

The Caricom-Canada FTA: What's the hurry?

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In the Communiqué issued after their Belize Summit on March 12-13, Caricom Heads are said to have approved a 'Negotiating Brief' on a Trade and Development Agreement with Canada, with the proviso that "the recommendations constitute initial negotiating mandates which CARICOM may have to re-examine in the context of the continuing global financial and economic situation".

The websites of both the Canadian government and the CRNM indicate that negotiations on a Caricom-Canada Free Trade Agreement commenced as long ago as August 2007. The wording of the Communiqué suggests that Caricom leaders want to emphasise the developmental aspects of any agreement with Canada. It also hints that the leaders want to keep their options open in the light of the rapidly deteriorating global economic situation.

Back in January last the Caribbean Policy Development Centre (CPDC) organised a stakeholder consultation at the UWI's St Augustine Campus on Caricom's trade relations with the U.S. and Canada and the prospects for FTAs with both. The consultation was informed by an excellent paper commissioned by the CPDC from Mr. Carlos Wharton, Senior Trade Policy Specialist at the Caribbean Export Development Agency (available on-line at <http://www.normangirvan.info/wp-content/uploads/2009/01/carlos-wharton-canada-fta.pdf>).

The information presented at the CPDC Consultation, supplemented from other sources, raises several reservations, at least in this writer's mind, about the wisdom of rushing to conclude trade agreement with Canada at this time. Here is my reasoning.

- The main justification being given for the proposed FTA is that CARIBCAN, the unilateral arrangement to give the Commonwealth Caribbean duty free access to the Canadian market adopted in 1985, will expire in December 2011; and that Canada has signalled its intention not to renew it, but to negotiate an FTA with Caricom in its place. The proposed FTA will be one of several bilateral FTAs which Canada is negotiating with other countries. Accordingly, the Canadians expect that it will not only provide for reciprocal free trade in goods, but will also cover 'customs procedures, trade facilitation, non-tariff barriers, cross-border trade in services, temporary entry, investment, government procurement, dispute settlement and institutional provisions' (Government of Canada, Canada-CARICOM Free Trade Agreement, <http://www.international.gc.ca/trade->

agreements-accords-commerciaux/agr-acc/caricom.aspx). The wide scope of the proposed agreement suggests that Caricom will have to be prepared to accept another layer of legally binding commitments on its national and regional policies, in addition to what has been agreed under the EPA with the EU. Apart from implementation obligations, this will further complicate the task of completing the CSME and further constrict the 'policy space' of regional governments.

- CARIBCAN is actually of marginal significance in the CARICOM export picture. Less than 12 percent of Canadian imports from the English-speaking Caribbean enter Canada under CARIBCAN; and this is less than 1 percent of Caricom's merchandise exports. Most of Caricom's exports to Canada already enter duty-free under Canadian Most Favoured Nation (MFN) treatment, which is available without CARIBCAN. (See the table attached at the end of this note).
- Of the total C\$115 million imports from the region benefiting from CARIBCAN treatment, 79 percent comes from Trinidad and Tobago and 65 percent consists of shipments of methanol from a Canadian owned firm in Trinidad. It is questionable whether the preservation of market access for a single Canadian owned firm in one member state provides an urgent or compelling reason for all 14 Caricom member states to open their markets to Canadian imports. Since the Canadian MFN tariff on methanol is a modest 5.5%, and the General Preferential Tariff (GPT), available to developing countries, is 3%; it is not even certain that these tariffs would 'shut out' Trinidad and Tobago methanol from the Canadian market.
- The MFN and GPT tariffs on Caricom's other significant exports to Canada are either zero or relatively low. The main products concerned include ferrous products obtained by direct reduction of iron ore, rum, lobster and crawfish, fruit, condiments and seasonings, sauces and preparations, vegetables and biscuits. On ferrous products and canned ackees, both the MFN and GPT tariff rates are zero. On steel articles, the rates are 6.5% and 3% respectively; on condiments they are 11% and 5%, and on water 11% and 5%. On rum, the MFN rate is a punitive \$24.56 a litre, but the GPT rate is zero.
- Jamaica is the second regional exporter to Canada under CARIBCAN, but these exports amounted to just C\$15 million in 2006, which is a paltry 0.6 percent of Jamaica's merchandise exports. Canada's duty free imports under CARIBCAN treatment from other Caricom countries were relatively small (see attached table). Four Caricom countries in the O.E.C.S have nil or negligible CARIBCAN exports: Dominica, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines

- In other words only a small proportion of Caricom’s exports would be affected by the unavailability of CARIBCAN. As Mr Wharton’s paper points out; ‘...
 - *CARIBCAN beneficiaries are also increasingly trading under MFN duty free conditions than under the preferential regime offered by CARIBCAN. This means that an increasingly higher number of CARICOM firms are already exporting to that market and are competing with other firms from third countries.’ .In addition, as future rounds of negotiations take place at the WTO it is expected that additional products would be subject to duty free treatment on a MFN basis. Canada is also negotiating a number of bilateral free trade agreements with other developing countries. Therefore it is anticipated that the preferential margins that CARICOM exporters currently receive as a result of CARIBCAN will be diminished in the medium to long term.” (p.11)*

There are some other considerations to look at:

- Enhanced opportunities for the export of services to Canada is held to be one of the additional benefits that the region might derive from an FTA covering services; since Caricom economies rely increasingly on services exports. This argument has to be treated with caution. The principal services exports of the region—tourism and international financial services—do not need an FTA. Canada already has ‘temporary entry’ programmes for several Caricom countries in needed skill categories in agriculture and the hospitality sector. In professional categories where Caricom has a good supply capability, such as health care and education, there is already heavy emigration from the region, facilitated by Canadian immigration laws. In business services such as accounting, law, and architectural services; formal market access for Caricom firms may not be sufficient. There are often considerable regulatory barriers, such as qualification and certification requirements, to accessing these markets.
- The Wharton paper concluded that a Canadian FTA is likely to involve a shorter phasing of import liberalization (10-15 years), wider coverage and less flexibility than those available under the EPA. This is based on the terms of Canadian FTAs negotiated with Peru and Costa Rica. Canada cannot agree to vary these terms significantly without jeopardizing the terms of its existing and future FTAs with other countries.
- If Caricom agrees to these terms with Canada, the EU would be entitled to invoke the EPA’s ‘Most Favoured Nation Clause’ to demand similar treatment. Caricom could then find itself in the situation where it is forced to shorten the EPA’s 25-year liberalisation schedule; and to reduce or eliminate the EPA’s 13

percent 'Exclusion List'; in order to bring about conformity with the Caricom-Canada FTA. Certain flexibilities now provided in the EPA could also be liable to amendment in a manner unfavourable to Caricom.

- A Caricom-Canada FTA would also increase the pressure on the U.S. Administration to terminate the non-reciprocal duty-free treatment granted Caricom under the CBI and enhanced CBI arrangements, and to replace it with a Caricom-U.S. FTA. CBI legislation explicitly provides for this possibility. In theory the U.S. is already entitled to do this because of the EPA with Europe; and it may raise the matter when duty free treatment of European imports begins to kick in beginning 2012.
- Hence, the 'domino effect' of EPA/FTAs with Europe, Canada and the United States is that Caricom could end up with a large part of regional imports becoming duty-free in 10-15 years. This would have major revenue implications for several Caricom countries, for the CSME, and for the ability to foster local and regional agricultural and industrial development through tariff protection and other policies favouring regional producers.
- As pointed out at the beginning of this note, Canada expects substantial liberalisation of investment and service sectors to be part of the Caricom-Canada FTA. Analysts have pointed out that these provisions have deprived many developing countries of the policy tools needed to manage the effects of the global financial crisis on their economies; for example by means of controls on current and capital account movements, and preventing inflows of speculative investments. The content of the Cariforum EPA is being used as an example of the dangers of including these obligations in FTAs. (See <http://www.normangirvan.info/how-ftasbitswto-can-hamper-recovery-from-the-global-financial-crisis/>)
- Thus, it might be better to seek a review of these problematic provisions in the EPA; than to extend them to another developed country. The latter would further compromise Caricom's negotiating position in bilateral agreements and the WTO. In support of such a proposal Caricom could point to the massive state interventions in the banking and financial sectors in the EU and the US; and the resulting degree of 'financial protectionism', public ownership and tighter regulation in the developed countries. One legal tool that could be used is the 'Mandatory Review' clause in the Joint Declaration inserted into the EPA at the time of signing.
- The idea that a Caricom-Canada FTA will contain a substantial or meaningful 'development dimension' may just be pie in the sky. The Canadians are

approaching these negotiations as a 'Free Trade plus new Issues' agreement. Like the Europeans, they are likely to argue that market liberalisation will be the main motor of development. Canadian statements indicate that the existing Canadian aid programme for the region will be the source for any FTA-related development assistance. The recently announced aid program of C\$600 million for 15 regional countries over 10 years averages \$4 million per country per year.

- Negotiations will require human resources, expertise and money; all of which are already over-stretched in the region; and they could be prolonged. This needs to be weighed against the likely benefits, which appear to modest at best.

Finally, as suggested by the Caricom Communiqué, the deepening global financial and economic crisis has changed many of the contextual implications for these and other upcoming trade negotiations. Caution, therefore, is in order.

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Duty Free 2006 Imports from CARIBCAN Beneficiaries by Tariff Treatment (\$Canadian)

Country	Total Imports	MFN Free	GPT Free	Caribbean (CCCT) Free	Total Free	Total Free as % of Total Imports
Anguilla	152,626	63,648	-	-	63,648	42
Antigua/Barbuda	407,172	156,450	-	81,748	238,198	59
Bahamas	23,274,439	17,049,085	29	4,859,771	21,908,885	94
Barbados	13,615,006	6,028,717	4,172,829	2,949,387	13,150,933	97
Belize	9,557,830	8,379,874	193,384	63,240	8,636,498	90
Bermuda	16,782,954	16,084,955	-	2,283	16,087,238	96
Br. Virgin Is.	4,120,192	2,281,861	1,124,830	4,378	3,411,069	83
Cayman Islands	280,369	257,243	-	-	257,243	92
Dominica	253,306	80,142	-	-	80,142	32
Grenada	957,360	422,791	281,087	249,472	953,350	100
Guyana	142,093,409	136,117,697	5,030,945	362,912	141,511,554	100
Jamaica	418,260,846	394,923,121	189,971	15,031,650	410,144,742	98
Montserrat	541,540	419,219	-	-	419,219	77
St. Kitts/Nevis	8,797,749	2,991,622	9,281	-	3,000,903	34
Saint Lucia	164,004	142,172	-	-	142,172	87
St Vincent/Gren.	297,301	235,075	4,800	-	239,875	81
Trinidad/ Tobago	307,596,945	212,618,894	146,327	91,093,536	303,858,757	99
Turks/Caicos Is.	6,916,812	6,147,821	-	461,053	6,608,874	96
Total	954,069,860	804,400,387	11,153,483	115,159,430	930,713,300	98

Note: a dash (-) indicates nil or negligible.

Source: 2007 Report of the Government of Canada on the Trade-Related Provisions of CARIBCAN, WTO/L/705; 27 November 2007. WTO, General Council, 18-19 December 2007. Annex III