



TRADE BEAT

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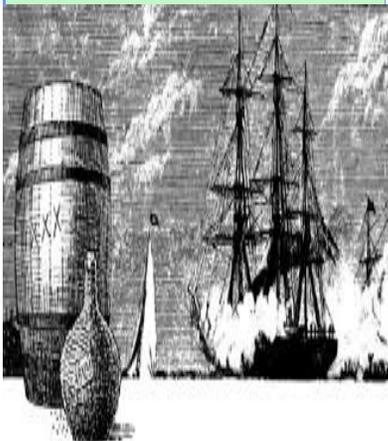
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Transitioning from CARIBCAN to Canada – CARICOM Free Trade



The Caribbean-Canada Trade Agreement (CARIBCAN) is a non-reciprocal preferential trade agreement established between the Commonwealth countries of the Caribbean and Canada. This agreement grants unilateral duty free access to eligible goods from the beneficiary countries of the English speaking Caribbean (commonwealth) until December 2013. The current agreement goes against the fundamental principles of free trade in the World Trade Organization (WTO) which both regions are party to and was therefore scheduled to expire in 2011. However, a

waiver was granted by the WTO for a period of two years, to give the Caribbean nations a reasonable time to adjust and prepare their economies for a withdrawal of this general preferential access. The opportunity now exists to negotiate a new reciprocal trade arrangement with Canada, as their market represents the third most important for the region, and would therefore be beneficial to traders and investors.

Background

Countries of the Caribbean have had long standing trade relations with Canada dating back to periods under British colonial rule. Colonies in the Northern British Atlantic region (Canada) would exchange fish, lumber and other staples to their counterparts in the West Indies for rum, molasses and spices. Nowadays, trade relations and economic cooperation are covered under a number of instruments, namely the 1979 Caribbean Community (CARICOM)-Canada Trade and Economic Co-operation Agreement and its protocols which include the CARIBCAN, the CARICOM-Canada 1998 Protocol on Rum, and bilateral investment treaties with individual member states namely Barbados and Trinidad & Tobago. Trade agreements between the Caribbean and Canada are organized with members of the CARICOM organization, which was created by members of the Caribbean Commonwealth.

CARIBCAN

CARIBCAN is a Canadian government initiative, aimed at promoting trade and investment, and to provide industrial cooperation through the access of duty-free goods from the countries of the Commonwealth Caribbean to the Canadian market. This agreement was established in 1986 and according to the Canadian Department of Foreign Affairs Trade and Development (DEFAIT) “CARIBCAN’s basic objectives, then, were to enhance the Commonwealth Caribbean’s existing trade and export earnings; improve trade and economic development prospects in the region; promote new investment opportunities; and encourage enhanced economic integration and cooperation within the region.” However, as a result of CARIBCAN’s non-compliance with the WTO’s principles, and a shift in Canadian government policy, it is recognized that current non-reciprocal preferential programmes such as CARIBCAN, do not provide an adequate and secure foundation on which to anchor future trade and economic relations between Canada and the Caribbean Region. Consequently a new agreement had to be crafted, so after roughly twenty years in existence, the CARIBCAN has been slated to be replaced by a full composite Caribbean-Canada free trade agreement with reciprocal equal access for Canadian companies to the Caribbean markets.



Countries in CARIBCAN



CANADA- Anguilla, Antigua and Barbuda, The Bahamas, Bermuda, Barbados, Belize, The British Virgin Islands, the Cayman Islands, The Commonwealth of Dominica, Grenada, the Co-operative Republic of Guyana, Jamaica, Montserrat, Saint Kitts & Nevis, Saint Lucia, Saint Vincent & the Grenadines, the Republic of Trinidad and Tobago, and the Turks and Caicos Islands.

Eligibility

Once an item can be certified as being either grown, manufactured or produced within the Commonwealth Caribbean, they are eligible for duty-free treatment. As CARIBCAN is a preferential access agreement, where Caribbean goods can enter the Canadian market, the definition designated as Caribbean Origin is “having a minimum input of 60 percent of the ex-factory price of goods (including overhead and reasonable profits) originating within any of the Commonwealth Caribbean Countries. The goods must also be exported directly from the Caribbean to Canada with no other work carried out at foreign transshipment points.



Exempted Items

The CARIBCAN agreement does not cover duty free access for the following items:

Textiles and Apparel

Footwear

Luggage and Handbags

Leather Garments

Lubricating Oils and

Methanol



Relevance

The current relevance of CARIBCAN should also be considered, as its initial value for the commonwealth states has been significantly reduced. Further, progressive market liberalization by Canada due to bilateral trade arrangements and unilateral initiatives has resulted in the erosion of significant benefits for the Caribbean. With countries in both regions being party to the WTO, the principle of the Most Favoured Nation treatment (MFN) would have significant impact on such trade arrangements, as members of the WTO have agreed to accord MFN treatment to each other. MFN is a status or level of treatment accorded to one state by the other in international trade, and basically means that if a particular country receives a particular treatment by a member country, then all member countries should be eligible to receive the same treatment, leading to reciprocity and non-discrimination. This principle also holds true for most bilateral trade arrangements that are negotiated with terms such as lowering duties with exceptions allowed for preferential treatment of developing countries, regional free trade areas and customs unions.



Scope

The scope of the CARIBCAN agreement is also limiting as it covers trade in goods and does not extend to trade in services, which is of particular interest to territories such as Jamaica, Barbados and the Bahamas, where the service industry contributes significantly to the economy. Trade in services accounts for a growing proportion of the CARICOM-Canada trade, and is covered under the Memoranda of Understanding (MOU) with the mentioned territories. This special facility is protected by an MFN exemption under the General Agreement on Trade in Services (GATS) allowing, for example, farm workers to work in Canada on a seasonal basis each year. These points of concern have therefore provided the CARICOM nations with sufficient incentive to ensure a renegotiation of its trade arrangements with Canada. The erosion of preferences, progressive liberalization and the overall limited scope of the agreement coupled with the waivers impending expiration has made the push for a new agreement more relevant and critical at this time.

Towards a New Free Trade Agreement



With the advent of the WTO which purports a level playing field, as it relates to trade among nations, non-reciprocal trade arrangements like CARIBCAN have largely been frowned upon within the international trading community. Negotiations are ongoing between Canada and CARICOM to ensure that future trade policies are conducted over a more reciprocal platform, which should result in more trade liberalization. ‘Canada is committed to negotiating a mutually beneficial trade agreement with CARICOM’, and ‘such an agreement could offer significant benefits, including expanded access to Canadian markets for CARICOM services and goods exporters, and making CARICOM a more attractive site for growth-inducing Canadian investment.’ In the current Canada-

CARICOM negotiations, deliberate policies are being formulated that will align the two regions to more internationally accepted trade relations, where future trade can be conducted with reciprocal benefits. Acknowledgement of the potential impact of the withdrawal of trade preferences is being considered and may be a contributing factor to the slow pace at which the negotiation is proceeding. While trade liberalization offers the Caribbean important opportunities for growth, it is recognized that it may also present some challenges to the economies of the region in terms of vulnerability.

Consequently, Canada is helping to build the region’s capacity to negotiate and implement trade and regional integration initiatives through a CARICOM Trade and Competitiveness Program to support the Caribbean Region Negotiating Machinery (CRNM) and the CARICOM Secretariat. Canada also has established bilateral policies with the region, and has provided significant development assistance making it one of the region’s most important bilateral donors. Additionally, Canada has coordinated a multimillion dollar project in response to Trade-Related Technical Assistance needs of countries of the Americas, in partnership with multilateral and regional institutions.

A key feature of the ongoing CARICOM-Canada negotiations is that of extensive consultations. This has informed the negotiating positions of both parties, ultimately leading to the tabling of the relevant objectives. In negotiating an enhanced trade arrangement with Canada, CARICOM’s objectives are as follows:

- Preserve, build on and broaden the scope of the current instruments of trade and economic co-operation.
- Where possible, to deepen disciplines to improve market access for CARICOM’s exports of goods and services
- To broaden the country coverage to include all CARICOM states
- To stimulate increased flows of Canadian investments into the region
- To provide a comprehensive framework for development co-operation initiatives.



Negotiations will cover a wide range of issues, including trade in goods, rules of origin, customs procedures, trade facilitation, non-tariff barriers, cross-border trade in services, temporary entity, investment, government procurement, dispute settlement and institutional provisions. In keeping with Canada's approach to FTA negotiations, Canada will seek to address the social dimensions of economic integration through negotiation of provisions on labour and environment.

To complete the new WTO-compatible trade agreement, both sides need to recognize the need to accelerate the pace of the negotiations in order to fulfill the legal obligations leading to the signing and ratification of the agreement. A new trade agreement would present exciting opportunities for CARICOM citizens by permitting the region to better position itself in growing value chains. Canada has experience negotiating trade agreements that include asymmetrical obligations, and provides mechanisms to identify and facilitate trade related cooperation. It is also sympathetic to the needs and challenges of developing countries attempting to benefit from these opportunities, and will take into account capacity constraints and vulnerabilities associated with small island states throughout the negotiations.

We will examine in further detail the specific challenges and points of concern surrounding the negotiations in our next issue.



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