

# CRNM PRIVATE SECTOR TRADE BRIEF

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## TRADE RELATIONS BETWEEN CARICOM AND THE DOMINICAN REPUBLIC

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**IN THIS ISSUE:** We explore trade relations between CARICOM and the Dominican Republic (DR) which jointly negotiate as CARIFORUM in current discussions with the European Union (EU) on an Economic Partnership Agreement (EPA). Outside of that reality, there are significant agribusiness and manufacturing trade possibilities between CARICOM and the DR which remain under-explored.

### Overview of CARICOM-DR Trade Relations

A Free Trade Agreement (FTA) between CARICOM and Dominican Republic provides the framework for the development of bilateral trade relations. This FTA, which provisionally entered into force in December 2001, is based on reciprocity (i.e. both parties reducing tariffs on each other's exports) with the five CARICOM MDCs (Jamaica, Barbados, Trinidad & Tobago, Guyana and Suriname). At the time the FTA went into effect in December 2001, there was non-reciprocity with the OECS countries but this arrangement was scheduled to be phased out in 2005. The agreement provides for the asymmetrical application of the reciprocity principle as the OECS is not currently required to lower duties to the Dominican Republic.

The FTA with the DR gives CARICOM exporters access to a market of around eight million consumers. This is, in fact, numerically larger than the entire CARICOM market (Haiti excluded). Besides, the DR is experiencing high demographic growth. Rapid tourism growth has also been fueling internal demand. At the time of the FTA's entry into force, the DR economy was the fastest growing in the Americas with an average annual growth rate of 6-7%. In 1999, Gross Domestic Product (GDP) recorded a growth rate of 8.3%.

The FTA outlines market access procedures for trade in goods; the treatment of goods and services produced in free trade zones (FTZs) and export processing zones (EPZs); special arrangements for trade in selected agricultural products; market access for trade in services; reciprocal promotion and protection of investment; government procurement; and the temporary entry of business persons. Attachments were also included to deal with rules of origin (i.e. the production process to be followed to qualify for duty preferences), the list of agricultural products

subject to special arrangements and an annex to the temporary entry of business persons. These annexes are the subject of ongoing discussions.

One of the main bones of contention during the negotiations was the list of excluded items from trade liberalization, what negotiators call the sensitive list. This list comprises around 50 products/categories, of which about 19 were submitted by the DR. These goods do not qualify for duty concessions under the FTA and include soft drinks, chocolate products, cosmetics, juices, some agricultural goods (including soaps), oils and fats. Additionally, items produced in free zones are ineligible for duty preferences.

When the FTA took effect, the plan was for a second list of products to be subject to a four year tariff reduction. These items, which were to face zero duty by 1 January 2004, comprise about 20 product headings, including anthuriums, ginger lilies/orchids; coffee; sausage; bacon; pasta; biscuits; jams, jelly, passion fruit juice; essential oils, perfumes/toilet waters; boxes/containers; tableware/plastic items; certain footwear items; and mattresses. Rum was also subject to a five year tariff reduction method. The tariff on all other items was eliminated immediately on the FTA taking effect.

#### CARICOM-DR Trade Performance<sup>1</sup>

Spending by the DR on imports has declined by 3% per annum since 2000. During the said time frame, CARICOM's global exports have grown by 15% per annum. This contrasting performance highlights a number of interesting facts, including CARICOM's global export dynamism and economic difficulties being encountered in the DR.

Table 1: CARICOM's Top Exports to the DR

Product label	CARICOM's exports to DR		DR's imports from world			CARICOM's exports to world			Potential trade US\$'000
	2004 in US\$'000	AGR 00-04, %	2004 in US\$'000	AGR 00-04, %	world imports %	2004 in US\$'000	AGR 00-04, %	world exports %	
All products	27,523	59	7,267,887	-3	0.1	13,703,737	15	0	7,240,364
Mineral fuels, oils etc	25,855		958,782	-5	0.1	5,325,494	28	1	932,927
Cereals	490	654	187,205	3	0.4	62,520	-1	0	62,030
Beverages/spirits	485	47	34,920	-4	0.1	455,244	9	1	34,435
Salt, sulphur, stone, lime and cement	204	-61	42,285	-13	0.2	86,399	4	0	42,081
Sugars/sugar confectionery	139	-71	17,660	-13	0.1	314,347	2	2	17,521
Misc chemical products	88	-56	59,791	4	0.1	20,104	-4	0	20,016
Wood/articles of wood, wood charcoal	77	88	84,441	-10	0.1	64,345	1	0	64,268
Paper/paperboard,	63	26	224,533	3	0.2	44,337	-1	0	44,274
Animal, veg fats and oils	34	-82	121,139	15	0.3	13,021	10	0	12,987
Pharmaceutical products	25		70,603	-4	0	13,967	-7	0	13,942
Commodities not elsewhere specified	14		157,319	2	0.1	385,165	34	0	157,305

<sup>1</sup> With an absence of bilateral services trade data, the focus of this brief is on merchandise trade.

Furniture, lighting, signs, prefabricated buildings	11		52,259	-8	0	17,746	10	0	17,735
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Source: TradeMAP, International Trade Centre (ITC)

Despite the economic difficulties being faced by the DR, CARICOM firms still grew their export sales between 2000 and 2004. CARICOM exports increased by an average 59% per annum to reach over US\$27.5mn in 2004. Mineral fuels represented the main CARICOM export and accounted for over 95% of export earnings. However, the areas where the DR has been increasing import spending most rapidly include malt, oil seed, oils/fats, and ores/slag/ash.

Based on CARICOM's production capacity, it is clear that there is tremendous trade potential which is not being maximized. The International Trade Centre (ITC) estimates that it is possible to generate over US\$7bn in additional export revenue in the DR. Mineral fuels, cereals, beverages, wood articles and paper were identified among the main areas which could stimulate this additional export revenue. .

Table 2: CARICOM's Top Imports from the DR

Product label	CARICOM's imports from Dominican Republic		Dominican Republic's exports to world			CARICOM's imports from world			Indicative potential trade in US\$ thousand
	Value 2004 in US\$ thousand	Annual growth in value between 2000-2004, %	Value 2004 in US\$ thousand	Annual growth in value between 2000-2004, %	Market share in world exports %	Value 2004 in US\$ thousand	Annual growth in value between 2000-2004, %	Market share in world imports %	
All products	8,616	7	5,574,136	3	0.1	16,483,409	6	0	5,565,520
Fertilizers	3,374	46	11,808		0.1	36,517	3	0	8,434
Plastics and articles thereof	2,038	1	147,599	33	0.1	386,477	4	0	145,561
Soaps, lubricants, waxes, candles, modeling pastes	433	31	2,001	5	0	95,138	3	0	1,568
Furniture, lighting, signs, prefabricated buildings	380	-16	9,655	5	0	193,857	2	0	9,275
Iron and steel	306	2254	486,277	16	0.2	249,401	17	0	249,095
Vegetable, fruit, nut, etc food preparations	246	-21	16,189	-7	0.1	120,611	10	0	15,943
Animal, vegetable fats and oils, cleavage products, etc	242	14	723	18	0	146,850	10	0	481
Ceramic products	217	-4	37,430	40	0.1	75,091	3	0	37,213
Nuclear reactors, boilers, machinery, etc	208		55,058	62	0	1,989,547	9	0	54,850
Inorganic chemicals, precious metal compound, isotopes	142	-11	2,082	8	0	126,252	0	0	1,940
Articles of iron or steel	142	56	13,482	-7	0	584,771	18	0	13,340
Cereal, flour, starch, milk preparations and products	110	-32	6,561	27	0	133,474	6	1	6,451
Wadding, felt, nonwovens, yarns, twine, cordage, etc	98	92	791	-53	0	14,191	-3	0	693

Product label	CARICOM's imports from Dominican Republic		Dominican Republic's exports to world			CARICOM's imports from world			Indicative potential trade in US\$ thousand
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Organic chemicals	94	-6	16,588	-3	0	115,854	3	0	16,494

Source: TradeMAP, International Trade Centre (ITC)

According to TradeMAP data in table 2 above, CARICOM spending on imports from the DR has grown by 7% per annum since 2000. In 2004, however, the DR accounted for only 0.5% of CARICOM's total import expenditure of over US\$16.5bn on a worldwide scale. The main products imported from the DR included fertilizers, plastics, soaps, furniture, iron/steel, and processed vegetables. Fertilizers, iron/steel and soaps have been the DR's dynamic imports into CARICOM over the 2000 to 2004 period.

The DR has a broader range of products which it trades with CARICOM, whereas CARICOM's trade is concentrated in mineral fuels. The ITC estimates that there is scope for the DR to increase its exports to CARICOM by an additional US\$5.6 bn.

#### UNRESOLVED ISSUES IN THE CARICOM-DR FTA

Following are key issues which remain unresolved in pursuing full implementation of the CARICOM-DR FTA.

Based on the timetable established in the agreement, **the DR is seeking access to the OECS**. However, the status of the OECS within the FTA remains unchanged and this effectively exempts these countries from the commitments of the FTA.

The DR is seeking **duty free treatment for paints, solvents and thinners**. CARICOM has seven paint producing countries, several of which are Lesser Developed Countries (LDCs) and are opposed to such a move. The DR is seeking **preferential treatment for soaps and detergents**. CARICOM is opposing this proposal as LDCs such as Dominica have designated soaps and detergents as a sensitive sector. Additionally, within CARICOM, this is a controlled trade area under the Oils and Fats Agreement. The DR is maintaining its request for duty free treatment and this remains a critical issue.

CARICOM is seeking duty free treatment from DR for **fresh water red tilapia fish**. The DR is deferring this decision to a joint meeting of officials of the Agriculture Ministries. CARICOM has requested from the DR protected treatment (i.e. adding these products to the list of protected items) for **mixtures of juices containing citrus, banana and plantain chips, biscuits, unsweetened, whether or not containing cocoa**. The request is not being entertained by the DR and, as a result, these products remain under the trade liberalization commitments of the agreement.

CARICOM is seeking duty free treatment of aerated beverages and glass bottles which the DR opposes. Additionally, a request by CARICOM for non-application of Law 173 remains unsatisfactorily resolved. This law makes it difficult to terminate distribution contracts with registered DR distributors by imposing onerous charges and fees. The DR's position is that the only exception from application of the law was in respect to the United States under the DR/CAFTA Agreement. The countries of Central America have to abide by the law and CARICOM can discuss this issue when the services negotiations are undertaken between the two sides.

The Caribbean Association of Industry and Commerce (CAIC) focused on this issue at its recent Board meeting in the Bahamas and recommended the following to address trade concerns:

1. create a distribution subsidiary in the DR;
2. avoid reporting distribution contracts to the central bank; and
3. avoid issuance of distribution certificates to DR Government agencies.

With respect to finalization of the **Schedule of Products subject to phased reduction of duty set out in Appendix I of the Protocol implementing the agreement**, the DR took the position that products subject to phased reduction of duty should now be traded free of duty following the expiration of the phasing period for all products with the exception of rum. CARICOM disagrees and wishes for a longer phase-out time period. It has submitted a list of products which would benefit from this longer protection period. This issue of the elimination of duties on items subject to phased duty reduction remains unresolved.

With respect to trade in **paddy and cargo/semi milled rice**, CARICOM and the DR have agreed to refer these issues to the Joint Experts Group on Agriculture which is yet to meet.

CARICOM is willing to begin negotiations with the DR on **trade in services** and could do so on the basis of a positive list approach (i.e. where the parties specify only those sectors which would be open to trade, and hence sectors not listed would not be open to trade). It may be possible to conclude the negotiations in the third quarter of 2006.

The **CARICOM/Dominican Republic Business Forum** was proposed by the Head of the Santo



President of the CAIC, James Moss-Solomon, and Santo Domingo Chamber of Commerce President, Fernando Gonzalez Nicolas, signing the Business Forum agreement between CARICOM and the Dominican Rep.

Domingo Chamber of Commerce on behalf of the Dominican Republic and CARICOM private sectors. This business forum was launched on June 9, 2006, in Barbados as one critical initiative of the Caribbean Business Council (CBC). The Caribbean Association of Industry and Commerce is the lead agency responsible for the administration of the CBC and will receive support from regional bodies such as the Caribbean Export Development Agency (CEDA) and the CRNM in promoting greater business dialogue towards facilitating more trade and investment.

The CRNM continues to solicit your views on the business reality between CARICOM and the Dominican Republic and encourage you to submit your comments to [privatesector@crnm.org](mailto:privatesector@crnm.org).