

CRNM PRIVATE SECTOR TRADE BRIEF

The CRNM Private Sector Trade Brief is supported by a project funded by the Inter-American Development Bank Multilateral Investment Fund (MIF) to "Strengthen the Private Sector's Role in the Caribbean Community's External Negotiations." It is a monthly publication which forms part of the CRNM private sector outreach activities to update the CARICOM private sector and solicit their feedback on developments in the external trade negotiations.

TRADE AGREEMENTS: STATE OF PLAY AND OPPORTUNITIES FOR CARIBBEAN BUSINESS

Vol. 7, Jan – Feb. 2006

IN THIS ISSUE: We present an up-to-date synopsis of the various trade negotiations which Caribbean countries are pursuing and zoom in on the dollars and sense of it all.



STATUS OF NEGOTIATIONS



HAS THE REGION BEEN EXPLOITING AVAILABLE INTERNATIONAL BUSINESS OPPORTUNITIES?



BUSINESS IMPLICATIONS OF TRADE NEGOTIATIONS

STATUS OF NEGOTIATIONS

Caribbean countries are currently engaged in a series of international and bilateral trade negotiations that are meant to open up new business opportunities for regional producers of goods and services. Simultaneously, the 14 member states of the Caribbean Community (CARICOM) are taking concrete steps towards establishing a Single Market and Economy to strengthen their collective position in the global economy. The CARICOM Single Market, which constitutes the first phase, was officially launched at a signing ceremony in Jamaica on January 30.

Below is a summary of the status of the various trade negotiations and initiatives involving countries of the Region. These countries are primarily the member states of CARICOM and the Caribbean Forum (CARIFORUM) group in those instances where CARICOM countries and the Dominican Republic are negotiating together.

CARICOM SINGLE MARKET AND ECONOMY (CSME): The Single Market component of the CSME was officially inaugurated at a signing ceremony in Kingston, Jamaica, on January 30.

Six countries – Barbados, Jamaica, Trinidad and Tobago, Belize, Guyana and Suriname – initially comprise the Single Market. The number will increase to 12, come June 30, when six countries of the Organization of Eastern Caribbean States (OECS) are scheduled to come on board.

“The Single Market will enhance trade and economic relations with third states,” said Jamaica’s Prime Minister, P.J. Patterson, at the January 30 signing ceremony. “It will promote our international competitiveness and enable the effective coordination of foreign and economic policies.”

The Bahamas is the only CARICOM member state which has decided to stay out of the Single Market. Haiti is currently suspended from CARICOM membership. Montserrat, the remaining member state, has to get London’s approval before joining because of its status as a British territory.

FREE TRADE AREA OF THE AMERICAS (FTAA): Negotiations have stalled since February 2004 on what was to be a free trade agreement providing access to a hemispheric market of almost 800 million people. Progress on the Free Trade Area of the Americas (FTAA) has been held up by a stalemate on issues including the treatment of agricultural goods, services, and intellectual property.

However, whilst the FTAA negotiations are on hold pending movement on issues including agriculture in global trade negotiations under the aegis of the World Trade Organization (WTO). There is some hope that there could be a revival of the Hemispheric movement in 2006. Of course, only time will tell. If successful, the FTAA would cover an annual US\$1.4 trillion trade in goods (based on 2003 figures).

WORLD TRADE ORGANIZATION (WTO): The Doha Development Agenda is facing numerous challenges, not least of which is an inability to address development constraints which include the impact of the elimination of preferences on the Caribbean private sector.

Additionally, issues including the elimination of market distorting trade subsidies and domestic support measures, many of which are not used in CARICOM and the Dominican republic, remain major issues impacting the competitiveness of the private sector.

At the WTO ministerial in Hong Kong in December 2005, discussions lead to agreement on removing all forms of export subsidies by the end of 2013 and on agreeing to establish the manner in which tariffs in agriculture will be cut by no later than July of 2006.

ECONOMIC PARTNERSHIP AGREEMENT (EPA): EPAs are intended to establish a framework for a new economic relationship between the countries of the African Caribbean and Pacific (ACP) group and the European Union (EU).

The objectives of the proposed partnership between the EU and CARIFORUM (i.e. CARICOM and the Dominican Republic) include:

1. Economic Development;
2. The reduction and eventual eradication of poverty; and
3. The smooth and gradual integration of ACP States into the world economy.

The Caribbean and the EU are currently negotiating an EPA as the basis of their future relationship. Important issues being discussed include market access, services, investment, and rules of origin (i.e. the specific production processes that must be met to receive duty preferences/relief under the agreement).

CARICOM-CANADA: The exploratory phase of CARICOM-Canada negotiations has ended with CARICOM expressing a willingness to proceed with discussions on an enhanced bilateral trade agreement. In the next move, Canada is expected to present the mandate from its government as to the scope of the trade commitment.

CARICOM-COSTA RICA: The most recently concluded bilateral trade agreement between CARICOM and a third country in the wider Caribbean involves CARICOM and Costa Rica. The pact was initialed on March 15, 2003, by the two sides. The agreement provides for free trade or preferential access for a wide range of products. Some sensitive products have been excluded. A special list of products will be granted differentiated market access between Costa Rica and each of the CARICOM More Developed Countries (MDCs).

CARICOM-DOMINICAN REPUBLIC: The CARICOM-Dominican Republic Agreement provisionally entered into force in December 2001. The Agreement between CARICOM and the Dominican Republic is based on reciprocity with the five CARICOM MDCs and non-reciprocity with the LDCs until 2005. It provides for the asymmetrical application of the reciprocity principle as CARICOM LDCs are not required to reciprocate treatment. Recent Joint Council meetings have attempted to resolve outstanding issues including the treatment of Law 173, and the services chapter.

CARICOM-CUBA: The 7th Meeting of the CARICOM-Cuba Joint Commission held on March 3-4, 2005, approved the consolidated text of Annexes I-V of the CARICOM-Cuba Agreement, reflecting amendments set out in the protocol implementing the agreement and thereby giving them legal effect as the list of products in Article V of the Agreement. The Revised Product Lists dated August 2001 therefore replace Annexes I-V of the Agreement signed in July 2000. However, exporters who do not trade under a line of credit continue to face problems receiving payment in hard currency.

OTHER AGREEMENTS: CARICOM has bilateral trade agreements with Colombia and Venezuela. The Colombia agreement provides reciprocal duty free treatment for select products. As currently structured, these agreements are not comprehensive in their coverage of services trade. Additionally, exporters complain of excessive product registration requirements which prohibit market penetration.

HAS THE REGION BEEN EXPLOITING AVAILABLE BUSINESS OPPORTUNITIES?

CARICOM-CUBA: According to United Nations COMTRADE figures, Cuba's overall imports grew by over 13% between 2000 and 2004 to reach some US\$2.6 billion in 2004. However, CARICOM export activity with Cuba declined by 32% between 2000 and 2004. Moreover, export opportunities in coffee, meats, fish, processed fruits and vegetables, leather goods, aluminum and ships/boats remain largely unexplored. It is estimated that some US\$2.5 billion in unexplored export potential exists for CARICOM's private sector in Cuba.

CARICOM-DOMINICAN REPUBLIC: Overall imports into the Dominican Republic registered a decline of 3% between 2000 and 2004. However, despite this downward trend, CARICOM merchandise exporters have been making some headway. Exporters of petroleum products dominated trade with the Dominican Republic in 2004, accounting for over 90% of CARICOM's exports. Other dynamic exporting groups include rice (growing by over 600%), liqueurs/cordials (growing by 47% per annum), wood articles (split poles, hoopwood/split poles, pickets growing by over 40% per annum), and paper labels (growing by almost 30% per annum). It is estimated that over US\$7.2 billion of untapped trade still exists for CARICOM exporters in the D.R. The potential exists in areas such as gold, iron/steel, plastics, salt, and perfumes.

CARICOM-COSTA RICA: Overall imports into Costa Rica grew by 8% between 2000 and 2004. Despite this favourable environment, CARICOM merchandise exporters have not been making any headway into this market as exports have remained flat at around US\$27 million. However, it is important to note that furniture, iron/steel, beverages and printed books all experienced hyper growth (i.e. export sales growth of over 100% per annum) between 2000 and 2004. On the downside, there was a decline in CARICOM exports of petroleum products, rice and perfumes which accounted for almost 95% of the Region's exports to Costa Rica in 2004. It is estimated that almost US\$8 billion in untapped export business exists in Costa Rica for CARICOM exporters.

CARICOM-CANADA: Overall imports into Canada grew by 3% in 2004 to US\$273 billion. CARICOM has been achieving success in penetrating this market with exports increasing by 13% over 2000 to 2004 to stand at US\$678 million in 2004. This growth has been fuelled by an over 40% rise in export sales per annum in sectors such as aluminum, gold and methanol. However, CARICOM exporters are losing out in petroleum fuels and iron/steel. These products jointly contributed over US\$80 million in export earnings for the Region in 2004, but have been declining by roughly 40% per annum. It is estimated that over US\$13 billion in untapped export business exists in Canada in areas such as ships/boats, beverages, sugar, fertilizers and rice. Jamaica was ranked as the 25th largest services exporting nation to Canada in 2001 with over US\$100 million in earnings from services exports.

CARICOM-USA: Overall imports into the USA grew by 5% over the 2000 to 2004 period. It is heartening that CARICOM exporters have been dynamic in penetrating the US market with export sales growing by almost 20% per annum. Again, however,

growth is concentrated in a few product groups with petroleum products and aluminum contributing over two-thirds of export revenue in 2004, and tourism also playing a significant role. It is estimated that untapped export potential in the US market was some US\$ 5.6 billion in 2004. It must be stated that there is no FTA with the US but the Caribbean receives duty preferences via the Caribbean Basin Initiative, which will expire at the end of 2008

BUSINESS IMPLICATIONS OF TRADE AGREEMENTS

Trade negotiations offer the private sector benefits which include the following:

1. improved market access;
2. faster clearance of goods at customs both locally and offshore;
3. ability to move more freely to provide services;
4. easier access to development financing for expansions;
5. greater protection for their overseas investments;
6. less onerous rules of origin requirements;
7. improved ability to bid on overseas government contracts;
8. non discrimination on the application of border measures pertaining to standards and food safety/pest control; and
9. improved ability to bid on service contracts.

Through current trade negotiations, there is scope to expand export sales for CARICOM's private sector significantly. Private sector agents need to engage the national trade apparatus (i.e. Government ministries and private sector representatives such as the Chambers of Commerce) by providing information on specific constraints which prevent exploitation of various export business opportunities.

With the FTAA's deadlock and the imminent expiry of the trade preferences with North America, CARICOM exporters may soon lose the tariff preferences into Canada and the US. Discussions on a back-up plan include an enhanced Generalized System of Preferences (GSP), by which developed countries let certain manufactured and semi-manufactured imports from developing countries enter at lower tariffs than the same products from developed countries.

However, CARICOM exporters need to appraise their consignees/importers of this impending change and plan for the removal of tariff preferences under the Caribbean Basin Initiative (CBI). CARICOM is exploring a free trade agreement with Canada, and it will be important to understand where persons are interested in exporting services, or entering into joint ventures with overseas companies.

The discussions on a new global trade agreement under the auspices of the WTO provide the framework within which all sub-regional agreements have to comply and operate. Therefore, any continued uncertainty at that level will only complicate business.

The private sector would be better served where there is a definitive position on improved market access, binding trade facilitation rules (with technical assistance, of course), easier access to government contracts, and less discriminatory measures imposed on trade in services and overseas investment.