



# TRADE BEAT

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## Inside this issue



This issue will inform readers about .

Trade negotiations between Canada and CARICOM

How the negotiations of a FTA have progressed

Canada New Trade Policy

- Changes to Canada's GPT Regime and its impact

Why a new Trade Agreement

Benefits of the new Agreement

Specific Issues Examined

## CARICOM-CANADA

### Negotiating a Free Trade and Development Agreement



Trade negotiations between Canada and the states of CARICOM regarding the establishment of a Free Trade agreement have progressed at an uneven pace since their launch in 2007. Generally trade negotiations between countries seek to address a set of commercial problems

that cannot be solved through other measures, as well as to establish future rules for trade relations. Trade negotiations move quickly when the agenda is clear, and there are significant commercial gains to be achieved by both sides. The potential for commercial gains on either side are marginal and although proposals have been tabled on key areas, there is no agreed agenda to stimulate the progress of the negotiations. Canada's interests primarily relate to increased access for firms wanting to do business in the CARICOM region, however, most established firms are already satisfied with their current access. CARICOM countries want greater market access for exports, but this would be difficult, as priority has been given to staying competitive in the domestic market. This has been largely due to the effects of the global recession of 2008/2009 from which many economies are still recovering. Consequently, negotiations have been generally slow as priorities were for the most part focused on adjusting to the economic climate and sustaining the economies of the countries adversely affected.

As mentioned in our previous article, the discussions are ongoing between CARICOM and Canada, and a number of developments have forced the negotiations to regain momentum. In light of the impending expiration of the WTO waiver, which will result in a discontinuation of preferential access to CARICOM goods into the Canadian market, as well as a shift in Canada's trade policy which requires greater reciprocity in terms of mutual benefits, more strategic partnerships are being developed. Consequently, Canada's new trade policy dubbed "trade-not-aid" is a trade strategy which seeks to establish trade relations that are mutually beneficial, where all parties would gain economically. Further, a change in Canada's trade policy will also see a change in its preferential tariff regime that will ultimately have an impact on the economies of the CARICOM countries, as well as all beneficiary countries.



## General Preference Tariff (GPT) and Least Developed Country Tariff (LDCT)

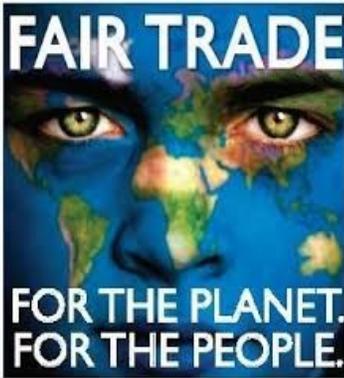
Canada, on the recommendation of the United Nations Conference on Trade and Development (UNCTAD), implemented a preferential tariff regime in 1974, known as the general preferential tariff regime (GPT). The GPT was established to help developing countries to promote industrialization, increase their export earnings and to promote their economic development. The GPT is a tariff treatment, and as such it determines applicable rates of duty for imported goods from countries that qualify for the preferential treatment.



Under the GPT, Canada offers duty free or preferential market access to imports from one hundred and seventy five (175) designated beneficiaries that are at an advantage, as the GPT duty rates are lower than those of the Most Favoured Nation (MFN) rates. The MFN rates are accorded to all members of the World Trade Organization (WTO). Still, lower rates are accorded to countries that qualify for the Least Developed Country Tariff (LDCT) treatment. This benefit is afforded to the least developed countries of the world that have trading arrangements with Canada. Although all LDCT countries benefit from the GPT, not all GPT countries benefit from the LDCT. Qualification for the GPT happens on a shipment by shipment basis and requires that a bill of lading showing shipment directly to Canada from a GPT or LDCT country must be present. In addition to the bill of lading requirement, there are rules of origin that must be followed in order to qualify for the GPT. Requirements under the rules of origin state that goods must be wholly produced in a qualifying country or, as it regards GPT, sixty percent (60 %) of the ex-factory price of the goods packed for shipment to Canada must originate from a beneficiary country or Canada in order to qualify. Similarly as it relates to LDCT, at least 40% of the ex factory price should be produced in a LDCT country or Canada. The LDCT, however, may include no more than 20% of the materials, parts or products used to manufacture the finished goods from a GPT country.

The Canadian Department of Finance, in an effort to modernize the GPT regime by ensuring that it is properly aligned with the current global economic landscape and other major tariff preference granting countries, has put forward a proposition of changes to be made to the preferential tariff programme. Effective January 1, 2015, preferential duty status will be removed from seventy-two (72) countries, with respect to goods shipped to Canada under the GPT. This is as a result of the classification of these countries by the World Bank, as high or upper middle income economies based on studies conducted over the last two years, or a determination that they have a one percent (1%) or larger share of world exports for two consecutive years according to the WTO statistics. In light of the proposed changes to country coverage, changes are also being considered regarding product coverage, rules of origin, safeguards, expiry date and future reviews. As a result of the criteria used to determine eligibility for GPT most of the CARICOM nations will be taken off the GPT list, therefore negotiating a bilateral trade agreement with Canada becomes even more critical.

## Why a Trade and Development Agreement ?



Trade agreements seek to expand trade between negotiating nations, through opening of markets and facilitation of more predictable trade based on agreed rules. These rules may govern the reduction of barriers to trade between States, as well as improve the transparency of trade and investment regimes by promoting non-discrimination and fair competition. Additionally, trade agreements facilitate regulatory cooperation aimed at harmonizing laws, standards and regulations that may affect trade, to ensure that differences in regulatory regimes do not result in barriers to trade.

The negotiations for the CARICOM-Canada free trade and development agreement aim to primarily liberalize and eliminate barriers to entry in both regions, in order to facilitate trade and investment. Because the negotiations are between developed and developing countries, a development component is quite necessary to protect the integrity of the agreement and ensure that the developing nations are

in a position to honour their commitments onwards. Critical to this is capacity building for CARICOM, by way of technical assistance to ensure economic viability. To address the development aspect of the agreement, instruments of cooperation are often established that are designed to improve production and export capacity, especially for developing nations. This is an important component as it allows developing countries to better compete and participate in the global market economy.

## Benefits of the Agreement

It is anticipated that the Trade and Development Agreement between CARICOM and Canada will be a long term arrangement that locks in CARICOM's access to Canada's market. A new agreement which is compatible with WTO's rules on FTAs would no longer require a WTO waiver and would see goods that were excluded from CARIBCAN now being considered for inclusion in the new trade arrangement as well as provisions that were not considered previously, such as, services and investments. CARICOM negotiators are seeking to ensure that the new agreement will provide special benefits in key areas covering trade as it relates to market access, and development as it relates to capacity building. This in turn will significantly contribute to enhancing the region's economic stability and increase its innovative capacity in global competitiveness.



## Specific Negotiating Issues



**Trade in goods** - With the impending expiration of the WTO waiver, an FTA would potentially lock in duty free market access for CARIBCAN countries. Excluded items, such as, textiles, apparel and footwear, which currently face up to 20% import duties, can now be considered for market access under the new agreement . The agreement would also level the playing field with competitors with whom preferential access is still active.

**Trade in Services** - This vital sector is one of the main drivers for the economy of CARICOM States and is seen as important for growth strategies. The services sector provides outsourcing opportunities for Canadian investors and would benefit a wide range of CARICOM service providers. Call centers, data processing, and accounting services are among the most sought after, and create a sustainable source of employment opportunities for CARICOM nationals. The new agreement would provide better and broader access to the Canadian market than what is currently enjoyed under the WTO General Agreement on Trade in Services (GATS). CARICOM service providers would be able to operate under a predictable and stable environment which allows for the recognition of qualifications under the new terms of mutual recognition agreements.

**Temporary Entry** - Temporary Entry of Business Persons would serve to capitalize on the gains from the services chapter and would complement other chapters such as trade in goods, government procurement and investment. Strides have been made in this area, as Canada has taken a more liberal approach to entry commitments than it has at the WTO. Labour market impact tests would be eliminated in light of the new commitment which expands coverage to temporary foreign workers such as, professionals, technicians, and spouses.

**Investment** - The FTA would create strong investment rules that would encourage foreign investments, such as tourism and financial services in both regions over a secure, transparent and predictable platform. These rules would present the CARICOM region as an attractive place for investment, and promote a positive economic climate by facilitating investments that diffuse technology, management practices and a good business culture. A trade agreement that protects investments and facilitates trade in financial services could promote further development of CARICOM's financial services sector, and expand its benefits for the region.

**Technical Barriers to Trade (TBT)** - As import duties fall, TBTs arise as a mechanism to protect domestic markets. Technical regulations outlining product specifications presents a challenge to market access for exporting countries. The FTA could address these issues by providing for sound regulatory practices which would be transparent and demand compliance with international standards. The use of international standards which are already widely used in CARICOM and the streamlining of conformity assessment procedures e.g. certification, may increase the interest of Canadian investors in the region. A mechanism to address specific TBTs encountered by CARICOM exporters is also being proposed to address the unique challenges that may be faced by the region.

**Government Procurement** - The FTA would guarantee CARICOM suppliers with ready access to information on Canada's federal procurement system and rules, including the preparation and submission of tenders. With over \$10 billion of annual purchases of goods and services by the Canadian federal government, including construction services, the CARICOM region has tremendous potential to gain access. All aspects of the procurement procedure will be addressed under a set of transparent and comprehensive rules in accordance with the relevant domestic laws and regulations to ensure the access of procurement opportunities for both regions.

The CARICOM-Canada trade negotiations have been lengthy, but has made significant strides in terms of formulating trade strategies between developed and developing nations that may be used as a model to develop and conclude such future trade arrangements. It assumes a broader importance in developing strategies for trade negotiations and international development strategies, that will see freer competition and be mutually advantageous for both regions. In proceeding with the negotiations, it is necessary to formulate appropriate policies, and develop strategic plans for both goods and service exports that clearly identify and target markets to propel the negotiations to a point of conclusion. By virtue of the comprehensive nature of the negotiations, and the examination of key negotiating issues that have been identified, concluding the negotiations between CARICOM and Canada is now within sight.



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