

# CRNM PRIVATE SECTOR TRADE BRIEF

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## EXPLORING CARICOM-CANADA TRADE

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**IN THIS ISSUE:** The spotlight is on Canada which some exporters claim is a very difficult market to crack. We examine recent Canadian trade patterns and identify a few champion sectors. We also discuss the complexities of exporting to Canada from the viewpoint of the consignee/importer in Canada. Caribbean firms have significant market access to Canada through the existing CARIBCAN arrangement. However, to reap the most benefits, we recommend that firms consider establishing their own distribution in Canada. We provide helpful information on executing that strategy.

### OVERVIEW OF CARICOM-CANADA TRADE

With an annual spending of almost US\$377 billion on imports of commercial goods and services, Canada is a significant market for trade. In 2005, this expansive North American country bordering the United States accounted for 3% of global spending on imports. Posting an annual average growth of 10% between 2001 and 2005, Canada can be considered quite a dynamic market.

Canada stands out as a net importer of services. According to 2005 statistics, Canada's services trade deficit widened by US\$895 million to reach US\$12.3 billion, up US\$5.3 billion on the figure posted for 2001. Commercial services accounted for half of total transactions while transportation and travel made up most of the remainder. While deficits exist for commercial services, transportation and travel, Canada is a net exporter of computer and information services; architectural, engineering and other technical services; communications services; and research and development.

Historically, the bulk of Canada's services trade took place with the United States. However, some diversification occurred between 2001 and 2005 and it had the effect of reducing the level of services transactions between the two countries which are signatories to the North American Free Trade Agreement (NAFTA). Despite these changes, the United States remains Canada's principal trading partner in services, accounting for around 56% of exports and 59% of imports. The European Union accounts for about 17% of Canada's services exports and the same share of imports while, in the case of Central and East Asia, it's 9% of exports and 10% of imports.

According to the United Nations COMTRADE database, Canada accounted for only 4% of the total export earnings of CARICOM-based firms in 2005. This performance suggests that for some new exporters in the region, penetrating the Canadian market is apparently a low priority. It also highlights, at the same time, the difficulty which some mature CARICOM exporters have experienced getting their products on to Canadian shelves.

Analysis of the data shows CARICOM exporters hardly holding a recognizable trade share into Canada. Out of Canada's total import expenditure of US\$314.4 billion, CARICOM exporters accounted for only 0.2%. If even just in a crude way, it shows the magnitude of the trade potential between CARICOM and Canada.

However, on a positive note, the data shows that CARICOM exporters have been gaining some trade share. In the context of a 9% increase in general import expenditure in the Canadian market; CARICOM exporters grew their sales by an average 14% per annum between 2001 and 2005. For sure, these products represent a platform for the development of other exports into Canada.

Two-way merchandise trade between Canada and CARICOM reached US\$1.3 billion in 2005. Canadian investment in the region, concentrated in the financial, mining and energy sectors, stands at US\$25 billion, making it CARICOM's third most important source of investment after the United States and the United Kingdom. Additionally, Canadian firms earn an estimated US\$200 million through consulting and engineering contracts awarded annually in the Caribbean.

## **EXPORT PROFILE**

### **Major exports:**

Based on 2005 export sales, the top 10 CARICOM merchandise goods exports to Canada are: aluminum oxide (US\$300million), unwrought gold (US\$266 million), ferrous products obtained by direct reduction of iron ore (US\$90 million), methanol (US\$64 million), refined petroleum (US\$41 million), rum/tafia (US\$14 million), urea (US\$14 million), heterocyclic compounds containing pyrimidin (US\$12 million), t-shirts/singlets/other vests of cotton/knitted (US\$7.9 million) and frozen rock lobster (US\$7.5 million). These 10 products together accounted for over 90% of CARICOM's merchandise goods exports to Canada in 2005. Hence, a focus on supporting these exports by eliminating any trade obstacles will yield immediate benefits from trade negotiations.

### **Most dynamic exports**

Between 2001 and 2005, the most dynamic CARICOM exports to Canada included unwrought gold (16% growth in sales per annum), aluminum oxide (15%), undenatured ethanol (116%), methanol (57%), knitted cotton t-shirts (217%), aeronautical navigational instruments (285%), beer made from malt (30%), survey/geological instruments (138%), thyme/bay leaves(86%), tunas (121%) and electrical resistors (220%). These goods exports represent champions which, despite the complex trade structure we will describe later, have succeeded in penetrating the Canadian market.

### **Declining Endangered exports**

Endangered exports are defined as any product which recorded a decline in sales greater than 10% per annum between 2001 and 2005. Included in this group are electrical switches, other essential oils, non-alcoholic beverages, cut flowers, processed cheese, peppers, sugar confectionery, coffee and fish. It is interesting to note that the decline was Caribbean-specific since in none of the above-mentioned areas was there detected any global decline in import spending into Canada. It suggests Caribbean exporters are not keeping pace with other traders in the market. It represents a clear sign of loss of competitiveness in these products.

## **STATUS OF CARICOM-CANADA TRADE DISCUSSIONS**

### **The CARIBCAN arrangement**

Trade and economic co-operation between some CARICOM States and Canada are currently covered under a number of instruments: CARIBCAN, a non-reciprocal preferential agreement granted by Canada for goods; the 1979 CARICOM-Canada Trade and Economic Co-operation Agreement and its Protocols, including the 1998 Protocol on Rum; and Bilateral Investment Treaties with Barbados and Trinidad and Tobago.

Established in 1986, CARIBCAN is an economic and trade development assistance programme for Commonwealth Caribbean countries and territories. Its basic objectives, in the words of Canada's Department of Foreign Affairs and International Trade, are " to enhance the Commonwealth Caribbean's existing trade and export earnings; improve the trade and economic development prospects of the region; promote new investment opportunities; and encourage enhanced economic integration and cooperation within the region."

Features of the arrangement include seminars for Caribbean businesspersons to provide opportunities for them to learn more about developing markets for their products in Canada, a programme to expand the export capabilities of Caribbean businesses and the provision of assistance from the Canadian Department of Industry and Technology to Caribbean trade commissioners with the aim of supporting trade promotion efforts in Canada.

Certain Caribbean exports are eligible for preferential treatment under CARIBCAN once they are from the following countries and territories: 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 and Nevis, Saint Lucia, Saint Vincent and the Grenadines, The Republic of Trinidad and Tobago, and the Turks and Caicos Islands.

Textiles/apparel, footwear, luggage/handbags, leather garments, lubricating oils and methanol are exempted under CARIBCAN. All other products are eligible for duty-free status once they are certified as having been grown, manufactured or produced within the Commonwealth Caribbean or Canada. To be so designated means 'having a minimum input of 60 per cent of the ex-factory price of the goods (including overheads and reasonable profits) originating within any of the Commonwealth Caribbean countries (or Canada).'" The goods must also be exported directly from the Caribbean to Canada with no other work carried out at foreign transshipment points.

Having run its course for 20 years, CARIBCAN is slated to be replaced by a full composite Caribbean-Canada Free Trade Agreement, with reciprocal equal access for Canadian companies to the Caribbean market as well. A World Trade Organization (WTO) waiver for CARIBCAN has been granted up to 2011. When this waiver expires, an alternate arrangement will have to be negotiated.

#### **TOWARDS A FREE TRADE AGREEMENT**

CARIBCAN's exclusion of services (which account for a growing proportion of CARICOM-Canada trade) and the exclusion of Haiti and Suriname as beneficiaries, have contributed to the Caribbean's decision to pursue a new and improved trade arrangement with Canada. In July 2004, CARICOM Heads of Government gave the CRNM a negotiating mandate to proceed with preparations for the commencement of formal negotiations with Canada for a new trade agreement.

Regarding the scope of the proposed enhanced trade arrangement, CARICOM and Canada have agreed that the primary focus should be placed on four areas: (i) Market Access; (ii) Investment; (iii) Services; and (iv) Institutional Arrangements and Dispute Settlement. It has also been agreed that side agreements on Labour and the Environment will be negotiated. CARICOM's objectives in an enhanced trade arrangement with Canada are to: (i) preserve, build on and broaden the scope of the current instruments of trade and economic co-operation; (ii) where possible, to deepen disciplines to improve market access for CARICOM exports of goods and services; (iii) to broaden the country coverage to include all CARICOM states; (iv) to stimulate increased flows of Canadian investment into the region; and, (v) to provide a comprehensive framework for development co-operation initiatives.

Negotiations have not yet commenced primarily because Canadian officials have not yet received a negotiating mandate from their government. While both CARICOM and Canada have a confirmed interest in negotiating a Free Trade Agreement (FTA), Canada is still evaluating the best way to advance its hemispheric bilateral and investment relations. Also, given the Caribbean's involvement in ongoing negotiations for an Economic Partnership Agreement (EPA) with the European Union (EU), it is

unlikely that negotiations with Canada will commence before the last quarter of 2007. Which implies that any new trading arrangement will have to be negotiated and in place for goods and service operators to access the Canadian market prior to the expiry of the WTO waiver in 2011. Bear in mind that without the WTO waiver, CARIBCAN can be challenged on the grounds of discrimination.

## CANADA'S TRADE REGIME

### Trade facilitation (border control) regulations

Practical information is found in the booklet, "Importing into Canada". The main Canadian laws governing customs procedures are the Canada Border Services Agency (CBSA) Act and Customs Act. Caribbean firms seeking to establish their own distribution system in Canada, should note that all importers of commercial goods are required to register with the Canada Revenue Agency to receive a business number and establish an import/export account (RM account). The business number (BN) must be inscribed on relevant customs documentation.

This unique number is required to import goods into Canada and is often referred to as the single business registration number (SBRN), as it can incorporate Canada's Corporate Income Tax, Goods and Services Tax (GST), payroll deduction and import/export numbers. To apply for a business number in order to be eligible to import into Canada, ask for Form RC1 – Request for a Business Number (BN). This form is also available from the CBSA's web site, publications and forms page. After you have completed the form, it must be returned to the CBSA along with a copy of your Certificate of Incorporation. You will receive an account, free of charge, as soon as the CBSA has processed your request. If the number is not used for two years, it will expire. You can, however, reactivate it by contacting any CBSA office. You must also report any changes in your status, i.e. name or address change, to the CBSA as soon as possible.

All Canadian importers of fresh fruit and vegetables must be licensed by the Canadian Food Inspection Agency. The Licensing and Arbitration Regulations specify certain exemptions to this requirement. Carriers must report shipments using an approved cargo control document or electronic data interchange (EDI). Under the Customs Act, the CBSA has the authority to examine shipments randomly to verify compliance. All requests for release of commercial shipments are reviewed. Approximately 2% of shipments are physically examined. The frequency of examinations depends on the importer's compliance record, as well as the type of goods being imported. Goods examined more systematically include food products that may carry disease, hazardous products or waste, chemicals or biological products, and supply-managed goods (to ensure compliance with tariff quotas).

Recent reforms to facilitate imports include implementation of the Customs Self-Assessment (CSA). The CSA involves an accounting and payment process for all imported goods by pre-approved importers. It also offers an expedited clearance option under which shipments entering Canada by pre-approved importers, carriers and drivers are cleared immediately at the border, upon identification of the importer. Options to speed up release processing times of commercial goods at Customs include the Prearrival Review System (PARS) and the Frequent Importer Release System (FIRST). PARS allows importers to submit the required import documentation a maximum of thirty days but not later than one hour before the goods arrive in Canada, enabling the authorities to have the release recommendations ready when the shipment arrives. Shipments are released within minutes unless an examination is required.

### Tariffs

Canada levies customs duties based on the "freight on board"/f.o.b value of imports at the point of direct shipment to Canada. The Customs Tariff was enacted in December 1997 and entered into force in January 1998. It is based on the Harmonized Commodity Description and Coding System (HS). The Canada Border Services Agency issues regular consolidated versions of the Customs Tariff incorporating previous amendments. Canada's Customs Tariff contains provisions that automatically round down *ad valorem* MFN and preferential tariffs to the closest half percentage point (except for certain motor vehicles and chassis), and eliminate all tariff rates of less than 2%, both on an annual basis.

The simple average applied MFN tariff declined from 6.8% in 2002 to 6.5% in 2006. The average applied tariff for agricultural products (WTO definition) in 2006 was 22.4% (up from 21.7% in 2002); and the average for non-agricultural products was 3.8% (down from 4.2% in 2002). This decline was driven by tariff reductions on 1,123 products following the implementation of WTO commitments, which resulted in a reduction of applied rates in tandem with bound rates. In 2006, duty-free lines represented 52.7% of all tariff lines.

In 2006, some 1.6% of tariff lines had MFN rates exceeding 20%, 6.5% had rates exceeding 15%, 13.5% exceeding 10%, 35.6% exceeding 5%, and 47.1% exceeding 0%. The products subject to the highest *ad valorem* or *ad valorem* equivalent rates were dried egg albumin (532.3%), prepared meals of fowl (377.8%), and fats derived from milk (313.5%). Milk and cream were subject to rates amounting to 292.5%.

#### **FINANCING YOUR INVESTMENT IN CANADA: ONE OPTION**

The Canadian Federal Immigrant Investor Programme (the "IIP") was established to encourage successful and experienced business individuals to immigrate to Canada with the goal of developing a strong and prosperous Canadian economy. Investors and their families can apply for permanent residence in Canada by making a five year investment totaling CDN\$400,000 (the "Investment") in the Canadian economy. The program is guaranteed by the Canadian government to ensure that the investment is repaid in full without interest (0%) approximately five years and two months after the investment was initially made.

To be considered eligible under the IIP, you must: be a foreign national with demonstrated business experience; have a legally obtained net worth of at least CDN\$800,000; submit an application for both a visa and for the Immigrant Investor Programme at the nearest overseas Canadian visa office; meet all immigration selection criteria; express a desire or intent to settle in a Canadian province or territory outside of Quebec; and invest CDN\$400,000 for a period of five years with the Receiver General of Canada.

As a requirement of the IIP, the investment must be deposited with the Canadian government. For more information about the IIP, including a listing of forms and government overseas visa offices, please visit the [Citizenship and Immigration Canada Website](#).

As usual, your feedback on this trade brief is welcome. Kindly email your comments to us at [privatesector@crnm.org](mailto:privatesector@crnm.org). You are also invited to visit the CRNM Web site at – <http://www.crn.org> – where there is a lot of helpful trade-related information for Caribbean businesses.