CARICOM-MERCOSUR
PRIVATE SECTOR TRADE NOTE (FINAL)

1.0 Trade Overview

MERCOSUR is a regional free trade group comprising Brazil(Bra), Argentina(Arg), Paraguay(Par) and Uruguay(Uru) and is a significant global market. It should also be noted that since 2004, all the Andean Community members (i.e. Colombia, Ecuador, Venezuela and Peru) are associate members of MERCOSUR which indicates a possible future increase in the market size. Consumers in this market spent approximately US$112bn on imported goods in 2005. This market represented 1% of global import spending, but is quite dynamic growing at an average of 10% per annum between 2001 and 2005. The main trade opportunities are believed to exist with Brazil and Argentina, and a subsequent section includes some relevant information.

In terms of services imports, Brazil is a sizeable importer with some US$22.3 bn in commercial services imports in 2005 which grew at 9% per annum between 2001 and 2005. This outturn was however slower than world growth of 13% per annum during the period. Argentina is a smaller market than Brazil with some US$7.8 bn in commercial services imports in 2005 which grew at 2% per annum between 2001 and 2005. However, again this outturn was slower than world growth of 13% per annum during the period. Uruguay is a relatively smaller services importer with some US$850mn in commercial services imports in 2005 which grew at 3% per annum between 2001 and 2005. This again was slower than world growth of 13% per annum during the period. Information is not readily available on Paraguay's services market.

So one can surmise that, MERCOSUR is a sizeable services market (of over US$30bn of services import spending in 2005), but sluggish compared to both global services trade and global merchandise trade, an observation which goes against the global trend for services to be more dynamic than goods trade. Therefore, CARICOM services exporters should still see ant discussions of a Trade agreement with MERCOSUR as laden with the potential to lubricate a US$30bn services market.

CARICOM is a common trade market comprising mainly the English speaking Caribbean Islands along with Suriname and Guyana as the two South American members. CARICOM based firms generated some US$15.5bn in export sales (goods only) in 2005, and this performance is dynamic growing at 15% per annum between 2000 and 2005. CARICOM has no Free Trade Agreements(FTAs) with any MERCOSUR countries even though there have been exploratory overtures. There has been little trade between CARICOM and MERCOSUR even though there is much potential.

2.0 Trade Opportunities

There is anecdotal evidence of services opportunities in the creative industries (specifically music) contact centers (specifically bi-lingual contact centres) and energy services. However detailed data is more accessible for goods trade, and as such the note will focus on goods opportunities in Mercosur.

The goods with the greatest trade potential to Mercosur (i.e. potential for greater than US$5mn additional export sales) include Petroleum oils & oils obtained from bituminous minerals; Aluminium oxide nes; Urea; Butanes, liquefied; Propane, liquefied; Anhydrous ammonia; Methanol (methyl alcohol); Natural gas in gaseous state; Bananas including plantains, fresh or dried; Petroleum gases; Iron ores and concentrates; Heterocyclic compounds; Coffee, not roasted, not decaffeinated; Polystyrene, expansible; Medicaments nes, in dosage; Aluminium ores and concentrates; Mens/boys trousers and shorts, of cotton, not knitted; T-shirts, singlets and other vests, of cotton, knitted; Surface-

active preps/washing & cleaning prep; Portland cement nes; Electrical switches for a voltage not exceeding 1,000 volts, nes; Sanitary articles of paper, including sanitary towels and napkin (diapers) for babies; Organo-sulphur compounds, nes; Pullovers etc of man-made fibres, knitted; Transmission apparatus, for radiotelephony; Non-alcoholic beverages nes; Mens/boys trousers and shorts, of synthetic fibres, not knitted; Insecticides; Paintings, drawings and pastels executed by hand; Communion wafers; Sweet biscuits, waffles and wafers; Salt (including table salt and denatured salt) pure sodium chloride and sea water; Beer made from malt; Benzene; Cartons, boxes and cases, of corrugated paper or paperboard; Paper labels of all kinds, printed; Sauces and preparations nes and mixed condiments and mixed seasonings; and Glass containers, capacity 0.33-1.0 litre.

2.1 CARICOM-Brazil Trade Performance

In 2005, CARICOM-based exporters generated US$87.5mn in export sales in Brazil mainly from petroleum products. CARICOM exporters as a group have been increasing their market share into Brazil as their export sales have surpassed Brazil's average import growth. Specifically, CARICOM exporters grew their export sales into Brazil by 22% per annum between 2001 and 2005, whilst Brazilian consumers grew their import spending by 8% per annum over the same period. The products with the greatest trade potential include Anhydrous ammonia; bars/rods of iron/steel; petroleum oils; aluminium oxide; spongy ferrous products, or iron; conveyor belt; hot rolled bar/rod, irregular coils; tubes, pipes and hoses vulcanized rubber reinforced or not, with fittings; urea, whether or not in aqueous solution in packages weighing more than 10 kg; aluminium waste and scrap; metal oxide semiconductors; rum and tafia; electrical switches for a voltage not exceeding 1,000 volts; articles of plastics or of other materials; pullovers, cardigans and similar articles of cotton knitted; fish, fresh or chilled; fish frozen; fish fillets frozen; and minced fish meat, not frozen.

2.2 CARICOM-Argentina Trade Performance

In 2005, CARICOM-based exporters generated US$19.6mn in export sales from Argentina. CARICOM exporters as a group have been increasing their market share into Argentina as their export sales have surpassed Argentina's average import growth. Specifically, CARICOM exporters grew their export sales into Argentina by 22% per annum between 2001 and 2005, whilst Argentinean consumers grew their import spending by 18% per annum over the same period. The products with the greatest trade potential include polystyrene, expansible; nutmeg; paper; kaolin and other kaolinic clays; eye make up preps; fresh goat meat; grill, netting, fencing of iron or steel; animal feed preps; medicaments; hams, shoulders and cuts thereof; gallus domesticus (whole, and cuts and offal); ornamental fish live; fish fillets frozen; milk, not concentrated and unsweetened; milk and cream, sweetened; natural honey; cut flowers; peppers of the genus capsicum; and vegetables, fresh or chilled.

2.3 Products with Trade Potential in Paraguay & Uruguay

Paraguayan importers spent some US$3.1bn on imported goods in 2005 and showed some dynamism in spending with 12% growth in spending per annum over 2001 and 2005. Similarly, Uruguayan importers spent US$3.4 bn on imported goods in 2005 and showed slower growth of 7% per annum over the 2001 and 2005 period. There is no record of trade between CARICOM and Paraguay or Uruguay in 2005. However, based on trends with the rest of the world, the products with the greatest trade potential include petroleum oils; medicaments; urea; raw sugar; insecticides; natural gas; soya bean oil cake; jewellery; food preps; glass containers, capacity 0.33-1.0 litres; sanitary articles of paper; fish, fresh or chilled; sweet biscuits, waffles and wafers; cartons, boxes and cases of corrugated paper/paperboard; transmission apparatus for telegraphy; butanes (liquefied); beer made from malt; liquefied propane; iron ores and concentrates; communion wafers; animal feed preps; non-alcoholic beverages; sacks and bags of plastics; waters including mineral and aerated, containing sugar;

perfumes and toilet waters; bitumen and asphalt; cigarettes containing tobacco; electric conductors; telephonic and telegraphic switching apparatus; disinfectants; surface active preps, washing and cleaning preps; salt; margarine; lead-acid electric accumulators; and paper labels of all kinds, printed.

2.4 Price Competitiveness

CARICOM has a price advantage (ε), or an export price which is less than the import price, in the illustrative list of product groups colored Green and Yellow in Table 1 below.

Table 1: Price Competitiveness in Mercusor (2005)

(HS code)Product label	CARICOM Export Price(FOB)/ton	MERCOSUR Import Price(CIF)/ton	ε[1]	Tariff
970110 Paintings, drawings and pastels executed by hand;	US$205,000 (BD)	US$2.9mn (Arg)	14.15	4% (Arg)
260600 Aluminium ores and concentrates;	US$25 (JA)	US$194(Arg)	7.8	2% (Arg)
701092 Glass containers, capacity 0.33-1.0 litre.	US$192 (TT)	US$1,166 (Arg)	6.07	10%
610910 T-shirts, singlets and other vests, of cotton, knitted;	US$5,765 (SLU)	US$22,804(Bra)	3.96	20% (Bra)
852520 Transmission apparatus, for radiotelephony;	US$53,300 (TT)	US$196,677 (Arg)	3.69	2% (Arg)
190530 Sweet biscuits, waffles and wafers;	US$760 (TT)	US$2,743 (Bra)	3.61	18% (Bra)
281820 Aluminium oxide nes;	US$272/ton (SR)	US$711/ton (Bra)	2.6	2% (Br)
380810 Insecticides;	US$5,202 (BD)	US$13,350 (Arg)	2.56	14% (Arg)
620343 Mens/boys trousers and shorts, of synthetic fibres, not knitted;	US$11,906 (HT)	US$27,447 (Bra)	2.30	20% (Bra)
611030 Pullovers etc of man-made fibres, knitted;	US$8,739 (HT)	US$18,798 (Arg)	2.15	20% (Arg)
290220 Benzene;	US$472 (SVG)	US$930 (Arg)	1.97	4% (Arg)
481910 Cartons, boxes and cases, of corrugated paper or paperboard;	US$978 (TT)	US$1,900 (Bra)	1.94	16% (Bra)
300490 Medicaments nes, in dosage;	US$19,381(BD)	US$34,375(Arg)	1.8	0% (Arg)
220290 Non-alcoholic beverages nes;	US$1,079 (SVG)	US$1,740 (Arg)	1.61	20% (Arg)
620342 Mens/boys trousers and shorts, of cotton, not knitted;	US$14,563 (HT)	US$22,945(Bra)	1.57	20% (Bra)
290511 Methanol (methyl alcohol);	US$187 (TT)	US$282(Bra)	1.5	12% (Bra)
271000 refined Petroleum oils & oils obtained from bituminous minerals;	US$354 (TT)	US$508(Par)	1.4	0% (Par)
080300 Bananas including plantains, fresh or dried;	US$490(JA)	US$680(Bra)	1.4	10% (Bra)
853650 Electrical switches for a voltage not exceeding 1,000 volts, nes;	US$26,612 (SKN)	US$36,177 (Bra)	1.36	3% (Bra)
310210 Urea;	US$237 (TT)	US$284(Arg)	1.2	6% (Arg)
271113 Butanes, liquefied;	US$518 (TT)	US$627 (Uru)	1.2	0% (Uru)
271112 Propane, liquefied;	US$462 (TT)	US$565/(Arg)	1.2	0% (Arg)
340220 Surface-active preps/washing & cleaning prep;	US$1,078 (DM)	US$1,297 (Arg)	1.20	18% (Arg)
210390 Sauces and preparations nes and mixed condiments and mixed seasonings;	US$2,149 (TT)	US$2,452 (Bra)	1.14	18% (Bra)
270900 crude Petroleum oils & oils obtained from bituminous minerals	US$407 (TT)	US$434 (Par)	1.1	0% (Par)
271119 Petroleum gases;	US$489(TT)	US$535 (Uru)	1.1	0% (Uru)
252329 Portland cement nes;	US$59 (TT)	US$65 (Bra)	1.10	4% (Bra)
190590 Communion wafers;	US$1,325(TT)	US$1,414 (Uru)	1.07	18% (Uru)
281410 Anhydrous ammonia;	US$260(TT)	US$269 (Bra)	1.03	4% (Bra)
482110 Paper labels of all kinds, printed;	US$11,918 (TT)	US$11,800 (Bra)	0.99	16% (Bra)
481840 Sanitary articles of paper, incl. sanitary towels & napkin (diapers) for babies;	US$3,837(TT)	US$3,628(Bra)	0.94	16% (Bra)
220300 Beer made from malt;	US$848 (HT)	US$709 (Arg)	0.84	20% (Arg)
250100 Salt (including table salt & denatured salt) pure sodium chloride & sea water;	US$109 (TT)	US$71 (Arg)	0.72	4% (Arg)
260111 Iron ores and concentrates;	US$64 (TT)	US$45(Arg)	0.7	2% (Arg)
090111 Coffee, not roasted, not decaffeinated;	US$2,581(HT)	US$1,471(Bra)	0.57	10% (Bra)
390311 Polystyrene, expansible;	US$2,088(BH)	US$ 1,191(Par)	0.57	14% (Par)
271121 Natural gas in gaseous state;	US$528(TT)	US$211 (Bra)	0.4	0% (Bra)

Source: UN COMTRADE Database (http://www.trademap.net/jamaica/ accessed between Nov 28-Dec 1, 2006). NB: See footnote 2 for abbreviations.

[1] Represents the ratio of Mercusor's most profitable Import Price (specifically a unit value was used which measures the value of a shipment divided by that shipments volume) to CARICOM's most competitive Export Price. Therefore, CARICOM is competitive where this ratio is greater than one. Interestingly, this measure also represents crudely the level of increase that an exporter can expect where they export shipments at the quoted import price, eg St. Kitts/Nevis exporters of electrical switches can grow their export sales by a third by exporting to Brazil at the prevailing import price.

From table 2[2] for example, exporters of T-shirts from St. Lucia (SLU) are exporting T-shirts at a quarter of the price at which importers in Brazil(Bra) are purchasing. Therefore, even with Brazil's 20% import duty, SLU exporters of T-shirts should stand a good chance at getting export contracts. Additionally, insecticide exporters from Barbados(BD) are able to ship insecticides at less than half the price that Argentinean importers are willing to buy. Therefore, even with Argentina's 14% duty on this product, they should still be price competitive. Where we assume that transport and other logistics costs (including customs clearing costs, marketing expenses, distributor fees), can inflate CARICOM's export price by another 10%, then this impacts the competitiveness of exporters.

However, if we examine the competitiveness of Dominican(DM) "Surface-active preps/washing & cleaning prep" exporters, they can export detergents etc 20% cheaper than Argentinean importers were prepared to import this product in 2005. However, when the 18% duty is applied, this price margin disappears. Furthermore, if one assumes that transportation costs and other logistics, including the estimated US$1,750 cost to clear a 40ft container in Argentina, this further erodes the price competitiveness for Dominican exporters in Argentina for this product. If the duty was negotiated away, Dominican detergent exporters would have a better chance of landing export contracts in Argentina where transportation costs are minimized. Similarly for example, sauce exporters from Trinidad/Tobago have a 14% price advantage exporting into Brazil on a "free on board"(fob) basis. However, where freight costs, as well as the 18% import duty is incorporated into the landing price for TT sauces, there is really little price advantage to importing sauces from Trinidad into Brazil. TT sauce exporters could benefit from a removal of the 18% duty on sauces into Brazil. Furthermore, products such as Urea from Trinidad/Tobago exporters, could be profitable into Argentina if the 6% tariff was removed.

It is also interesting to note that if we assume no price elasticity of export demand[3], ε actually represents the level of sales increase that can be achieved where CARICOM exporters sell at the prevailing import price for a specific product. Therefore, Dominican exporters of surface active preps could grow their export sales by 20% exporting to Argentina on a duty free basis. Similarly, Suriname aluminium oxide exporters could increase their export sales by 160% shipping into Brazil at the existing market price. Also, St. Kitts/Nevis(SKN) exporters of electrical switches etc could grow their sales by 36% selling in Brazil on a duty free basis at the 2005 prevailing market price. Additionally, Haitian (HT) exporters of mens/boys trousers/shorts etc could grow their sales by 57% selling in Brazil on a duty free basis at the 2005 prevailing market price.

Therefore, by general observation, the selected products can be classified into three groups. Firstly "green", signifying the CARICOM exports that are priced so far below the prevailing market price in MERCOSUR, that they are price-competitive without any tariff preferences. Group "Red" represents those CARICOM export groups that are so uncompetitive (with respect to price) that tariff preferences will not make them attractive to price-sensitive importers in Mercosur.

Therefore, group "Yellow" represents a subset of the main products which could benefit greatly from tariff preferences into Mercosur as their price is close to the prevailing import price, but is actually made uncompetitive because of the tariff. We cannot account for differences in quality of goods as trade data does not classify goods accordingly.

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[2] Argentina(Arg), Barbados(BD), Brazil(Bra), Dominica(DM), Haiti(HT), Uruguay(Uru), Paraguay(Par), St. Kitts/Nevis(SKN), St. Vincent/grenadines(SVG), Jamaica(JA), Trinidad/Tobago(TT), Bahamas(BH), Suriname(SR).

[3] This refers to where an increase in price does not affect sales.

2.5 Trade Facilitation[4] Analysis

In assessing the experience in clearing goods through customs, the World Bank "Doing Business Report" provides some useful information.

Table 2: Mercusor Customs/Border Efficiency

Country	Documents to import (#)	Time to import (days)	Cost to import a 40ft container (US$)
Argentina	7	21	1,750
Brazil	6	24	1,145
Paraguay	13	31	1,077
Uruguay	9	25	666

Source: World Bank "Doing Business" Report (http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/ accessed December 1, 2006, 10:09 pm.

Basically, exporters to Paraguay will encounter the highest amount of paperwork and the longest wait to clear customs. However, the financial cost to clearing a 40ft container is less expensive that Argentina and Brazil. However, Argentina will clear a container the fastest, but at the greatest financial cost. These affect traders differently as agricultural exporters will be very time sensitive and wish to minimize any spoilage of perishables due to long port delays. Additionally, exporters of low price high weight products will be more sensitive to financial costs as their shipping costs will be high relative to the expected sales from each shipment. However, Caribbean exporters to these MERCOSUR countries will face different border measures (i.e. trade facilitation measures) in each country.

3.0 Conclusion

The focus of this trade note has been offensive interests in merchandise trade with MERCOSUR. In this regard, the note has shown where CARICOM can compete in MERCOSUR's markets. CARICOM can also seek to attract Foreign Direct Investment(FDI) from MERCOSUR, specifically Brazil, where President Lula has a goal of facilitating the establishment of 10 Brazilian Trans-National Corporations before the end of his watch. There are also examples of products that are price-competitive, and others that can be price-competitive if they receive duty relief in specific MERCOSUR markets. It has been shown that:

1) CARICOM exporters mainly in Trinidad's energy sector, have generated over US$100mn in export sales in MERCOSUR in 2005;
2) MERCOSUR is a large goods and services market still with significant trade potential;
3) Strangely, goods trade has been more dynamic than services trade in this market;
4) Specific CARICOM export sectors can win from a trade arrangement with MERCOSUR (e.g. St. Kitts electrical supplies, Haitian apparel producers, Barbados insecticide exporters etc); and
5) Trade facilitation costs are significant and vary widely across MERCOSUR markets needing a strong trade facilitation focus in the agreement.

The exploratory discussions between CARICOM and MERCOSUR seem to need some private sector input to determine future direction. Should these regions re-engage now, if ever? Your voice needs to be heard on this matter.

[4] The term "trade facilitation" crudely refers to the ease with which goods moves across a country's borders. This includes the efficiency of customs at clearing and processing shipments, the port services, and other border logistics (health, pest control, standards).