia FTA at http://www.ustr.gov/sites/default/files/uploads/agreements/fta/colombia/asset_upload_file13_10153.pdf