Caribbean Regional Negotiating Machinery

CRNM PRIVATE SECTOR TRADE BRIEF

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CARICOM-US TRADE RELATIONS: IMPORTANT CONSIDERATIONS FOR THE FUTURE.

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IN THIS ISSUE: We evaluate a future for CARICOM-US trade relations with the imminent expiry of the Caribbean Basin Trade Partnership Act (CBTPA) and the waning steps along the road to a hemispheric Free Trade Agreement. What will happen come September 2008? Furthermore, with the US intent on signing additional FTAs, how much of a threat do CARICOM businesses face?

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US-CARICOM TRADE PERFORMANCE

It will be essential that CARICOM upgrade its trade relations with the USA. This is critical to avoid the region's exporters being at a disadvantage versus Central America, the Dominican Republic, Bahrain, and possibly Korea who will have more predictable market access. The USA is the world's largest consumption market and worthy of a sustained market penetration drive by CARICOM firms. In 2004, the USA imported almost US$1.8 trillion in goods and services globally with almost US$260 bn of this import spending on services. Interestingly, this import spending has grown by 5% per annum since 2000. It must also be noted that in terms of services imports, the category "other commercial services" (including financial and professional services) has outperformed travel and transportation since 2000 growing by 11% per annum, compared to no growth in travel and 4% growth p.a in transportation.

Insurance services, Business and management consultancy, public relations services, Architectural, engineering and other technical consultancy have been dynamic import areas, but are subject to significant market access restrictions in the general agreement on trade in services. Therefore, CARICOM service exporters in these areas could be particularly bullish in seeking to boost sales to the USA.

In terms of goods trade, it must be noted that *the single most dynamic import industry into the USA since 2000 has been pharmaceutical products, growing by 28% per annum. Essential oils/perfumes/cosmetics is the second most dynamic import industry since 2000 growing by 21% per annum. Iron/Steel (Semi-fin prod, cross section, containing by weight less than .25% carbon), wood products (Lumber, coniferous (softwood) 6 mm and thicker), and mineral fuels (Petroleum oils and oils obtained from bituminous minerals, crude) have been particularly dynamic since 2003* and remain dynamic business opportunities to be promoted via trade negotiations and otherwise.

The USA has been a dynamic import market for CARICOM-based exporters who generated US$8.2 bn in export earnings to that market in 2004. Furthermore, since 2000, the US has imported 60% of CARICOM's total merchandise exports signaling the importance as the single most important export market. In fact, CARICOM exporters have been growing their market share as exports have grown by 19% per annum since 2000 which was quadruple the rate at which the US imported from the rest of the world.

At the sector level however, *Liquefied natural gas (LNG) represented 34% of export earnings and Anhydrous ammonia represented almost 12% of total export earnings from the US market implying that these two items generated roughly half of the total earnings from the US. Crude Petroleum oils/oils obtained from bituminous minerals, Methanol (methyl alcohol), Pullovers, cardigans and similar articles of cotton, knitted, Urea whether or not in aqueous solution (in packages weighg more than 10 kg), Ferrous products obtained by direct reduction of iron ore, Diamonds (non-industrial unworked or simply sawn, cleaved or bruted), Limestone flux (limestone & other calcareous stone,for lime or cement), Pebbles, gravel (broken or crushed stone used for aggregates), Arrowroot/salep fresh or dried, Grapefruit (fresh or dried) and Animal/vegetable fertilizers (in packages weighing more than 10 kg) are examples of sectors which are growing their import market share into the US and as such can be classified as winners (champion sectors) for further development in negotiations.*

However, sectors such as *T-shirts, singlets and other vests, of cotton, knitted, Aluminium oxide, Hot rolled bar/rod/irregular coils, Rock lobster/other sea crawfish, Tunas,yellowfin, Raw sugar/cane, Orange juice, Guavas/mangoes/mangosteens (fresh or dried), Plywood/outer ply of non-coniferous wood, Fish fillets frozen, Peppers of the genus Capsicum or of the genus Pimenta (fresh or chilled), Grapefruit juice, Vegetables (fresh/chilled), Liqueurs/cordials and Coffee (roasted, not decaffeinated) are examples of sectors where CARICOM is losing market share into the US* and as such may need to focus investment discussions or trade defense measures in any trade negotiations.

To date, the bullish sectors have outperformed those in decline so far, but there are still concerns over the manner in which market access is being utilized as two tariff lines current account for 50% of export revenue.

COMPETITORS FOR US MARKET ACCESS IN TOP EXPORTS

Liquified Natural Gas(LNG): The LNG market is already duty free into the USA for all exporters. Trinidad/Tobago is the top exporter to the USA accounting for over two-thirds of import spending in 2004. Algeria is the next closest competitor with 18% of import spending into the US. Trinidad exporters should note however that Qatar (with 22% of world exports of LNG), Algeria and Malaysia (jointly with over one third of global exports of LNG) are marginal exporters to the USA but can offer significant competition.

Anhydrous Ammonia: Anhydrous ammonia is another duty free export to the US for all exporters. Trinidad already accounts for 55% of imports into the US of this product. However the world top exporters, namely Canada, Russia and the Ukraine are in pursuit of Trinidad. Trinidad Ammonia exports into the US are the most expensive of the top four exporters and it must also be noted that The Russian Federation had been outperforming Trinidad in terms of import growth recording 60% growth since 2000 compared to Trinidad/Tobago's growth rate of 28%.

Refined Petroleum: The refined petroleum market is competitive and Trinidad and the Bahamas are the CARICOM exporting nations which have tapped into this market opportunity. Canada, Venezuela and Russia are the top exporters to the US of refined petroleum (HS 27100). Whilst Trinidad's exports declined marginally over 2000 to 2004 by 1% to record US$554 mn, the Bahamas has grown exports by 48% per annum since 2000 to record some US$320 mn in 2004.

Methanol: Methanol is another duty free area in which CARICOM exporters have been dominant in the US market. Trinidad is the top exporter of methanol, into the US accounting for 44% of the US$1.2 bn in import spending and is also the most dynamic exporter with average sales growth in the US of 17% per annum since 2000. Venezuela, Chile, Equatorial Guinea and Canada are major competitors into this market. Chile is ranked third globally in exports of methanol but has predictable market access under an FTA with the USA. Additionally, with the US signing a FTA with Bahrain, who exports marginally to the US but is ranked as the 13th largest exporter of methanol, this could signal additional competition as Bahrain's market access is more secure than CARICOM's.

In short, an analysis of the top exports to the US reveals that Trinidad has been the main member taking advantage of the market access under the various preferential arrangements. However, Trinidad has been exporting into areas which were duty free to all exporters and as such are not receiving any special advantage from the CBI.

Interestingly also, the exclusivity which previously made these preferences a strong selling card to many foreign investors to establish in CARICOM, is now gone as these preferences are offered to the rest of the world. More importantly however, is that competitors in our exportable products are receiving more predictable market access than CARICOM exporters.

It must also be noted that competitors such as Korea and Bahrain are improving their market access into the USA which will make them more competitive. *Bahrain could become more competitive in areas of export interest to CARICOM such as petroleum, apparel, methanol, Urea, Aluminium, Jewellery and Cosmetics. Korea could become more competitive in areas of export interest to CARICOM such as electrical equipment, apparel, petroleum, ships/boats, precious stones (gold), furniture, aluminium, beverages, cosmetics, edible fruits/nuts, and coffee.*

BUSINESS IMPLICATIONS OF OPTIONS FOR US-CARICOM TRADE RELATIONS

Caribbean firms exporting to the US currently have duty relief and quota relief on virtually all their goods through the provisions of laws which are collectively termed the Caribbean Basin Initiative (CBI). These laws are currently not sanctioned by the WTO and contestable by other non CBI members as the waiver which authorized these preferences (the WTO prohibits preferences unless there is approval from the membership) has expired. The CBI was "beefed up" by the provisions of the Caribbean Basin Trade Partnership Act (CBTPA) which in addition to the general CBI benefits:

1) offers temporary trade benefits to Caribbean Basin countries to facilitate their economic development and reconstruction after 1998's devastating hurricanes (including allowing imports of footwear, tuna (prepared or preserved in any manner, in airtight containers), petroleum (or any product derived from petroleum, provided for in headings 2709), and watches/watch parts);
2) encourages development of trade and investment policies that were designed to facilitate the Caribbean's participation in the Free Trade Area of the Americas (FTAA);
3) expands the CBI program to extend preferential tariff treatment to certain textile and apparel products assembled from U.S. fabric that have been excluded from the program. Extend preferential tariff treatment to textile handicrafts and all non-textile products currently excluded from such treatment under the existing Caribbean Basin Initiative;
4) reduces duty rates for textiles covered by the agreement by up to 100 percent, and such products would be free of quantitative restrictions. For other products, the tariff rate was reduced up to 100 percent of the difference between the current rate and the rate applicable to Mexican goods under the NAFTA; and
5) provides safeguard provisions on covered textile products. Tariff benefits could be modified under the same conditions as in the NAFTA in the event of disruptive import surges.

These provisions from the CBTPA are temporary "add-ons" to the CBI which already provided duty free and quota free access to most other products and expire in September 30, 2008. To prevent any challenge to these preferences the US received an extension of the CBI waiver from the World Trade Organisation (WTO) up to December 2005. Based on the expiration of this waiver, the US Government has applied for an extension up to September 30, 2008 which is arguably the last extension that they will seek.

Businesses exporting, or interested in exporting to the US should note that critical issues concern 1) the legitimacy of the current CBI provisions and 2) the termination of the enhanced trade preferences

(e.g. duty free treatments) to the Caribbean Basin Countries and a reversion to the basic CBI benefits by September 2008. It should also be noted however that Barbados and Antigua do not currently benefit from these preferences as they were graduated by the US government from being designated as countries requiring these preferences showing that these preferences can be withdrawn unilaterally. This situation exposes the inferior position that CARICOM firms operate in compared to those countries which have Free Trade Agreements (FTA).

It must also be stated that the African Growth and Opportunity act (AGOA) expanded the duty reductions and eliminations previously provided to the Caribbean Rim Countries under the CBI to African countries.

In looking beyond September 2008, hypothetically, a number of options exist including:

1) Continuing using CBI benefits without the WTO waiver (which could open the US to challenge under the WTO);
2) Seeking to enhance the Generalized System of Preferences (which is another scheme that provides trade preferences); and
3) Pursuing a Free Trade Agreement with the USA;

With the US market becoming more competitive due to factors including a general lowering of tariffs, CARICOM businesses have to enhance the tools which are providing market access to fight for market share within the USA. With the first two options, market access is still based on the discretion of the US government and can be withdrawn without consultation with CARICOM governments. This implies that businesses currently cannot base long term contracts on current trade provisions as the duty structure could change and force businesses in a position to renegotiate their export contracts, or at worst, become liable for duties charged which the importer/consignee did not perceive would be payable when the contract was initiated. In short, the current business environment actually promotes short term export contracts.

In assessing the FTA option, it should be noted that this option would provide for more predictable market access and for more long term business contracts into the USA. More importantly, it will also allow for coverage to services and investment as the CBTPA does not address these issues comprehensively. This may be the major drawing card, as there is little marginal benefit for goods exporters as most products are covered by either the GSP or the CBTPA. An FTA discussion also allow for negotiations around the stringent rules of origin (i.e. the production processes that must be adhered to for duty relief under trade agreements) and health requirements which are currently edicts of the US government.

Additionally, in terms of balancing business relations, it must be noted that CARICOM is currently in discussions with Canada and the EU who jointly account for under a third of the region's exports. Therefore, with the US double the export earnings of both Canada and the EU, there is strong business motivation to conclude an FTA with the US.

Businesses in the watches, apparel, petroleum (and derivatives) and footwear sectors that benefited from the duty relief and other benefits under the CBTPA will not continue to benefit under this provision after September 2008 as the CBI will revert to its provisions prior to the CBTPA. These firms must apprise their consignees/agents in the US of this and prepare for more hard work to keep those export contracts.

It is worthwhile repeating that where CARICOM does not upgrade its trade relations with the US, exporters will be at a disadvantage versus Central America, the Dominican Republic, Bahrain, and possibly Korea who will have more predictable market access. CARICOM is also embarking on FTAs with the EU and Canada, and these can provide a template to inform any US FTA. However, any possible agreement with the US will be informed by the recent US-DR-CAFTA Agreement which provided for immediate duty free treatment to 80% of US exports to Central America immediately with remaining tariffs to be phased out over 10 years. Questions arise as to whether our companies could live with these terms, and where not, the specific terms which would need to negotiated. These terms could only be negotiated through consultations with the various business stakeholders. Your voice needs to be heard on this issue as currently exporters into the US can be challenged in the WTO based on the non-sanctioning of the CBI by a WTO waiver. This implies that the US could be forced to withdraw these preferences and apply duties to exports from CARICOM in a similar manner as to firms from other developing regions.