ACKNOWLEDGEMENTS

In light of the dearth of published information on tariffs and tariff issues in the Caribbean it was necessary to consult with various persons to fill the significant gaps in order to get a fair idea of tariff levels in the region. The author wishes to express his appreciation to Mr. Branford Isaacs for his advice and suggestions and for his insightful comments on the first draft. Special thanks are also due to the RNM staff in Washington and Jamaica who made relevant documents available.

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INTRODUCTION

In April 2001, Trade Ministers in the hemisphere instructed the FTAA negotiating group on Market Access to submit to the Trade Negotiations Committee (TNC) recommendations on the methods and modalities for tariff negotiations by April 1, 2002 in order to initiate negotiations by May 15, 2002. At the Quebec Summit of the Americas, leaders agreed to ensure that the FTAA Agreement is concluded no later than January 2005.

The Inter American Development Bank (IDB) is currently developing a hemispheric tariff database to be used in the negotiations. Before countries can exchange tariff concessions there must be agreement on the fundamental rules and parameters for tariff reduction or elimination, including certain negotiating methods and modalities. Key issues in this regard are:

- The base rate or starting point from which tariffs will be reduced;
- The timetable and pace of tariff elimination;
- The method for determining concessions;
- Product classification
- The reference period for trade data.

Some countries have already made proposals regarding these issues. In particular, the United States and Canada have stated their preferences regarding the base rate, reference period, tariff nomenclature, timetable, among others. As well, various private sector organizations have submitted briefs on these issues through the Americas Business Forum (ABF). The final decision on these issues at the hemispheric level will involve a significant negotiation in itself.

As small economies that are generally highly dependent on tariff revenues, tariff negotiations in the FTAA will be critical to CARICOM countries. Also, the pace of tariff reduction can significantly impact on producers in the region. CARICOM governments must therefore prepare themselves to engage in the debate on negotiating modalities by analysing the potential implications of the various proposals and developing proposals of their own that safeguard their interests.

Objectives

In order to provide background information to CARICOM governments on key issues related to tariff liberalization in the FTAA, this paper will:

1. First provide an overview of tariff levels in CARICOM countries in order to assess their significance in the negotiations vis-à-vis other countries;

2. Review the various proposals on negotiating modalities regarding tariffs by the United States, Canada and other countries, as well as the recommendations from the sixth Business Forum of the Americas held in April 2001.

3. Critically examine possible approaches to:
   a. The base tariff rate to be used for the negotiations;
   b. The period or reference year to be used for trade data;
c. Methods for determining concessions (formula approach, request offer, etc.)

4. Consider the benefits and drawbacks of the various options available to CARICOM in relation to the issues outlined in (3) above;

5. Present supporting arguments in favour of:
   a. special and differential treatment;
   b. exemption of sensitive items (to CARICOM countries) from the liberalisation process.

6. Provide recommendations as to the best tariff negotiation options for CARICOM countries in light of the particular circumstances of the Caribbean.

Due to the lack of availability of relevant information for several CARICOM States, it was difficult to obtain a clear picture of the tariff situation across all of CARICOM. Nevertheless, this issues paper is intended to stimulate discussion and focus attention in Member States on tariff negotiation issues in the FTAA. It should be considered a first step. A more detailed study would be necessary to address the data gaps and provide deeper analysis and strategic advice.

Basic Principles of the FTAA Market Access Negotiations

At their meeting in San José in March 1998, trade ministers established the objectives for the FTAA negotiations in market access. The following are some important decisions for CARICOM States regarding tariff negotiations:

- The FTAA will be consistent with the provisions of the WTO, including GATT Art. XXIV(1994) and its Understanding on the Interpretation of Art. XXIV of the GATT 1994, to progressively eliminate tariffs and non-tariff barriers as well as other measures with equivalent effect, that restrict trade between participating countries.
- All tariffs will be subject to negotiation.
- Different trade liberalization timetables may be negotiated.
- To facilitate the integration of smaller economies and their full participation in the FTAA negotiations.

It is also significant that the San José Declaration specifies that the objectives of the negotiating group on market access shall apply to trade in agricultural products (even though the negotiation on agricultural products will take place in the Negotiating Group on Agriculture). Given the importance of agriculture to the region, and the political sensitivity of agriculture in almost all the countries in the hemisphere, the negotiation of tariff reductions for agricultural products will be a major challenge. This is further complicated by the very high levels of tariffs on some agricultural products as a result of tariffication of protective measures in agriculture after the Uruguay Round.

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1 http://alca-ftaa.iadb.org/eng/ngma_e.htm
2 A case in point is Canada's tariffs on dairy and poultry products, some of which are more than 300 percent.
1. SOME PRELIMINARY CONSIDERATIONS

Revenue Implications of Tariff Reductions

It has long been evident that tariff revenues are important to CARICOM States although in recent years some of the more developed countries (MDCs) have significantly reduced their reliance on trade taxes. Of all CARICOM countries, Trinidad and Tobago may be the least dependent on tariff revenues. In 1996, total revenue from customs duties were TT$498 million or 5.2% of total government revenue and about 3.9% of the total value of imports. In the case of Jamaica, in 1996/97, total revenue from customs duties was about J$5,978 million (US$170 million) and accounted for about 10% of total government revenue and 5.8% of the value of imports. However, as is well known, the situation in the OECS is quite different. According to the WTO, in the OECS states as a whole, taxes on international trade represented 57.4% of tax revenue and 26.3% of the value of imports in 1999. Tariffs comprised 17.8% and customs service charges accounted for 7.3% of tax revenue. The consumption tax accounted for 28.3% of tax revenue.

The tariff negotiation strategy pursued by CARICOM in the FTAA will necessarily have to take into account the situation across Member States, (and particularly the OECS) with respect to the dependence of the Exchequer on tariff revenue and the impact on producers of the reduction/removal of tariffs. Any tariff reduction program will have to be very gradual and be phased-in over a suitably long period of time for governments to adjust their tax base and shift away from customs-related taxes. This will require technical assistance and financial support in some cases.

Other Considerations - Cotonou Obligations and the FTAA

The FTAA is expected to be WTO-compatible. But CARICOM’s trade obligations are not conditioned by its multilateral commitments alone. According to the rules established by successive Lomé Conventions CARICOM has to afford no less favourable treatment to the European Union (EU) than the MFN treatment given to other developed countries such as Canada and the United States (US). The Cotonou Agreement, which succeeded the Lomé Agreement, binds CARICOM States and ACP States in general, in significant ways that need to be taken into account in CARICOM’s positions in the FTAA negotiations. First of all, Articles 36 and 37 stipulate that the EU and ACP States agree to conclude WTO-compatible trading arrangements by December 2007 at the latest. Negotiations must begin in September 2002 and it is expected that the new arrangements will enter into force by the beginning of 2008 (3 years after the FTAA negotiations are concluded). Annex V of the Cotonou Agreement which outlines the conditions under which non-reciprocal trade relations will continue until the new arrangements are put into place, stipulates that:

In their trade with the Community, the ACP States shall not discriminate among the Member States and shall grant to the Community treatment no less favourable than most-favoured-nation treatment.

---

7 Cotonou Agreement, Annex V, Chapter 1, Article 5.1(a).
Although Article 37(6) suggests that some ACP States may avoid having to enter into economic partnership agreements, for all intents and purposes, the goal is to terminate the non-reciprocal, preferential arrangements by the EU and to introduce reciprocal commitments by most ACP countries.\(^8\) (The FTA that the EU concluded with South Africa is such an example). Similar obligations existed under the previous Lomé Agreements. Therefore, whatever CARICOM negotiates in the FTAA in terms of tariff and other concessions granted to the United States and Canada will have to be extended to the EU.\(^9\) This is a critical consideration for all CARICOM States and will affect their tariff negotiation strategy in the FTAA context. In effect, this means that it is not only a question of whether CARICOM will reduce its tariff protection in the FTAA but rather, what will be the time frame in which it must do so.

The evolution of CARICOM relations with the US and Canada will affect the EU’s approach to its relationship with the region. CARICOM cannot expect to get concessions from the EU if they grant the EU less than they give the US under a hemispheric trade agreement. The region has to decide where it is heading in the FTAA process in order to make proposals to the EU later on.

2. **OVERVIEW OF CARICOM’S TRADE STRUCTURE**

**CARICOM’s Trading Partners**

In order to consider a tariff negotiation strategy for CARICOM States, it is necessary to understand the overall context in which CARICOM traders currently operate. CARICOM’s strategy for tariff negotiations in the FTAA needs to take account of its major markets and trading partners in the hemisphere. For all intents and purposes, CARICOM’s trade policy is inextricably linked to the United States which is the principal supplier and the principal destination for CARICOM exports. (See Table 1). In recent years, CARICOM trade with Latin America has been increasing but it is largely accounted for by only two countries - Trinidad and Tobago, and Jamaica. In the case of the OECS, the main trading partners are the United States, the United Kingdom, and Canada which together account for close to two thirds of imports and exports.

---

\(^8\) Article 36(3) provides for the non-reciprocal arrangements under Lomé IV to continue until the new arrangement comes into being.

\(^9\) The Lomé Convention required that the ACP countries provide no less favourable conditions to the EU than the MFN treatment enjoyed by other developed countries (Article 174:2a,c). This means that if CARICOM States offer tariff concessions to the US and Canada under the FTAA they must extend this to the members of the EU, unless the EU permits a waiver from the reciprocity obligation.
Table 1
Value and Distribution of CARICOM Merchandise Trade - 1997

<table>
<thead>
<tr>
<th>Principal Sources</th>
<th>IMPORTS *</th>
<th>EXPORTS **</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value US$'000</td>
<td>Percent</td>
</tr>
<tr>
<td>TOTAL CARICOM</td>
<td>8,436,680</td>
<td>100</td>
</tr>
<tr>
<td>CARICOM and Common Market</td>
<td>775,033</td>
<td>9.2</td>
</tr>
<tr>
<td>Other Caribbean Countries</td>
<td>215,991</td>
<td>2.6</td>
</tr>
<tr>
<td>Canada</td>
<td>247,782</td>
<td>2.9</td>
</tr>
<tr>
<td>United States</td>
<td>4,022,880</td>
<td>47.7</td>
</tr>
<tr>
<td>ALADI</td>
<td>829,816</td>
<td>9.8</td>
</tr>
<tr>
<td>CACM</td>
<td>65,404</td>
<td>0.8</td>
</tr>
<tr>
<td>European Union</td>
<td>1,182,431</td>
<td>14.0</td>
</tr>
<tr>
<td>EFTA</td>
<td>59,599</td>
<td>0.7</td>
</tr>
<tr>
<td>Asia, including Japan</td>
<td>709,831</td>
<td>8.4</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>327,913</td>
<td>3.9</td>
</tr>
</tbody>
</table>

* Data not available for Antigua & Barbuda, Guyana and Montserrat.
** Date not available for Antigua & Barbuda, Guyana, Montserrat and Suriname.

CARICOM's Status in Hemispheric Trade

Due to their small size and limited market power, CARICOM States have minimal bargaining power in the FTAA. Table 2 below shows the miniscule role of CARICOM trade in the hemisphere and the predominance of the United States in economic activity. While the percentage of NAFTA trade in total hemispheric trade has increased from 1994-1999, CARICOM's trade apparently decreased. The US accounts for almost three quarters of the economic output and more than 60% of total trade in this hemisphere. In addition, a critically significant point for tariff negotiations in the FTAA is the fact that the United States is the principal supplier for many countries, apart from CARICOM States. This has direct implications for the negotiating modality that is eventually decided in the FTAA.
### Table 2
Percentage Share of Western Hemisphere Trade by Regional Arrangement, 1994-99

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
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<tr>
<td><strong>EXPORTS</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NAFTA</td>
<td>86.0</td>
<td>85.9</td>
<td>85.6</td>
<td>85.9</td>
<td>87.1</td>
<td>88.1</td>
</tr>
<tr>
<td>United States</td>
<td>59.7</td>
<td>58.8</td>
<td>58.1</td>
<td>58.4</td>
<td>58.7</td>
<td>57.2</td>
</tr>
<tr>
<td>LAC</td>
<td>21.3</td>
<td>22.2</td>
<td>23.3</td>
<td>23.5</td>
<td>23.0</td>
<td>23.2</td>
</tr>
<tr>
<td>LAC excl. Mexico</td>
<td>14.0</td>
<td>14.1</td>
<td>14.4</td>
<td>14.1</td>
<td>12.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Mercosur</td>
<td>7.2</td>
<td>7.1</td>
<td>7.0</td>
<td>7.0</td>
<td>7.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Andean Community</td>
<td>4.0</td>
<td>3.8</td>
<td>4.3</td>
<td>4.0</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>CARICOM</td>
<td>0.6</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.3</td>
<td>n.a.</td>
</tr>
<tr>
<td>CACM</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>IMPORTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NAFTA</td>
<td>88.3</td>
<td>86.6</td>
<td>86.8</td>
<td>86.1</td>
<td>87.1</td>
<td>90.2</td>
</tr>
<tr>
<td>United States</td>
<td>66.3</td>
<td>65.7</td>
<td>65.6</td>
<td>64.2</td>
<td>64.0</td>
<td>66.9</td>
</tr>
<tr>
<td>LAC</td>
<td>19.4</td>
<td>19.8</td>
<td>20.4</td>
<td>22.0</td>
<td>21.7</td>
<td>19.1</td>
</tr>
<tr>
<td>LAC excl. Mexico</td>
<td>11.7</td>
<td>13.4</td>
<td>13.2</td>
<td>13.9</td>
<td>12.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Mercosur</td>
<td>6.0</td>
<td>6.7</td>
<td>6.9</td>
<td>7.3</td>
<td>6.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Andean Community</td>
<td>3.0</td>
<td>3.4</td>
<td>3.0</td>
<td>3.2</td>
<td>3.1</td>
<td>2.3</td>
</tr>
<tr>
<td>CARICOM</td>
<td>0.6</td>
<td>0.7</td>
<td>0.6</td>
<td>0.7</td>
<td>0.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>CACM</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
<td>1.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>

The US government recently reported that in 2000 about 87% ($376 billion) of imports from FTAA countries entered the US duty free. Seven percent of imports faced duties of 0-5% and only about three percent of imports faced duties of more than 15%.\(^{11}\) It is significant that apart from NAFTA countries, CARICOM products already have the greatest advantage in the US market. (See Table 3 below.)

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\(^{10}\) IDB, *Integration and Trade in the Americas: Periodic Note, December 2000*, p. 11.

\(^{11}\) GAO, (2001), p. 100. Under NAFTA, 94% of Canadian and Mexican exports enter the US free of duties.
Table 3
Percentage Share of US Merchandise Trade and Percentage Share of Imports Facing Different Ranges of US Tariff Rates by Regional Groups, 2000

<table>
<thead>
<tr>
<th>Group</th>
<th>Share of US FTAA merchandise trade % *</th>
<th>Duty Free imports into the US</th>
<th>Imports facing tariffs of 0-5%</th>
<th>Imports facing tariffs of 5-10%</th>
<th>Imports facing tariffs of 10-15%</th>
<th>Imports facing tariffs greater than 15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andean Community</td>
<td>5.0%</td>
<td>39.7%</td>
<td>55.7%</td>
<td>0.5%</td>
<td>0.3%</td>
<td>2.6%</td>
</tr>
<tr>
<td>CACM</td>
<td>3.0</td>
<td>40.4</td>
<td>2.2</td>
<td>7.7</td>
<td>1.2</td>
<td>47.9</td>
</tr>
<tr>
<td>CARICOM</td>
<td>1.0</td>
<td>63.4</td>
<td>21.2</td>
<td>1.6</td>
<td>0.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Mercosur</td>
<td>5.0</td>
<td>61.4</td>
<td>25.9</td>
<td>8.8</td>
<td>2.1</td>
<td>1.4</td>
</tr>
<tr>
<td>NAFTA</td>
<td>84.0</td>
<td>94.4</td>
<td>2.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Other</td>
<td>2.0</td>
<td>50.9</td>
<td>15.1</td>
<td>6.1</td>
<td>1.2</td>
<td>26.2</td>
</tr>
<tr>
<td>All FTAA</td>
<td><strong>86.9%</strong></td>
<td><strong>7.1%</strong></td>
<td><strong>0.9%</strong></td>
<td><strong>0.2%</strong></td>
<td><strong>2.9%</strong></td>
<td><strong>2.9%</strong></td>
</tr>
</tbody>
</table>

* Exports plus imports of industrial and agricultural goods


Current Tariff Treatment for CARICOM Goods in Key Markets

Tariff Treatment Under US Preferential Programs

In 1984, the original Caribbean Basin Economic Recovery Act (CBERA) granted non-reciprocal preferential treatment to potentially 24 countries in the hemisphere. The majority of goods received duty free treatment but there were a number of important exceptions and special conditions. Major agricultural products were subject to quotas and most textiles and apparel, some footwear products, canned tuna, petroleum and petroleum derivatives, and certain watches and watch parts were excluded from the program. In 2000, the latest CBI legislation, the Caribbean Basin Trade Partnership Act (CBTPA) was passed as part of the US Trade and Development Act. It removes many of the remaining exemptions under the CBI while imposing some conditions for eligibility and will expire in September 2008 or when the FTAA comes into effect, whichever is sooner. The new Act provides NAFTA-like tariff treatment for a number of products (canned tuna, petroleum and petroleum products, footwear, watches, handbags, luggage, leather apparel, flat goods and certain rums processed in Canada). It also eliminates the duties on most textile and apparel products (but quotas remain). However, there are rigorous rules of origin requirements and only a limited amount of apparel from CBI countries, not composed of US yarns and fabrics, is eligible for duty free treatment. Nevertheless, through the CBI, CARICOM and other eligible countries already enjoy significant tariff concessions in the US market.

When one considers the CBI concessions, the US GSP, and the wide range of products that are duty free under normal US MFN rates or under product sharing arrangements (807 and 807A programs),

---

12 A significant revision to the CBI in 2000 extended NAFTA parity to a number of original exceptions (garments, leather goods, etc.) However, Suriname has never benefited from the CBI preferences because it never formally requested designation as a beneficiary country under the program. It benefits from the US GSP that is available to 123 developing countries, including Latin America so it does not have a “preferential” position in the US market vis-à-vis other LDCs.
in 1999, almost 70% of all exports from CBI countries to the United States entered the US market free of duties, on a non-reciprocal basis. This suggests that CARICOM countries have little to gain from tariff negotiations in the FTAA from their main trading partners and must focus instead on their Latin neighbours. But CARICOM goods already receive special treatment in Colombia and Venezuela, and will also gain preferential access in the Dominican Republic once the bilateral FTA comes into effect. In the meantime, individual states are understood to be conducting bilateral negotiations with other states in the hemisphere and CARICOM plans to negotiate with the Andean Community. Therefore, the only remaining potential target markets for CARICOM in the FTAA may be Chile, Mexico and Mercosur.

CARICOM Tariff treatment Under CARIBCAN

Under CARIBCAN, Canada extends preferential, non-reciprocal duty-free entry to over 95% of the Commonwealth Caribbean exports to Canada. CARIBCAN was designed as a ‘topping-up’ arrangement to provide as complete free entry as possible over and above that already provided by the Canadian Preferential Tariff and by MFN tariffs. In 1998, Canada expanded the list of products covered to include methanol, lubricating oils and travel bags. The only products currently excluded from duty-free entry under CARIBCAN are textiles, clothing, footwear, and agricultural products subject to tariffication under the WTO.

A study by Canada’s Department of Finance showed that in 1999, more than C$530 million or 96% of total Canadian imports from CARIBCAN beneficiaries entered Canada duty-free. Of this trade, $65 million (or 12.3%) entered under the preferential CARIBCAN arrangement, an increase of $25 million from 1998. Another $444 million (or 83.8%) entered under MFN free rates, and $21 million (or 3.9%) entered under GPT. The percentage of Caribbean imports benefiting from CARIBCAN increased in 2000, as Trinidad’s methanol exports to Canada, which became eligible under CARIBCAN in 1998, jumped from $0.5 million in 1998 to $4.9 million in 2000.

Considerations for a Negotiating Strategy in the FTAA

Tariff negotiations in the FTAA pose a dilemma for CARICOM States. Tariffs constitute protective measures for small producers in the region and at the same time are relatively important for generating government revenues, particularly in the OECS sub-region. As the discussion above illustrates, since CARICOM already benefits from generous tariff preferences in the United States (through the CBI, 807 program, and more recently, the Trade Development Act 2000) and Canada (CARIBCAN), there is little to be gained through reciprocal tariff negotiations in the FTAA.

The FTAA negotiations will eventually lead to greater access in CARICOM markets for US and Canadian products as well as products from other countries in the hemisphere. In effect, CARICOM economies stand to lose their relative preferential edge in the US and Canada through

---

14 Also, the CARICOM-Cuba FTA is expected to come into effect sometime soon.
15 Discussions regarding free trade negotiations between Trinidad and Tobago and Costa Rica started in mid-2001.
16 CARICOM States most likely have little interest in Bolivia, Peru and Ecuador and the other Central American countries because purchasing power is low there.
the FTAA since market access for other countries in those markets will likely improve. The FTAA will lead to greater market access for CARICOM producers in Latin countries but supply side constraints and other factors (such as transportation, linguistic barriers, etc.) that affect their ability to take advantage of such opportunities will first have to be addressed.

A further consideration is the fact that apart from securing better access for specific products that still face high protection in the US, CARICOM countries should focus on the use by the US of trade distorting measures - subsidies and antidumping measures - and restrictive rules of origin that negatively affect their ability to contest that market. In the FTAA, it may be important to establish effective trade disciplines that go beyond what is available in the WTO in some areas. Indeed, without major advances in non-tariff areas in the FTAA, Caribbean and Latin American support for tariff liberalization is likely to be low.

Given the above circumstances, CARICOM’s approach to tariff reductions in the FTAA negotiations will be largely defensive vis-à-vis its principal supplier, the United States. The aim should be to protect its privileged access to the US market relative to other FTAA countries. Also, CARICOM should establish long time lines for reducing tariffs on sensitive goods in the hope that regional producers can reorganize and improve their scale and efficiency to compete at the hemispheric level. But in spite of the small size of CARICOM economies, and supply-side and other constraints, an attempt should be made to secure market access for CARICOM products in other FTAA countries. As Table 6 below shows, tariff levels in many Latin American countries are relatively high compared to North America. It will be in CARICOM’s interest to have tariffs on CARICOM products (in Mercosur in particular) reduced to the lowest possible levels in the shortest time frame. At the same time, significant effort should be focused on making gains in non-tariff areas such as the reduction of trade remedy actions and subsidies as well as other non-tariff barriers such as SPS measures and technical barriers to trade in the markets of all FTAA countries.

Indeed, benefits to CARICOM from the FTAA will depend on the composition of the whole package that is negotiated, not just tariff reductions. Attempts should be made to ensure that the FTAA results in conditions that stimulate greater investment flows to CARICOM.

3. TARIFF LEVELS IN THE HEMISPHERE

Bound MFN Tariff Rates in CARICOM

Like most other countries, CARICOM States bound their tariffs in the Uruguay Round at levels much higher than what is generally applied in most cases. In several, if not all CARICOM countries, the MFN bound rate for most goods is much higher than the Common External Tariff (CET), even if the CET is not fully implemented. For instance, under the Uruguay Round, Jamaica bound its tariffs on imports of industrial products at a uniform rate of 50%; other duties and charges were bound at 15% except for some aluminium and iron products which are at 80%. Agricultural tariffs were bound at 100% but there are bindings of 80% on fifty five products and three HS Chapters (15, 22 and 24), and bindings of 200% on three sugar products other than raw sugar. According to WTO calculations, in 1998, about 55 percent of Jamaica's MFN tariff lines were duty free, 21

17 Except for some products in Grenada that were noted by the WTO.
percent of tariffs were between 20-25% ad valorem, and about 7 percent of tariffs were between 35-40%.

Trinidad and Tobago did likewise - most agricultural goods (except 7 items) were bound at 100% ceiling; most industrial products at 50%, except for a selected range of products at 70% (salt, cement, some cosmetics, paper products, garments, footwear, some household durables, cars and car parts). Other duties and charges were bound at 15%.

There are significant variations in tariff bindings by OECS countries although there are some common elements. St Lucia, St Vincent and the Grenadines, and to some extent, Antigua and Barbuda are similar. In Dominica, 4.5% of tariff lines are not bound and there are two unbound tariff lines in St Lucia. The table below summarizes the bound tariff levels in the OECS states except Montserrat.

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Other products</th>
<th>% bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>Ceiling binding of 100%, with a limited number of exceptions between 107% and 220%</td>
<td>Ceiling binding of 50%, with a number of exceptions, ranging between 83% and 206%</td>
<td>100</td>
</tr>
<tr>
<td>Dominica</td>
<td>Ceiling binding of 100%, with a limited number of exceptions bound at 150%</td>
<td>Ceiling binding of 50%, with a number of exceptions (some 285 lines), which remain unbound</td>
<td>95.5</td>
</tr>
<tr>
<td>Grenada</td>
<td>Ceiling binding of 100%, with a limited number of exceptions bound at rates between zero and 200%</td>
<td>Ceiling binding of 50%, with no exceptions</td>
<td>100</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>Ceiling binding of 100%, with a number of exceptions bound at rates between 107% and 220%</td>
<td>Ceiling binding of 50%, with a number of exceptions bound at rates between 73% and 206%</td>
<td>99.9</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>Ceiling binding of 100%, with a limited number of exceptions bound at rates between 10% and 250%</td>
<td>Ceiling binding of 70%, with a limited number of exceptions bound at rates between 87% and 170%</td>
<td>100</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>Ceiling binding of 100%, with a limited number of exceptions bound at rates between 107% and 250%</td>
<td>Ceiling binding of 100%, with a limited number of exceptions bound at rates between 73% and 206%</td>
<td>100</td>
</tr>
</tbody>
</table>


Applied Tariffs in CARICOM

In order to adequately prepare for tariff negotiations in the FTAA, the Region will need to conduct a detailed analysis of its applied tariffs and the status of implementation of the CET in each country. CARICOM will also have to develop a clear idea of the products that are sensitive and that will need tariff protection in the FTAA. At the time of writing, information on tariffs at the national level was not readily available. As a result, the discussion below is limited to only some CARICOM States. CARICOM officials indicated that nine Member States currently apply Phase IV of the CET. It is important for the Region to ensure more timely management and dissemination of tariff data for the purpose of preparing for negotiations.
The Trinidad and Tobago tariff as applied from July 1998 consisted of 6,325 tariff lines at the six-digit level.\textsuperscript{19} It was made up of nine tiers with rates of 0, 2.5, 10, 15, 20, 25 and 30\% for industrial goods and an additional rate of 40\% for primary agricultural products. The tariff reductions in Phase IV of the CET were implemented in 1998.\textsuperscript{20} This means that except for a few products, the general cap on tariffs on industrial goods is 20\%. Trinidad and Tobago’s MFN tariffs were spread as follows: 45 percent were duty free; 17 percent were in the 0-5\% range; 19 percent were between 15-20\% ; and about 6 percent of tariffs were in the 35-40\% range. The rest were spread over four ad valorem ranges: 5-10\%; 10-15\%; 20-25\%.\textsuperscript{21}

Jamaica’s Customs Tariff as applied in 1998 comprised 4,081 tariff lines at the seven-digit level.\textsuperscript{22} There were eight tiers with rates of 0, 5, 10, 15, 20, 25 and 30\% for industrial goods, and an additional rate of 40\% for agricultural products. The tariff structure was since revised and a six-digit system as well as tariff reductions according to Phase IV of the CET are now in place. Having fully implemented the CET, Barbados’ customs tariffs range from 5\% to 20\% and primary agricultural products carry a rate of 40\%.\textsuperscript{23}

The Tariff Schedules in the OECS countries show significant variation but the simple average tariff (inclusive of the customs service charge) for the six WTO Members ranges from 11\% to 39\% by HS Section. Table 5 shows the spread of tariffs in the sub-region. Information on tariff rates in the other CARICOM States was not available at the time of writing. Such data is needed in order to adequately prepare for FTAA negotiations.

From the information above, it is clear that applied tariffs are relatively high in CARICOM LDCs and that the lowest tariffs in the region are in Trinidad and Tobago. This will complicate the FTAA negotiations because although CARICOM is negotiating as a regional group, the tariff reductions that result will be applied at the national level.

\textsuperscript{19} The rates conform to Phase IV of the CET implementation schedule except for Lists A and C.
\textsuperscript{20} WTO,\ Trade Policy Review: Trinidad and Tobago, 1998, p. 35.
\textsuperscript{21} Op cit, p. 36.
\textsuperscript{22} The rates of duty were in accordance with Phase II of the CET schedule of reductions. In 1997, duties on all non-competiting inputs were reduced to zero. (WTO, 1999).
\textsuperscript{23} However, from April 1, 2000, Barbados tariffied its non-tariff protective measures (licensing restrictions) on the importation of selected agricultural products and manufactured goods. These restrictions were replaced by an equivalent level of protection for the product sectors in the form of bound rates of duty ranging from 40\% to 207\%. These bound rates of duty are supposed to be gradually reduced by 2004, but will still remain well above the level of the CET. (Caribbean Export, 2001)
Table 5
Summary Analysis of Import Duties in the OECS
(Simple average tariff)

<table>
<thead>
<tr>
<th></th>
<th>OECS</th>
<th>Antigua and Barbuda</th>
<th>Dominica</th>
<th>Grenada</th>
<th>St. Lucia</th>
<th>St. Kitts and Nevis</th>
<th>St. and Vincent Grenadines</th>
</tr>
</thead>
<tbody>
<tr>
<td>All tariff lines</td>
<td>15.7</td>
<td>19.5</td>
<td>15.1</td>
<td>16.2</td>
<td>14.1</td>
<td>14.5</td>
<td>14.9</td>
</tr>
<tr>
<td>Total number of lines</td>
<td>4,077</td>
<td>6,333</td>
<td>6,334</td>
<td>6,368</td>
<td>6,368</td>
<td>6,330</td>
<td>6,237</td>
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<tr>
<td>By HS section</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>01 Live animals and products</td>
<td>24.2</td>
<td>26.6</td>
<td>23.5</td>
<td>28.1</td>
<td>23.8</td>
<td>16.9</td>
<td>26.6</td>
</tr>
<tr>
<td>02 Vegetable products</td>
<td>23.2</td>
<td>25.2</td>
<td>24.0</td>
<td>24.6</td>
<td>22.2</td>
<td>18.0</td>
<td>25.6</td>
</tr>
<tr>
<td>03 Fats and oils</td>
<td>30.8</td>
<td>30.3</td>
<td>41.2</td>
<td>30.7</td>
<td>29.1</td>
<td>25.3</td>
<td>28.3</td>
</tr>
<tr>
<td>04 Prepared foods, etc.</td>
<td>25.5</td>
<td>27.6</td>
<td>37.3</td>
<td>22.5</td>
<td>22.6</td>
<td>22.1</td>
<td>20.8</td>
</tr>
<tr>
<td>05 Minerals</td>
<td>9.7</td>
<td>10.6</td>
<td>7.9</td>
<td>12.0</td>
<td>9.3</td>
<td>8.1</td>
<td>10.4</td>
</tr>
<tr>
<td>06 Chemicals and products</td>
<td>12.5</td>
<td>16.2</td>
<td>14.6</td>
<td>12.0</td>
<td>10.8</td>
<td>10.5</td>
<td>10.9</td>
</tr>
<tr>
<td>07 Plastics and rubber</td>
<td>13.3</td>
<td>18.5</td>
<td>10.8</td>
<td>14.1</td>
<td>11.7</td>
<td>13.1</td>
<td>11.7</td>
</tr>
<tr>
<td>08 Hides and skins</td>
<td>14.1</td>
<td>17.9</td>
<td>11.9</td>
<td>15.2</td>
<td>12.1</td>
<td>13.2</td>
<td>14.2</td>
</tr>
<tr>
<td>09 Wood and articles</td>
<td>15.4</td>
<td>21.8</td>
<td>12.0</td>
<td>14.9</td>
<td>13.5</td>
<td>16.6</td>
<td>13.7</td>
</tr>
<tr>
<td>10 Pulp, paper, etc.</td>
<td>12.9</td>
<td>19.3</td>
<td>9.9</td>
<td>13.2</td>
<td>10.1</td>
<td>12.7</td>
<td>12.2</td>
</tr>
<tr>
<td>11 Textile and articles</td>
<td>17.4</td>
<td>26.5</td>
<td>14.0</td>
<td>16.3</td>
<td>15.9</td>
<td>16.7</td>
<td>15.3</td>
</tr>
<tr>
<td>12 Footwear, headgear</td>
<td>23.2</td>
<td>26.9</td>
<td>24.9</td>
<td>21.2</td>
<td>22.5</td>
<td>235</td>
<td>20.2</td>
</tr>
<tr>
<td>13 Articles of stone</td>
<td>14.8</td>
<td>18.9</td>
<td>12.2</td>
<td>14.9</td>
<td>12.8</td>
<td>160</td>
<td>14.0</td>
</tr>
<tr>
<td>14 Precious stones, etc.</td>
<td>22.4</td>
<td>27.6</td>
<td>22.5</td>
<td>24.7</td>
<td>197</td>
<td>20.6</td>
<td>19.2</td>
</tr>
<tr>
<td>15 Base metals and products</td>
<td>11.0</td>
<td>13.9</td>
<td>9.1</td>
<td>12.5</td>
<td>8.6</td>
<td>11.3</td>
<td>11.0</td>
</tr>
<tr>
<td>16 Machinery</td>
<td>11.5</td>
<td>15.3</td>
<td>8.9</td>
<td>12.9</td>
<td>8.7</td>
<td>11.5</td>
<td>11.8</td>
</tr>
<tr>
<td>17 Transport equipment</td>
<td>15.1</td>
<td>16.9</td>
<td>12.1</td>
<td>14.8</td>
<td>17.6</td>
<td>15.1</td>
<td>14.1</td>
</tr>
<tr>
<td>18 Precision equipment</td>
<td>14.2</td>
<td>15.3</td>
<td>12.0</td>
<td>16.4</td>
<td>12.3</td>
<td>13.7</td>
<td>15.4</td>
</tr>
<tr>
<td>19 Arms and munitions</td>
<td>39.0</td>
<td>52.5</td>
<td>32.8</td>
<td>29.3</td>
<td>45.0</td>
<td>46.0</td>
<td>28.3</td>
</tr>
<tr>
<td>20 Miscellaneous manufactures</td>
<td>21.1</td>
<td>26.3</td>
<td>20.3</td>
<td>20.3</td>
<td>19.1</td>
<td>21.7</td>
<td>19.3</td>
</tr>
<tr>
<td>21 Works of art, etc.</td>
<td>26.4</td>
<td>30.0</td>
<td>27.0</td>
<td>25.0</td>
<td>24.6</td>
<td>28.0</td>
<td>24.0</td>
</tr>
</tbody>
</table>

a Averages include the customs service charge (CSC).


The Bahamas

CARICOM is negotiating in the FTAA as a regional grouping which includes the Bahamas. Although the Bahamas does not currently have an obligation to apply the CET, its interests in the FTAA tariff negotiations are very similar to those of CARICOM States. Tariff reduction under the FTAA will pose a significant challenge for the Bahamian authorities. Duties in the Bahamas range from 1% to 212% and average 35%. The rates on durable goods range from 30% to 62%. To protect local industry, imports of items produced locally attract high, prohibitive tariffs.

Although conclusions may be subject to error without detailed analysis of tariff levels in all CARICOM countries, what is significant in terms of the FTAA negotiations is the large difference between bound WTO MFN rates and applied tariff rates.

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24 The Bahamas is not a member of the World Trade Organization but has started accession negotiations.
Tariffs Levels in Other Integration Movements in the Hemisphere

Tariff negotiations will be a significant challenge in the FTAA context because of the diverse regional trade arrangements and preferences in the hemisphere. Tariffs in Canada and the United States are relatively low and may be considered the benchmark. The average US tariff on products from other NAFTA Members ranges from 35 percent, except for a limited range of sensitive products. Detailed information on the tariff levels in other regional groupings was not available at the time of writing but a general idea can be gleaned from the ranges.

Central American Common Market (CACM)

In the Central American Common Market the CET ranges from 0-20%; Panama applies a maximum rate of 15%. Like its neighbours, El Salvador has adopted the Central American CET. In January 1997, it reduced its tariffs on raw materials and capital goods to zero. Nicaragua did likewise for all capital goods, raw materials and intermediate goods not produced in Central America. Capital goods and raw material from the region face tariffs of 5%. Through legislation in 1997, Nicaragua established a maximum tariff ceiling of 10% by July 1999, but it is not clear whether this is completely implemented. Costa Rica had intended to reduce its tariffs as follows: raw materials - zero by July 1998; capital goods - zero by January 1999; intermediate goods to 5-10% in January 2000; and finished goods - 15% by 2000. It is not clear whether this has been done. All members of the CACM maintain a common tariff of 35% for brown rice and 20% for paddy, corn, dried beans and millet.

The CET in the Andean Pact is established at four levels ranging from 5% to 20%. Mercosur's CET is set at a maximum of 20% but recent financial problems have led to increases. On January 1, 1995, Mercosur's CET went into effect on imports from non-member countries, at rates ranging (with some exceptions) between 0 and 20%. At the end of 1997, the maximum CET was raised to 23%. While it should have been reduced back to 20% on December 31, 2000, it was only reduced to 22.5%. As of May 2001, Mercosur has no CET in effect as Argentina imposed unilateral changes in its tariff levels on consumer and capital goods in April 2001. Also, in August 2001, Uruguay increased tariffs on goods from Mercosur partners by 3 per cent. Nevertheless, Mercosur tariffs on most final agricultural goods is 20% and on processed products it is 10%.

Table 6 below shows a comparison of average tariffs across the hemisphere. It seems to indicate that average tariff rates in some CARICOM MDCs (Jamaica, Trinidad and Tobago) are relatively lower than in some of their Latin neighbours. But El Salvador's relatively low average tariff level is significant because much of its tariff liberalization was unilateral. Although average tariff rates are limited in terms of establishing a clear picture of the level of protection in particular product sectors, they can give a general, comparative view of tariff structures in the hemisphere. However, it is important in any negotiation to focus on the tariff peaks; and there are significantly high tariffs on some products in CARICOM states. As the Inter-American Development Bank (IDB) pointed out in its overview of tariff levels in Latin America and the Caribbean:

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26 Association of Caribbean States (1999), pp. 110-13
27 See also Estevadeordal et al (2000) for a discussion on the difficulties faced by Mercosur countries in implementing their CET.
28 Averages are the simple average ad valorem tariff rate across all goods or agricultural and industrial goods.
Average maximum tariffs in the region fell from more than 80 percent to 40 percent with only two countries presently applying maximum tariffs of up to 100 percent on a small number of products. Tariff dispersion, on average, has declined from 30 percent in the mid-1980s to 9 percent today... There are still, however, some important peak tariffs, particularly in the Caribbean Community.  

Table 6
Average Tariff Rates for Agricultural and Industrial Goods in FTAA Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>All Goods (percent)</th>
<th>Agriculture (percent)</th>
<th>Industrial (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>1999</td>
<td>11.0</td>
<td>10.4</td>
<td>11.0</td>
</tr>
<tr>
<td>Barbados</td>
<td>1999</td>
<td>13.6</td>
<td>20.2</td>
<td>12.0</td>
</tr>
<tr>
<td>Belize</td>
<td>1998</td>
<td>9.2</td>
<td>21.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Bolivia</td>
<td>1999</td>
<td>9.7</td>
<td>10.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>1999</td>
<td>13.6</td>
<td>10.8</td>
<td>13.9</td>
</tr>
<tr>
<td>Canada</td>
<td>1999</td>
<td>4.6</td>
<td>4.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Chile</td>
<td>1999</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>1999</td>
<td>11.6</td>
<td>13.1</td>
<td>11.6</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>1999</td>
<td>7.2</td>
<td>16.8</td>
<td>5.4</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>1997</td>
<td>14.5</td>
<td>15.3</td>
<td>14.2</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1999</td>
<td>11.6</td>
<td>15.5</td>
<td>11.0</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1998</td>
<td>5.7</td>
<td>10.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1999</td>
<td>7.6</td>
<td>10.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Guyana</td>
<td>1998</td>
<td>10.4</td>
<td>23.1</td>
<td>9.3</td>
</tr>
<tr>
<td>Honduras</td>
<td>1999</td>
<td>8.1</td>
<td>12.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1999</td>
<td>8.7</td>
<td>21.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>1999</td>
<td>10.1</td>
<td>11.5</td>
<td>10.0</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1999</td>
<td>11.0</td>
<td>16.4</td>
<td>10.3</td>
</tr>
<tr>
<td>Panama</td>
<td>1998</td>
<td>9.2</td>
<td>11.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Paraguay</td>
<td>1999</td>
<td>9.0</td>
<td>10.2</td>
<td>9.0</td>
</tr>
<tr>
<td>Peru</td>
<td>1998</td>
<td>13.2</td>
<td>14.7</td>
<td>13.0</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>1998</td>
<td>9.2</td>
<td>20.0</td>
<td>8.4</td>
</tr>
<tr>
<td>United States</td>
<td>1998</td>
<td>4.8</td>
<td>8.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Uruguay</td>
<td>1999</td>
<td>4.6</td>
<td>4.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1999</td>
<td>12.0</td>
<td>12.5</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Source: US General Accounting Office (2001), based on World Bank data. Information for nine FTAA countries was not available.

As can be seen from the table above, the pattern of higher tariffs on agricultural products is evident in all FTAA countries except Chile and Argentina, Brazil and Uruguay. This may become the focus of the US in the negotiations since the USDA has estimated that the elimination of barriers to agricultural exports could lead to an increase in US exports to FTAA countries of 8% in the first 5

years and an increase in US imports by 6%. \(^{30}\) Also, if the WTO negotiations on agriculture do not bear much fruit for the US, their negotiators will certainly try to make significant gains in the FTAA.

4. **TARIFF PROPOSALS OF SELECTED PLAYERS IN THE FTAA PROCESS**

Some analysts and commentators see the NAFTA as the model that should be followed in the FTAA negotiations since in many respects it will be a "WTO-plus" agreement. The NAFTA provides for the elimination of tariffs on almost all products according to a phase-out schedule rarely exceeding 10 years. Only a few dairy and poultry products sensitive to Canada (because of domestic supply management programs) were excluded from the tariff phase-out schedule with its NAFTA partners. Also, sugar, peanuts and cotton between the United States and Canada are exempt. In addition, a few sensitive products - such as corn in Mexico and orange juice in the US - will be eliminated over 15 years. It is also interesting that the NAFTA specifies that member countries can negotiate the acceleration of their original tariff elimination schedule. Two rounds of accelerated tariff reductions were completed by the end of 2000 which have practically removed the low tariffs on a range of goods that were considered "nuisance" tariffs.

In order to shed some light on the possible dynamic of the tariff negotiations in the FTAA it is useful to examine the country positions to date.

**United States**

The most critical player in the FTAA is the United States. As expected, the US is aiming for the most rapid reduction in tariffs in the hemisphere under the FTAA. In particular, the US has proposed the following:\(^{31}\)

- FTAA negotiations be conducted using the tariff nomenclature of the 1996 Harmonized System (HS) of product categories, taking into account changes in the HS planned for 2002 as appropriate.

- 1998 should be used as the base year for trade data, since that is the year the negotiations were initiated.

- The base rate from which tariffs are phased out should be the lower of a product’s most favoured nation (MFN) applied rate in effect during the FTAA negotiations or the WTO bound rate at the end of the FTAA negotiating process.

- FTAA countries should establish three different categories or "baskets" for tariff reduction. Tariffs on some products would be eliminated immediately upon entry into force of the Agreement, and others would be gradually phased down over five or ten years. Each FTAA country should include the same proportion of its imports (by value) in each of these categories, and the determination of what products fall into which baskets would be the result of a request-offer bargaining process. Each FTAA country should eliminate a high


\(^{31}\) The USTR released summaries of its negotiating positions on January 17, 2001.
proportion of its tariffs within five years. The US also suggests that FTAA countries might agree to early elimination of tariffs in particular industry sectors.

Canada

As expected, Canada supports trade liberalization in all forums given its high dependence on trade. The approach to tariff negotiations is similar to what was pursued in the NAFTA and the intent is to foster substantial and substantive tariff reductions. In October 2000, Canada proposed the following:

- The base rate for tariff reduction should be the MFN applied tariff or WTO bound tariff, whichever is lower on the date of implementation of the FTAA.
- The reference period for having a common information base on trade flows among the countries of the hemisphere should be a two or three year period (e.g. 1999/2000/2001) reflecting trade data available when substantive negotiations commence.
- The 1996 Harmonized System shall be used as a base for tariff negotiations and shall be updated, as appropriate, to reflect subsequent changes such as those to be implemented in 2002 to the Harmonized System. Concessions negotiated beyond the 6-digit level may be based on individual national schedules or such other product descriptions as may be agreed.
- The total elimination of tariffs for substantially all intra-hemisphere trade should be completed no later than 10 years after the date of implementation of the FTAA. There should be provisions to allow for the elimination of tariffs for specific products immediately upon implementation of the FTAA as well as at agreed times within the 10 year period (e.g. 5 years).
- The results of the negotiations shall allow for the calculation and establishment of the tariff rate that would be applied in each year of the tariff elimination schedule for each tariff position.
- The schedules submitted for each country shall be based on a formula approach, a request/offer approach or a combination of both, and shall be subject to negotiation plurilaterally and bilaterally. The concessions agreed shall be extended to all FTAA countries (Regional MFN principle).

Americas Business Forum (ABF)

The views of the business community across the hemisphere are represented in a parallel track to the FTAA process through the Americas Business Forum (ABF) which meets each year before the FTAA Ministerial meeting. At the last ABF in Buenos Aires, agreement on specific recommendations was as difficult as in the past. As a result, there are no real recommendations regarding tariff modalities but various options are mentioned. The diversity and differences among business associations represented in the ABF reflect the differences among the countries in the hemisphere. Nevertheless, the output of the ABF workshop on market access is an indicator of what
the business community in the hemisphere sees as possibilities and therefore could reflect what is actually negotiated by officials.

It is interesting that the ABF has accepted the notion that asymmetrical elimination of tariffs for small economies and developing countries should be allowed. Some delegations indicated the need to apply appropriate treatment taking into account the differences in size and levels of development of the FTAA countries. Secondly, they linked the reduction of tariffs with the elimination of non-tariff barriers and subsidies.

They also accepted that the tariff nomenclature to be used should be the Harmonized System of 1996, up to six digit but with provision for up to eight where feasible. But they recognized that the 2002 update of the HS may also be used.

There was no consensus on the base rate for tariff reduction. Instead, various options (some of which appear in the draft FTAA negotiating text released after the Quebec Summit) are proposed to be decided upon namely:

a) The MFN applied tariff
b) The tariff known prior to the beginning of the negotiations with indication of all the taxes and measures that restrict imports (peaks, quotas, tariff seasonality, etc., on that date)
c) WTO bound tariffs
d) It is not necessary to establish a base tariff since preferences should be negotiated to be applied to the tariff in force at the time of the shipment of goods respecting the commitment assumed before the WTO.

Although the ABF delegates agreed that the FTAA should conform to GATT Article XXIV regarding substantially all trade, there was disagreement on the coverage and the staging categories for tariff reductions. The following was proposed instead:

a) to produce lists with three different tariff-reduction terms: immediate, 5 and 10 years
b) to make several lists with immediate and up to 20 year tariff reduction terms
c) the terms are to be agreed between the countries

The following positions regarding the pace of tariff reductions were proposed:

a) to set linear schedules
b) to set linear schedules with a possibility of grace periods for sensitive goods
c) to set linear and non-linear schedules with options of grace periods

It is interesting that there was no general call for the exemption of certain products from tariff liberalization.

It was also very difficult to decide on a method for determining concessions in the tariff negotiations. The expedient approach was to conclude that there should be a combination of approaches. The ABF seemed to recommend the use of several criteria but also floated the notions of sectoral negotiations and "zero-for-zero" initiatives. More importantly, they also raised the possibility of product-by-product negotiations "depending on sensitivities and asymmetries."
Central American Countries

Although there is some convergence of interests in terms of smaller economies in the FTAA process, it is clear that all small states do not have the same positions. As in CARICOM, enthusiasm and readiness for FTAA disciplines vary across Central America. As a result of the impact of significant natural disasters (hurricanes and earthquakes), the economies in Honduras and El Salvador will need significant time to rebuild.\footnote{More recently, Belize has suffered similar consequences of hurricane Iris and will need several years to recover.} As well, Nicaragua's capacity for trade liberalization is very limited and the private sector is small and relatively underdeveloped compared to their larger Latin neighbours.

Costa Rica\footnote{Gleaned from discussions with Costa Rican officials and from their positions articulated in FTAA discussions.}

Costa Rica is likely the most enthusiastic about tariff reductions in the FTAA in Central America. Regarding the definition of the base tariff rate, CR supports a position mostly based on the principle of maximizing, as soon as possible, market access opportunities for FTAA countries. But they propose variations in its application to accommodate the interests of small countries. CR proposes that the base rate applied by the other countries in their tariff reduction processes should be the lowest preferential tariff they apply to any other trading partner in the hemisphere. This option would only apply to small economies. And for instance, when tariffs applied under preferential tariff systems (e.g. GSP or CBI) are lower than preferential tariffs applied to any other trading partner in the hemisphere, such tariffs should be bound and maintained in force for beneficiary countries until tariff reduction has been fully consolidated. In the case of goods which are not subject to any current tariff preference, CR proposes that the lowest MFN tariff between the MFN tariff applied at the beginning of negotiations (1998) and the lowest tariffs bound in the WTO (at the end of the schedules negotiated in the Uruguay Round or those that may be negotiated within the framework of future multilateral trade negotiations) be used.

Cost Rican officials also believe that that the tariff elimination timetable for the greater part of trade should not exceed ten years. Regardless of this, in order to facilitate the integration and participation of small economies, longer periods and differentiated paces for tariff reduction for certain goods requiring a longer adjustment period to adapt to free trade conditions should be included in different national timetables.

Finally, regarding the methods for determining concessions, Costa Ricans think that these could be determined by means of a mixture of formula and request/offer approaches. Agreements that result from negotiations conducted through request/offer should apply to the rest of the FTAA countries ("regional MFN principle).

Nicaragua

Nicaragua has submitted a formal position paper on the FTAA negotiations from which the tariff proposals are represented below. As expected, they are similar to Costa Rica's views and are intended to give the maximum adjustment time to smaller economies to allow for their special circumstances.
**BOX I**

**Nicaragua’s Submission re Tariff Negotiations** *

### I. Market Access

#### 1. Tariffs and Non-Tariff Measures

1.1.1 Countries will give immediate access to countries such as Nicaragua for their exports, and longer periods for their domestic industry. They will also grant a grace period to begin the process of reduction of tariffs on their imports.

**Reduction baskets:**
- Immediate
- Short Term
- Medium Term
- A special basket for a reduced list of sensitive merchandise.
- A grace period of “X” years will be considered for countries such as Nicaragua to begin their reduction of tariffs on sensitive goods.

1.1.2 As a normal rule, the timetable for the reduction of tariffs will reflect that each country shall have two lists of reduction offers, the first would apply to countries such as Nicaragua or like countries, and the second for other countries. Each country will include in its reduction offer the tariff items in the same “basket”, but will have time periods for elimination differentiated between countries such as Nicaragua and other countries.

1.1.3 Countries such as Nicaragua shall apply as their base rate the lowest Most Favored Nation (MFN) tariff, resulting from the comparison of the tariff in force on the January 1, 2002, with the one in force the year when they acceded to the FTAA.

The base rate applicable by the other parties to countries such as Nicaragua would be the lowest tariff resulting from the comparison between:

- a) The lowest base rate corresponding to the lowest MFN, resulting from the one applied on January 1, 2001 and the MFN in force in the year they accede to the FTAA, reduced by “X” percent, or
- b) The lowest preferential tariff concluded within the framework of a Free Trade Agreement with any trade partner; or
- c) The preferential tariff granted to any country in the hemisphere within the system of trade preferences, such as the GSP and the CBI, preferential Agreements in the framework of ALADI, etc.; or
- d) The lowest MFN tariff applied by a Smaller Economy in relation to the tariffs of other countries.

When the base rate from which countries such as Nicaragua begin the reduction, is lower than that of the other countries, Nicaragua will not initiate its reduction process until the residual tariff of the other countries is lower than or the same as their base rate.

1.1.4 Customs handling fees will not be increased or established, and such fees will be eliminated upon entry into force of the Agreement, except in countries such as Nicaragua, which shall be granted a transition period of 15 years.

Upon entry into force of the Agreement, consular transactions will be eliminated, including duties and charges relating to imports of any goods from another Party, except in such countries as Nicaragua, which will reduce such duties no later than 15 years thereafter.

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CARICOM Proposals

The proposals regarding tariffs and non-tariff measures submitted to the Group on Smaller Economies by CARICOM (FTAA.sme/w/33, September 11, 2001) are identical to those of Nicaragua above. It appears that the smaller economies (SEs) in the FTAA have collaborated on some issues and are supporting each other through informal coalitions. Much of what Nicaragua and CARICOM have proposed consist of: (a) more favourable treatment for SEs by the larger FTAA countries than the latter would give to other FTAA Members; and (b) more favourable treatment for SEs than other FTAA countries by other SEs. In both instances, the timelines for tariff reduction will be shorter and the base rate for tariff reduction will be lower among SEs than between SEs and other FTAA countries. At the same time, CARICOM and Nicaragua propose to start tariff reduction from their lowest MFN tariff on either January 2002 or when they accede to the FTAA. However, they want other FTAA countries to start their tariff reduction for SEs from the lowest possible tariff that they maintain or receive at the start of the reduction period.

The proposals by Nicaragua and CARICOM are interesting but some are not very realistic since they do not appear to present any concession on the part of the SEs. (This is assuming that the difficult decision regarding which countries would fall into the SEs group will be settled in the negotiation.) In fact, Andean and Mercosur countries and Chile will argue that the SEs in CARICOM and CACM already get the best tariff preference under the CBI in the US market. They therefore will not be prepared to give CARICOM States special tariff preferences in their own markets with little to gain in return from CARICOM.

The notion of giving greater access for goods from smaller economies versus goods from the larger FTAA countries may be psychologically appealing but largely irrelevant. If producers in any CARICOM state cannot face competition from foreign producers, it should not matter whether the competitors are in small or large countries. The proposal seems to be based on the notion that smaller economies in the FTAA will only have small producers, perhaps comparable to CARICOM firms. However, location will rapidly become irrelevant in the context of a hemispheric FTA; investors can locate in any one of the member countries and supply goods to the other countries. What CARICOM would need to do is protect the preferential position that its Members have within the Common Market relative to what is negotiated for other members of the FTAA.

It is interesting that in its response to the draft report of the Negotiating Group on Market Access of November 22, 2000 (FTAA.ngma/02), Mercosur deleted the proposed four different options for the base tariff rate to be applied by other FTAA countries to goods from smaller economies. This seems to suggest that Mercosur countries do not approve of the notion of more favourable treatment for smaller economies in the tariff negotiations. This is not surprising, and such a proposal will face significant challenges in the FTAA process.

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5. **THE BASE TARIFF RATE FOR THE NEGOTIATIONS**

From the discussion above, the most appealing proposal to CARICOM States is the "special and differential" approach proposed by Costa Rica and Nicaragua. Given the significant difference between the WTO MFN bound rates and the applied (CET) rates in CARICOM countries, it is important for CARICOM to propose a base rate for the FTAA negotiations that is closest to their bound MFN rates. CARICOM can propose that the tariff rate to be subject to negotiations should be their bound WTO MFN rate but this will not be taken seriously since it will only create hypothetical reductions and will be incompatible with the FTAA Ministers' mandate "to progressively eliminate tariffs". However, in their submission to the Negotiating Group on Market Access (NGMA) to date, Mercosur has maintained the notion of the bound MFN rate. This may be due to the fact that some countries are contemplating the need to stay close to their bound rates in the case of some sensitive products; or, it may be a holding position while internal consultations are conducted. Other countries propose that the lower of the two rates - MFN applied and bound should be used.

For the FTAA to be of any significance, it must be a "WTO-plus" agreement. Real tariff reductions will only take place if members' MFN applied tariffs are established as the base rate for the negotiations. CARICOM's applied tariff is the CET. However, once the CET is set as the bound rate for the purposes of the FTAA, CARICOM governments will not be able to increase their tariffs to levels higher than the CET, as they can do now, in cases of import surges or threats of injury to domestic producers. This is a sobering consideration for the OECS countries in particular. Nevertheless, if the FTAA Ministers decide that MFN applied rates will be the base rate for tariff reduction, CARICOM States can use a staging category with long time frames for phasing-in the reductions.

Perhaps the most important consideration in deciding on the base tariff rate for the negotiations is that governments will have to not only negotiate tariff reductions but honour them as well. It will be critical for all CARICOM Member States to live up to their eventual FTAA obligations and CARICOM must have ensure that there is buy-in by stakeholders in the Region at every stage of the negotiations. It is therefore recommended that Member States consult domestically and regionally on what is the best option for them. The MDCs may be prepared for further tariff reductions but it is unclear that there is support for tariff liberalization in the OECS. The mere fact that some countries have still not yet implemented the CET is a cause for concern and caution. It is also worthwhile to remember that since all countries have not yet implemented the CET, concessions will have to be granted at the national level, although CARICOM negotiates as a group.

**The Timetable and Pace of Tariff Elimination**

FTAAA Ministers have agreed that the FTAA will be compatible with Article XXIV of GATT 1994. The original GATT Article XXIV 5(c) stipulated that the timetable for the creation of a FTA should be "within a reasonable length of time." Since then, it has generally been accepted that the general requirement is that tariff reductions must take place within 10 years and several bilateral FTAs have implementation timetables of ten years. As expected, several countries have proposed that the

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35 Governments can move between the CET rate and their WTO bound rates to provide extra tariff protection when necessary.
FTAA tariff reductions take place within ten years. However, this is not an absolute requirement. It is important to point out that the WTO clarified this issue and recognized that longer time periods may be necessary, subject to an explanation:

The "reasonable length of time" referred to in paragraph 5(c) of Article XXIV should exceed 10 years only in exceptional cases. In cases where Member parties to an interim agreement believe that 10 years would be insufficient they shall provide a full explanation to the Council for Trade in Goods of the need for a longer period.36

It is therefore evident that even if the overall timetable for the FTAA tariff reduction program is set at 10 years, it is possible for CARICOM States to negotiate a longer period for tariff reduction.

Product Classification

For the sake of consistency in any trade negotiation, it is important that participating countries operate from the same product classification scheme. The obvious regime is now the Harmonized System (HS). However, all countries in the hemisphere do not use the most current version of the HS nomenclature and some have only recently changed their tariff schedule from previous schemes.37 As a result, some countries initially proposed the 1996 version of the HS which most CARICOM States have since implemented, as the base for tariff negotiations. The HS is being revised and a new version will be available in 2002. Since the FTAA negotiations are expected to be completed in 2005, it is not unreasonable to use HS 2002 instead of HS 1996. This was apparently recognized and recently there was tentative agreement in the Negotiating Group on Market Access to move in that direction.

6. THE PERIOD OR REFERENCE YEAR FOR TRADE DATA

In theory and practice, the earlier the base or reference year for tariff reductions, the greater protection is afforded to domestic producers. Canada and the US have proposed a reference year of 1999 and 1998 respectively. The reference year is important because it may be used in determining "principal suppliers" or those with special negotiating rights. The choice of a reference year or period for trade data on which the negotiations will be based is not of great importance in the case of CARICOM. As mentioned previously, it is quite clear that the US is CARICOM’s principal supplier. The most important consideration is the availability of trade data, and this is less than optimal in the Region. It is unclear whether all CARICOM States have the capacity to prepare tariff data, and accurate import/export data on an annual basis as required for the FTAA process. It is important that the information on which tariff negotiations are based is as complete and accurate as possible. In fact, although the IDB will be the key element in the creation of the Hemispheric Trade and Tariff Database that will inform the FTAA negotiations, countries have to make the data available to the IDB. To date, complete CARICOM data is not yet available because of the need to prepare and process the raw data from CARICOM States.38 In any event, the FTAA countries may

37 The previous classification scheme was the Standard International Trade Classification (SITC).
38 Antigua and Barbuda, Guyana, and Suriname have not yet submitted trade data to the IDB. Tariff information for the Bahamas, Barbados, Jamaica, Trinidad and Tobago has only just become available on the IDB's Web site. In terms of
choose another year as the reference year depending on similar considerations by the other countries.

One should also bear in mind the fact that the longer the reference period for trade data, the more representative the average trade data will be and there will be fewer distortions from normal trends. It is advisable that CARICOM propose a reference year of either 1998 or 1999 or the average of the 1998-2000 period. This will ensure that the most complete data is available. As well, 1998 is in keeping with the schedule of implementation of the CET in the Region.

7. TARIFF NEGOTIATION METHODOLOGIES

In most tariff negotiations, the first problem is to decide which method should be adopted for reducing them. The second problem is the depth of reduction to be agreed on. The larger the number of countries that participate in a trade negotiation, the more complex are the tariff negotiation modalities. In the case of the FTAA, the diversity and large number of countries (34) will make the tariff reduction process similar to a multilateral negotiation. In order to consider the best tariff negotiation options for CARICOM in the FTAA it is useful to briefly examine different approaches to tariff reductions, some of which have been proposed for the FTAA.

Product-By-Product Bargaining (Request-Offer Approach)

Up to the early 1960s (before the Kennedy Round of 1964-7) GATT negotiations were all of one kind: discussions in which concessions on particular products by one country were balanced by concessions on other specific products by another country. Under the Principal Supplier rule that was adopted by the participating countries, states that were principal suppliers of goods into international markets would prepare “request” lists for goods for which they wanted tariff concessions from importing countries. At the same time, they would prepare offer lists which indicated products on which they were prepared to make tariff concessions.

This approach may have led to deep tariff cuts on items that were negotiated in the Kennedy Round but it practically restricted the range of products that were actively negotiated and hence reduced overall coverage of the resulting tariff negotiations. Secondly, because of the principal supplier approach, small importing and exporting countries were largely excluded from the negotiating process. Thirdly, the focus on particular products allowed domestic producer groups to resist tariff reductions on products in which they were interested. Request-offer approaches that translate into product-by-product bargaining is tedious and not efficient in the context of many countries. It also does not allow for any great advance in across-the-board tariff liberalization. It is also very labour intensive and this might be the biggest disadvantage for CARICOM which has definite technical and human resource constraints. When only traditional request-offer approaches are used in negotiations, bargaining among the biggest countries take a large part of the negotiating time and

tariff data, the IDB requires: bound rates; MFN applied rates; preferential rates and countries to which they apply; tariff rate quotas; and other taxes, charges and measures that affect the applied tariff. The tariff data for the CARICOM countries that is available on the IDB Web site only lists the MFN applied rate. Apparently all CARICOM Member States (except the Bahamas) have submitted bound and applied tariff rates for 1997-2000 to the IDB but other information is missing. (See FTAAinf/12/Rev.7, September 21, 2001).
effort and smaller countries often feel marginalized or excluded from the shaping of the process or outcome of the negotiation. Furthermore, a bilateral request-offer process may result in lop-sided negotiation if larger countries submit lengthy and complicated requests to CARICOM while the latter may only be able to submit much shorter requests for concessions.

**Sector-by-Sector Negotiations**

The sectoral approach usually aims to bring about a general reduction, and perhaps abolition, of tariff and other trade barriers affecting a particular industry. It could envisage the removal of trade barriers affecting a particular raw material, the semi-finished products of that raw material, and the finished products in which the raw materials are a major constituent. But there can be major shortcomings of this type of negotiation.

In the Kennedy and Tokyo Rounds of GATT negotiations, efforts were made to negotiate reductions in trade barriers in selected sectors such as steel, chemicals, and forest products. However, it was not very successful for various reasons. When negotiations focus on a particular sector (e.g. steel) producer interest groups tend to become very involved and rather than reducing or eliminating trade restrictions there is the risk of the eventual result of a managed trade arrangement. Another drawback is the fact that because negotiations among producer interests in the same field in different countries tend to have a zero-sum quality to them, no significant agreement at all will be possible. Note for instance, that the Tokyo Round negotiations on textiles resulted in the cartelised system of the Multi-Fibre Arrangement (MFA). Another problem is logistical—when negotiating tariff reductions within sectors, the political room for manoeuvre in cross-product or cross-sector exchanges of concessions (as in product-by-product or linear-cutting negotiations) is dramatically reduced.

**Zero-for-Zero Approach**

The Uruguay Round achieved significant reductions in specific sectors by using the zero-for-zero approach. The aim is usually to reduce tariffs to zero (tariff elimination) on a reciprocal basis in complete sectors, such as pharmaceuticals or wood products. The Information Technology Agreement (ITA) is an example of this approach. The ITA was designed to eliminate tariffs on high-tech products, including: computers; semiconductors; semiconductor manufacturing and testing equipment; software; scientific instruments; and telecommunications equipment by January 2000.

**Formula Approaches**

In complicated trade negotiations, formula approaches to the reduction of trade barriers are a means of ensuring that participating countries make broadly comparable contributions to the goals of liberalization, in spite of differences in their starting points. Formulas offer more uniform tariff reduction and reduce free-riding. Formula approaches may be either quantitative (specific percentage reductions) or qualitative (agreed steps to liberalize based on trade barriers). Formulas can be expressed as indicative targets for the overall negotiation, or be focused more directly in the preparation of the offers of participants. Since a formula usually constitutes a set of common
benchmarks for undertaking a collective effort, there may be several political and economic benefits from it such as:

- Accommodating a hierarchy of targets, both overall and for particular sectors, against which negotiating results can be benchmarked;
- Generating efficiencies of scale and effort in the negotiation of cross-sectoral issues and freeing time to focus on sector-specific issues;
- Improving the clarity, consistency and user-friendliness of the negotiating process and results.

In light of the variety of countries, levels of development, and combinations of regional groups and tariff preferences in the hemisphere, it is likely that a formula approach will be the best overall negotiating option in the FTAA in terms of liberalization. However, it is not always easy to arrive at the right formula and significant negotiating time can be spent on this process. Nevertheless, formula approaches allow countries an important opportunity to shape a package approach to market access commitments in which their particular interests are integrated from the beginning.

Linear Reduction Formula

The most basic formula approach is a linear reduction formula. This is a simple system in which all participant countries in a negotiation agree to reduce their tariffs by a given percentage. This was the basic technique used in the Kennedy Round of negotiations from 1964-67. The approach is a linear tariff cutting formula, with provision for exception lists where countries could take products out from the linear cuts (sensitive industries) and negotiate on a product-by-product basis. Although the linear reduction approach has some drawbacks, it has led to substantial tariff reductions in the past. Both the Kennedy and Tokyo Rounds resulted in average tariff cuts of about 35% — relatively much larger than all the previous rounds of GATT negotiations. An across-the-board linear tariff cut is appealing because it results in automatic reciprocity.

In theory, if all countries cut all tariffs by a fixed percentage, then each gives and receives the same concession on total exports and imports. However, a cut from 30% to 15% is likely to be more significant than a cut from 60 to 30%. Thus, the main disadvantage of a linear cut is that it may not be large enough to result in significant or meaningful tariff reduction in markets with very high tariffs or tariff spikes. Also, deciding on the formula for tariff reduction is not easy. For instance, countries with low tariffs on average argue that it is unreasonable to expect them to cut their tariffs by the same percentage as high tariff countries. A 50% cut in an ad valorem tariff of 40% would still leave a 20% tariff on imported goods which may be a major impediment to imports. However, a country that reduces a 10% average tariff to 5% may find that the tariff reduction has significant impact on imports.

Tariff Harmonization

More sophisticated formula approaches seek to harmonize tariff negotiations. The main aim of tariff harmonization is to bring into line the tariffs charged by different countries on imports of the same product. So, for instance, let’s assume that a number of countries have tariffs on sewing machines at
7% and others charge 12%. And the tariff on carpets in some countries is 13% but it is set at 6% in others. Harmonization would involve a complicated formula in which tariffs in the product lines under discussion are harmonized. But the aim is NOT to increase any tariffs but to reduce high tariffs on the same products to the lowest level in the range of countries in the negotiation.

Harmonization was first introduced in the GATT Tokyo Round in a proposal by Switzerland that became known as the “Swiss Formula.” It was designed to cut high tariff rates (tariff peaks) by a greater percentage than low tariffs—the goal was to both lower and level (or harmonize) tariff rates. The formula was:

\[ Z = \frac{AX}{A} + X \]

- \( A \) = the coefficient 14 or 16
- \( X \) = the initial rate of duty
- \( Z \) = the resulting reduced rate

For example, with this formula, if we assume an initial rate of duty of 30% and use the coefficient 14, it results in a 68% reduction in the tariff level from 30% to 9.54%.

\[ Z = \frac{14 \times 30}{14 + 30} = \frac{420}{44} = 9.54\% \]

The Swiss formula was aimed at the tariff schedules of the United States and other countries that contained a number of high-tariff peaks. However, a request-offer approach was used for agriculture and countries were free to negotiate exceptions to the harmonization formula.

**Tariff Peaks**

In the Uruguay Round tariff peaks were defined as tariff rates above 15%. However, given the overall low level of industrial tariffs in developed countries, and to deal with tariff dispersion, some analysts argue that in future negotiations tariff peaks should be defined as tariffs higher than 3 times the average rate. In the Western Hemisphere, tariff peaks continue to exist in the following sectors and can reach 35% for specific commodities (while tariffs are much higher on some agricultural products):

- Textile and clothing
- Leather, rubber footwear and travel goods
- Fish and fish products
- Transport equipment
- Agricultural products

**Which Approach for CARICOM?**

The discussion above lists the advantages and disadvantages of different negotiating modalities. It is evident that structural or logistical concerns as well as political and economic objectives affect the
choice of concession trading. It may be unwise to speculate which will be the best option for the Region without a clear idea of what its specific goals are in the FTAA. The negotiating approach for exchanging concessions in the FTAA that would be best for CARICOM depends on the Region's objectives. If the aim is to be mainly defensive—with an emphasis on very gradual reduction of tariffs in CARICOM States—then the best approach would be an across-the-board simple percentage reduction in tariffs. This will ensure that there is little reduction in high tariff areas such as agricultural and other goods. However, if the aim is to secure market access in other FTAA (particularly Latin) countries, then CARICOM would be best served with a request offer approach that would address specific tariffs on goods that are of export interest to CARICOM. But this would expose CARICOM to demands for tariff reductions of its own.

It is highly likely that FTAA Ministers will settle for a combination of a formula approach and request-offer negotiations in the FTAA. This complementary system has been useful in the past for various reasons. First, significant negotiating time can be saved if countries submit offers on the basis of agreed approaches (agreed formulas, model schedules, etc.). Second, a higher level of country and sectoral or product coverage is secured through the use of holistic, cross-sectoral and sector-specific negotiating formulas. Third, the use of a formula approach as the basis for initial and/ or revised offers would provide countries and stakeholders with an information base and benchmark on what needs to be achieved through bilateral negotiations.

In past GATT rounds, including the Uruguay Round, developing countries have declined to participate in formula cuts for industrial products and preferred to negotiate on the basis of item-by-item "request/offers." Similarly, CARICOM's interests may not be best served by the adoption of a generally applicable formula to the negotiations unless CARICOM is able to affect the design of the formula. But CARICOM will have to collaborate closely with the other small economies in the hemisphere to secure agreement on that. Although individually CARICOM States have little bargaining power, fourteen out of thirty four is a significant proportion of the participants. If the Central American countries and the Andean Community cooperate with CARICOM, then the design of the negotiating formula can be configured to protect CARICOM's interests.

Alternatively, given the existence of relatively high tariffs on certain products in several CARICOM countries, it is reasonable to assume that various Member states still need the flexibility to adjust their applied tariff on individual items to reflect domestic protection and revenue needs. Accepting tariff bindings in the FTAA will set a maximum to applied rates for particular items. The "request/offer" negotiating technique may allow flexibility in establishing bound levels for individual products and groups of products. But it will also expose CARICOM States to demands for tariff reductions from its trading partners, particularly its principal supplier, the US. Theoretically, at least, bindings can be negotiated at levels in excess of currently applied rates, as occurred in the Uruguay Round. Request-offer may be useful to CARICOM in dealing with exports markets of interest in Latin American countries because attention can be focused on the products that are important to CARICOM producers. But CARICOM manufacturers face significant transportation constraints in supplying Latin markets and hence manufacturers may not be really interested in contesting these markets.
Import-Intensive Sectors

Another important consideration in preparing for tariff negotiation is the benefits of tariff liberalization to import-intensive industries. Notwithstanding the concerns about revenue loss in some CARICOM countries, the positive impact of tariff reduction in terms of economic efficiency and overall economic welfare are clear in most OECD economies; and the NAFTA countries are good examples in this hemisphere. Furthermore, as the FTAA gradually leads to greater economic integration, the competitiveness of CARICOM economies will become a critical issue. Policy measures to reduce cost and enhance the competitiveness of industries and sectors in CARICOM will be important in attracting investment, not just in manufacturing sectors but in all service sectors as well. It will be in CARICOM's economic interest to reduce or eliminate tariffs in industries such as tourism that have a high import content and that attract investment and provide employment and contribute to multiplier effects in other areas. In fact, tourism-related industries are a very significant part of services trade in most CARICOM states and make up for the deficit in merchandise trade in most instances.

In the same way that CARICOM will have to identify sensitive products that need tariff protection in the FTAA negotiations, it will also be necessary to identify the products whose tariffs can be reduced or eliminated in order to reduce costs in import-intensive industries. This will require consultations with the private sector in national jurisdictions in order to arrive at a balance between protection of local producers and promoting the further development of sectors that depend on imported inputs. It may be worthwhile to identify on a product-by-product basis the tariffs that can be reduced or eliminated to enhance the competitive position of local industries. At the same time, this will improve the attractiveness of CARICOM's overall offer to its other negotiating partners in the FTAA. A useful starting point for identifying products for tariff reduction might be the national exemption regimes under the CET.  

In the final analysis, it is important to remember that the tariff negotiation method that is selected must be understood by CARICOM officials, national trade and foreign affairs officials, as well as the private sector in each country. In this regard, formula approaches might be too technical and confusing for most people. In fact, many delegations may not have the technical expertise to follow complicated negotiations and understand the real world implications of the results of the negotiations.

The “Baskets” Concept

For the sake of simplicity, and also recognizing CARICOM's limited export interests, it may be worthwhile to consider the US proposal regarding different negotiating baskets. One could think in terms of five or six baskets as representing goods with different sensitivity levels and staging categories. All countries can put the goods that have zero tariffs in the first basket. This might be considered their first offer in the negotiations. Then countries can put goods in different baskets

39 It is worthwhile to note that the national exemptions lists in the CET currently allow individual Member States to grant reduced tariff rates and to exempt goods for production purposes. In the case of tourism, governments can choose to grant reduced tariffs.

40 Many products currently have zero tariffs under the CET and the MDCs have several products with tariffs between 0-5%.
with different tariff levels and timetables for tariff reductions. (It may be important to note that at the fourteenth meeting of the FTAA negotiating group on market access in August 2001, there was no objection to the notion of accepting current zero tariff rates as the first offer in the negotiations).

Using the baskets framework, CARICOM’s tariff ranges can be categorized as follows: zero; up to 5%; 5-10%; 10-20%; 20-25%; 25-40%. Tariff reduction can have the following staging categories: immediate; 5 years; 7 years; 10 years; 15 years. The last basket for CARICOM can be sensitive products that require a 15-year tariff elimination period. Negotiators can present arguments advanced in the context of the Group on Smaller Economies—size and level of development—for seeking special transition mechanisms. The negotiations can therefore consist of concession trading between countries that have an interest in different products. It might be worthwhile for CARICOM to study the ramifications of this particular approach.

8. **THE SPECIAL CASE OF AGRICULTURE**

In light of the posturing by the US and the EU since Seattle, and the current stances taken by both in the preparations for the Doha WTO Ministerial, it is clear that the agriculture negotiations in the WTO will be a difficult and protracted process. The same situation will apply in the case of the FTAA. Tariff negotiations in the FTAA regarding agricultural products will be a very contentious and complicated issue. Indeed, it is expected that agriculture will have to be given special attention in light of the high level of subsidies in the US (and to a lesser extent in Canada). It is also not clear that all countries in the hemisphere have totally tariffied their protective policies in agriculture as required by the WTO Agreement on Agriculture. In any case, most countries continue to protect their agricultural sector through high tariffs. As well, the applied tariffs (CET) on agricultural products are the highest tariffs in CARICOM States, along with liquor and tobacco in some countries. They are important to protect the thousands of small farmers in the region. They are also important for revenue generation. As a recent study indicated, “the contribution of the CET to total trade tax collections on agricultural imports in 1996 and 1997 ranged from 30% (Dominica, Barbados, St Vincent & the Grenadines) to just over 80% (Suriname).”

CARICOM should insist that any agriculture tariff negotiations be directly linked to negotiations regarding reductions in export and other subsidies in agriculture. Generally speaking, agricultural tariffs in the NAFTA countries are relatively low but very high tariffs remain in key protected sectors such as dairy and poultry, among others. However, US and Canadian agriculture is heavily subsidized while in some CARICOM countries the agriculture sector may be subject to negative resource transfers. Few CARICOM countries, if any, have the resources to provide subsidies to agricultural producers. In addition, the international financial institutions have pressured some CARICOM States to remove such subsidies as were in place. If the subsidy issue is not effectively

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42 The new ten-year, $US 170 billion Farm Bill adopted by the House of Representatives on October 5th provides for a major expansion of federal agricultural support. It would increase commodity programs by 63%, with most of it going to grain, cotton and soybean producers. "Fischler Questions Farm Bill Adopted by US House Of Representatives," EU Press Release, 10 October 2001.
43 Note that several developing countries, including Venezuela and Colombia have reserved their right (under the WTO Agreement on Agriculture) to apply export subsidies and domestic trade-distorting supports to certain agricultural products.
addressed in the FTAA, CARICOM countries could be disadvantaged if they reduce their agricultural tariffs.

Although from a longer-term perspective it will be worthwhile for CARICOM to reduce its CET for agricultural products in order to foster the development of processed food industries, in light of the need to trade concessions in the FTAA and the WTO negotiations, it would be unwise to engage in any unilateral tariff reductions at this stage. Any reductions of the CET should consider the context of both negotiations so that the region can get credit for such reductions through concessions by its trading partners. In light of the difficulties at the multilateral level to really engage in serious negotiations on agriculture, it is highly likely that some countries in the FTAA negotiations would want to wait on the outcome of the mandated negotiations in the WTO. The overall dilemma posed by the modalities issue for the FTAA negotiations is compounded in the case of agriculture for CARICOM.

In any event, although the FTAA Ministers have agreed that all tariffs will be open to negotiation, CARICOM should propose that its approach in the FTAA agriculture negotiations will depend on the outcome of the WTO agriculture negotiations. This is similar to what Canada did in the NAFTA negotiations.

9. SPECIAL AND DIFFERENTIAL TREATMENT FOR CARICOM

The notion of special and differential treatment assumes a range of provisions to take account of the differences in development levels among members of a trade or integration group. The Uruguay Round led to the end of traditional special and differential treatment in terms of non-reciprocal obligations (as conceived in Part IV of the GATT) by some WTO Members and ushered in the notion that all countries should assume the same obligations. However, developing countries managed to extract certain concessions in various agreements that reflected their particular concerns. In the western hemisphere, the NAFTA saw Mexico undertake very significant trade liberalization obligations in the context of much more sophisticated and developed trading partners. There appear to be no S&D provisions in the NAFTA but sensitive products have a longer time line for liberalization of tariffs (15 years instead of 10); but this applies to all three member countries. In terms of trade concessions, Mexico had to lower its tariffs five times more than the United States because its economy was more protected by tariffs than the US. Most analysts, and certainly the US and Canada expect that the FTAA will be a "NAFTA-type" agreement. It may therefore be unrealistic to assume that CARICOM States will be able to avoid substantive tariff reductions in the FTAA.

In the Uruguay Round Agreements there are about ninety seven provisions that can be considered special and differential treatment. Essentially these provisions can be divided into six categories as follows:

1) provisions aimed at increasing trade opportunities;

44 Traditional S&D provisions remain in the older regional integration agreements in the hemisphere (CARICOM, CACM, Andean Pact) and the cooperation agreements such as CARIBCAN and the Cotonou Agreement. The integration agreements also differentiate between countries according to their level of development.

2) provisions that require WTO Members to safeguard the interests of developing country Members;
3) flexibility of commitments;
4) transitional time periods;
5) technical assistance; and
6) provisions relating to measures to assist least-developed country Members.

While many of these provisions except the transition time period have no legal weight, it is not unrealistic to assume that similar approaches can apply in the case of the FTAA. But from CARICOM’s perspective, it would be desirable to ensure that they are clear and binding obligations, rather than voluntary commitments or best endeavours.

There is no prima facie case for special and differential treatment for any country in the FTAA negotiations. Indeed, given the current mood in multilateral and regional forums regarding non-reciprocal concessions to developing countries, it is not surprising that neither Canada nor the US has expressed a willingness to allow preferential treatment. But there is recognition of the particular circumstances of small economies and Canada has formally stated that longer time lines may be considered for small economies. This is a tradition in the multilateral trade regime that has been maintained in most bilateral and regional FTAs around the world.\(^{46}\)

The small economies of the Caribbean Basin represent almost two-thirds of the countries negotiating the FTAA. From its inception, the FTAA process has acknowledged the special interests of smaller economies.\(^{47}\) The notion of special considerations for some countries is indicated in paragraphs 13 (a) and (b) of the San José Declaration, and the principles and objectives set out in Annex I, including the following:

Special attention should be given to the needs, economic conditions (including transition costs and possible internal dislocations) and opportunities of smaller economies, to ensure their full participation in the FTAA process.

The rights and obligations of the FTAA will be shared by all countries. In the negotiation of the various thematic areas, measures such as technical assistance in specific areas and longer period for implementing the obligations could be included on a case by case basis, in order to facilitate the adjustment of smaller economies and the full participation of all countries in the FTAA.

The measures agreed upon to facilitate the integration of smaller economies in the FTAA process shall be transparent, simple and easily applicable, recognizing the degree of heterogeneity among them.

In addition, at the Sixth Ministerial Meeting in Buenos Aires in April 2001, Ministers clearly indicated:

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\(^{46}\) With the notable exception of the Anti-Dumping Agreement and the Pre-shipment Inspection Agreement, almost all the major WTO Agreements contain longer transitional periods for developing countries to comply with their obligations. The flexibility takes the form of an agreed delay in implementation, on the part of developing countries, of certain or all provisions of the agreement concerned.

\(^{47}\) Small economy is a very vague and amorphous term and there is no clear definition internationally. The term "smaller" is particular to the FTAA and perhaps reflects the tiny island states in the Caribbean. But even in the FTAA discussions definition is a persistent issue—for instance, Uruguay considers itself a small economy.
We reaffirm our commitment embodies in previous Ministerial Declarations to take into account, in designing the FTAA, the differences in the levels of development and size of the economies in our Hemisphere to create opportunities for the full participation of the smaller economies and to increase their level of development. We recognize the broad differences in the levels of development and size of the economies in our Hemisphere and will remain cognizant of these differences in our negotiations so as to ensure that they receive the treatment they require ...  

Finally, FTAA Leaders declared at the Third Summit of the Americas in Quebec City in April 2001 that:

We find it of tremendous importance that in its design, the Agreement should take due consideration of the differences in size and the levels of development of the economies of the participating countries.

Although it is well-known that CARICOM economies are small, a brief comparison is illuminating in terms of the size limitations faced by the Region. In 1997, the combined GDP of all CARICOM economies was still lower than that of Ecuador. The total land area of CARICOM States is only slightly larger than Paraguay and the total population is only slightly larger than that of Honduras alone. Indeed, CARICOM consists of mini-states that are extremely vulnerable to natural disasters, external shocks and capital and human resource constraints. Five CARICOM States have populations of less than 120,000 people. It is therefore unrealistic to assume that CARICOM should move at the same pace of trade liberalization as other FTAA countries. The very recent damage caused by Hurricane Iris in Belize and the devastation to the tourist industry throughout CARICOM as a result of the terrorist attacks against the United States are very sobering examples of the vulnerability of CARICOM States to external shocks and natural disasters. Agriculture will continue to play a fairly significant role in several CARICOM States in the medium term and employ several thousand people.

It is also important to note that the regional CARICOM market in recent years has been developing as a mechanism for allowing small national firms that previously produced for tiny national markets to increase their scope and become more competitive. The process of the development of a common market is slowly taking shape after thirty years of integration; and exposure to reciprocal trade liberalization at the hemispheric level at this stage will devastate producers in some sectors. This may significantly reduce any potential gains from the FTAA that accrue to producers in the MDCs such as Trinidad and Tobago and Jamaica.

Views of Other FTAA Countries

Interestingly, the United States apparently does not have rigidly defined positions on the treatment of smaller economies in the FTAA. They suggest that any guidelines applying the treatment in differences in the levels of development and size of economies should reflect the following elements:

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40. The Toronto Ministerial had also instructed the TNC to take into account the findings and recommendations of the Consultative Group on Smaller Economies (CGSE) "in order to create the opportunities for the full participation of the smaller economies and to increase their level of development."


be consistent with the general principles of the San Jose Declaration

avoid arbitrary or rigid criteria and should provide a "flexible framework emphasizing the
diversity and unique requirements of individual countries."

be based on the concept that individual countries may face a spectrum of needs, which may
be greater with respect to certain elements of the FTAA agreement than to others.

This suggests that the US is supportive of the notion of differential treatment for smaller economies
in tariff negotiations, but this can only translate into longer implementation deadlines and other
mechanisms. But there will be no blanket allowance or special treatment; the proposing country
must demonstrate the relationship between each proposed provision and the need that it is intended
to address. The US also recognizes that there may be need for technical assistance to assist some
countries. (This will be dealt with below).

Canada's view is that all FTAA signatories must assume the same rights and obligations. However,
the Canadian government recognizes the particular challenges facing smaller economies and
supports the provision of technical assistance. Canada is apparently willing to consider, on a
case-by-case basis, the inclusion of transitional measures in the FTAA that would provide the
necessary flexibility required for countries at different stages of development and size of economy.
However, the transition measures must be specific and time-limited. Canada further stipulates that
each proposed transitional measure should be substantiated and that:

The requesting country(ies) should provide the negotiating group with a plan of
action designed to ensure either the phasing-out of the transitional measure(s) or full
compliance with the FTAA, whichever is applicable, within the specified time limit. 51

The notion of phasing-in commitments at different paces for different economies also seems to be
evident in Central America and in the submissions of business groups in the Americas in which
there is consistent reference to asymmetrical tariff reductions timelines to reflect the level of
development of each country. Indeed, this was the approach allowed to Mexico in the NAFTA and
it is reasonable to expect that CARICOM States will be allowed longer timelines for phasing in tariff
reductions.

Special and differential treatment is being claimed by CARICOM, Central America and the Andean
Pact. At the same time, Mercosur, led by Brazil, has lobbied for "gradualism and equilibrium" in
tariff and non-tariff negotiations in the FTAA.

How should the official stated intentions regarding special and differential treatment translate into
tangible provisions in the case of tariff negotiations for CARICOM in the FTAA? In CARICOM,
the distinction between MDCs and LDCs has created a high number of exceptions and preferential
arrangements that have inhibited the proper functioning of a Common Market as well as the
implementation of a common external tariff. It is not clear that such differentiation is beneficial in
the long run but given the tradition in the region, the smaller states in CARICOM would want
similar provisions in the FTAA. But the discussion above indicates that any special provision will
have to be justified and argued for on an individual basis by country.

Recent Developments in the Consultative Group on Smaller Economies

At the Trade Negotiations Committee (TNC) meeting on 25-28 September 2001, Vice Ministers accepted guidelines for applying the treatment of differences in the levels of development and size of economies in the FTAA. CARICOM countries pushed for language that would more explicitly allow for regional integration groups, such as CARICOM, to be eligible for special treatment. But this was resisted by the North American countries and others, out of concern for the fact that CARICOM itself includes a broad spectrum of development with respect to certain sectors. For instance, it would be hard to make a case that the financial services sectors in Jamaica and St. Kitts and Nevis should be granted the same treatment.

Negotiators did not discuss in detail the controversial issue of specific types of measures that could allow flexibility for small economies with respect to obligations under the FTAA. They agreed only that negotiating groups should consider transitional measures, or longer periods for compliance with obligations.

It appears that longer phase-in times for tariffs are viewed as a “primary option” for offering special treatment for small economies. Hence it is included in the text that was approved by the TNC in September 2001. Industry groups in the US have argued that special treatment for poor countries should apply to the timing of tariff reductions but not allow these countries to maintain residual tariffs forever. In this regard, it is interesting that the guidelines do not specifically allow for differential treatment to be maintained in perpetuity, nor do they exclude this option.

In addition, one of the guidelines implies that bilateral trade agreements and trade preferences should be respected in the FTAA negotiations. Central American countries, for instance, want to ensure that they do not lose preferential access they now enjoy under the Caribbean Basin Initiative. Certain countries with bilateral agreements, such as Costa Rica, also want to ensure that the FTAA allows for these types of agreements to stay in place. CARICOM’s interests are likewise. This means that the base tariff rate for reduction should not be the most preferential applied tariff as some enthusiastic groups for rapid liberalization would like, but rather, the lowest MFN applied tariff on a product.

Technical Assistance

One important element that was also included in the guidelines from the Group on Smaller Economies is technical assistance. The TNC instructed the Group to draft a proposal on a “Hemispheric Cooperation Program,” which would aim to provide technical support during the negotiations and afterward to help smaller or less developed countries implement their commitments. Technical assistance will be critical to several members of CARICOM. In fact, as a pre-condition for any tariff reductions in the FTAA, CARICOM States, particularly OECS governments should request tangible technical assistance to redesign their tax systems and improve their collection base. This should be a binding commitment by the larger, richer economies in the FTAA and not a voluntary initiative or hortatory statement. CARICOM should seek to ensure that such assistance will proceed simultaneously with, or precede any tariff reduction program. In the

52 The language pertaining to existing agreements or preferences reads, “Take into account existing market access conditions among the countries of the Hemisphere.”
interim, as LDCs in CARICOM have been given the right to impose temporary duties on imports in the case of loss of fiscal revenues, it is desirable for this facility to be included in the FTAA negotiations, but with a clearly defined timeline and conditions. CARICOM should begin the process of studying and defining what kind of technical assistance its Members need in order to clearly articulate such requests at the level of the TNC.

10. **EXEMPTIONS FOR SENSITIVE GOODS**

It is unlikely that CARICOM will face difficulties in making a case for special treatment for sensitive goods but the exemption of certain products from the liberalization process will be difficult.\(^{53}\) There is a long tradition in trade agreements, including the NAFTA, of special rules for sensitive sectors and products. These normally consist of longer time lines for the reduction or removal of tariffs on such products. For instance, in the NAFTA, tariffs on most goods traded between Canada and Mexico and between the US and Mexico were eliminated immediately or will be phased-out in 5 or 10 annual steps, beginning January 1, 1994. Nevertheless, exceptions to the foregoing were Canada’s supply-managed goods (dairy and poultry), where tariff phase-out did not apply and corn and dried lentils, where Mexico negotiated a 15-year tariff phase out. In the case of US-Mexico, ceramic tiles, glassware and some footwear had tariffs phased out over 15 years. It should also be pointed out that Canadian tariffs on supply-managed dairy and poultry products are in the 200-300% range as a result of tariffation under the WTO Agreement on Agriculture and these were maintained under the NAFTA.\(^ {54}\)

FTAA negotiators will be very reluctant to agree to the exemption of sensitive items (for CARICOM countries) from the liberalisation process because similar arrangements will have to be extended to other countries and the cumulative impact could lead to widespread exemption of products from the liberalization process. All FTAA Ministers, including CARICOM governments, have agreed to some basic principles: (i) to progressively eliminate tariffs and non-tariff barriers as well as other measures with equivalent effects, that restrict trade between participating countries and (ii) all tariffs will be subject to negotiation. Nevertheless, a case can be made for suspension of the commitments in the case of the tiny fragile economies in CARICOM. The existence of large asymmetries between the more developed countries in the hemisphere and many countries in CARICOM can result in high economic and social costs for the region if markets were all liberalized. Several CARICOM States will never be able to attract large agricultural or manufacturing operations because of their geographic and economic limitations.

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\(^{53}\) It should be noted that at the meeting of the Negotiating Group on Market Access in August 2001, there was clear opposition to the notion of exemptions. The Dominican Republic and the Andean Community representatives who proposed such exemptions were reminded that Ministers had agreed that all tariffs would be subject to negotiations.

\(^{54}\) NAFTA members are required to bind and progressively eliminate their tariffs or customs duties on goods from other parties. However, whereas Mexico and the US, and Canada and Mexico agreed bilaterally to the tariffication of non-tariff barriers to agricultural trade under the NAFTA, Canada and the US were unable to reach an agreement. In the NAFTA negotiations, it was decided to abide by the results of the Uruguay Round negotiations on agriculture. In implementing the Uruguay Round commitments under the Agreement on Agriculture, Canada converted its non-tariff protective measures for supply managed products into tariff equivalents. Since the level of protection for these agricultural products was quite high, the conversion of this regime resulted in very high tariffs. The Canadian tariff rates on some supply managed products are as follows: hatching eggs - 280%; chicken - 280%; cheese - 289%; ice cream - 326%. In 1996, the US challenged the extremely high tariffs on certain agricultural products maintained by Canada on the basis that they were incompatible with the NAFTA but Canada won the dispute under NAFTA Chapter 20 proceedings. The Panel endorsed Canada's position that it has the right under NAFTA to apply the WTO tariffication provisions to US-origin agricultural goods.
In light of the importance of the agricultural sector in all CARICOM States, and given the problems in the banana industry (that is export focused), a case may be made for exemption of a select range of sensitive agricultural products that are protected by high tariffs under the CET and for which the bound tariffs in the WTO are quite high. CARICOM can propose that an identified range of agricultural and agri-food products be exempt from the negotiations. (The first candidates may be vegetable crops, for instance). Another option could be to maintain WTO bound tariffs for 5 years and then reduce them to the range of the CET over the next 15 years. The vulnerable small farmers in the Caribbean who do not have any subsidy support from government will not be able to withstand competition from producers in other FTAA countries who in many cases benefit from the economies of large-scale production as well as subsidies. There is ample precedent for such protection for agricultural producers throughout the OECD and in the US and Canada. In fact, the main rationale for supply management in Canada is to ensure the sustenance of family farms in various parts of the country, particularly in Quebec and the prairie provinces.

A similar case may be made for other products but one would not want the product list to be too extensive. However, arguments can be supported with evidence of the social and economic role of local firms. For instance, Trinidad and Tobago recently increased tariffs on ice cream in order to protect small producers such as Willie's Ice Cream and their network of suppliers and distributors who successfully demonstrated to the government that they play an important role in local neighbourhood economies in terms of employment and that the multiplier effects of their associated activities are quite significant.

Although the FTAA mandate includes all goods, recent FTAs reflect the sensitivities of different countries. When the Canada-Costa Rica FTA enters into force, 86% of Costa Rican products will enter the Canadian market duty free immediately, and 65% of Canadian products will enter Costa Rica duty free. Costa Rican tariffs on 18.7% of Canadian goods will be reduced to zero over 7 years and 14.7% will be eliminated over 14 years. However, from CARICOM's perspective, it is significant that in spite of the broad-ranging liberalization under the bilateral FTA, Canada exempted beef and supply-managed dairy, poultry and egg products from tariff reduction; and on the Costa Rican side, dairy, poultry, and some agricultural products such as potatoes, onions, tomatoes, carrots are exempt from tariff reductions.

**Identifying Sensitive Goods**

In the case of CARICOM, the challenge is to identify a consistent range of sensitive products. More important, it is clear that CARICOM will have to justify the reasons for requesting exemptions. There is currently no clear indication or concept of which products are sensitive in CARICOM. In fact, judging from the list of products that are subject to special treatment in recent trade agreements with the Dominican Republic and Cuba, the only consistent examples are some agricultural products and processed foods. Comparisons are also difficult because the two trade agreements take different

50 Vegetable crops such as tomatoes, lettuce, peppers, among others, produced by local farmers may never be able to withstand competition from US producers. But local agriculture absorbs a significant amount of labour in all CARICOM States. In any event, most farmers supply purely local markets; and the big consumers such as hotels, etc. still use foreign produce anyway.

56 Obvious examples are vegetable farmers in Florida.

57 See [www.dfait-maeci.gc.ca](http://www.dfait-maeci.gc.ca) and [www.comex.go.cr](http://www.comex.go.cr) for overviews of the bilateral FTA.
approaches in terms of market access. In the CARICOM-DR FTA 20 product groups ranging from flowers to pasta, perfumes, plastic bags, footwear and mattresses are subject to phased tariff reduction; 25 agricultural product groups are subject to 40% tariffs; and 69 product groups (of which 19 are iron and steel products) are subject to MFN rate of duty. In the CARICOM-Cuba FTA which follows a positive list, CARICOM will allow a wide range of Cuban products duty free into the region and phase-in tariff reductions on 29 product groups over 4 years.

Regional officials indicate that it is not possible to identify a generic list of sensitive products because CARICOM Member States have argued that sensitive products depend on the country with whom CARICOM is negotiating. However, if CARICOM States negotiate as a group in the FTAA, they must identify the range of products for which CARICOM as a whole, needs special treatment or exemption; and these should be specific products, not whole product groupings. It would be worthwhile for CARICOM to develop clear, transparent and rational criteria for deciding on sensitive goods in order to request exemptions for them in the FTAA negotiations.

II. CONCLUSION AND RECOMMENDATIONS

The FTAA will pose significant challenges for CARICOM. Most CARICOM products already enter the US and Canada duty free so there is little to be gained in reciprocal tariff negotiation in these two major markets. There are also preferential tariffs for CARICOM goods in Venezuela and Colombia, and the Dominican Republic, (once the bilateral FTA with CARICOM comes into force). To a large extent, the FTAA will lead to a reduction of CARICOM’s preferential margin in the US and Canada vis-à-vis its Latin neighbours. But it will lead to greater market access in Latin countries, albeit under very competitive conditions with all the other countries in the hemisphere.

As a group, the CARICOM region does not have much negotiating power because of its relatively minute economic size. There is not much market access that can be traded off in a complicated negotiation of the scale of the FTAA. However, because of their number (14 states out of 34) there is clearly potential for affecting the agenda. Nevertheless, if the rest of the hemisphere is seriously interested in reducing most of their applied tariffs to zero within 10 years then CARICOM may not be able to hold out for much longer than that. Since tariffs in North America are already quite low, the demands for substantial tariff cuts by other countries will be great.

It is therefore necessary for CARICOM to build alliances with like-minded states in the hemisphere. In this regard, Nicaragua has expressed similar interests to CARICOM in the context of the Consultative Group on Smaller Economies. It should be relatively easy to develop a coalition of smaller economies to garner support for special treatment in the negotiations.

In preparing for the FTAA tariff negotiations, the following issues should be considered:

1. Given its current preferences in its main markets, CARICOM will not gain much from tariff liberalization in the FTAA unless it can take advantage of new markets in Latin America. Any benefits to the Region will stem from the overall FTAA package and not just tariff reductions. It is therefore evident that significant attention should be focused on non-tariff barriers that currently affect or could inhibit CARICOM exports.

58 See submission to the CGSE - FTAA.TNC/ w/ 134/ Rev.2
2. CARICOM’s overall strategy for market access negotiations in the FTAA must be
cognizant of its commitments to the European Union under the Cotonou Agreement.
Any preferential treatment given to Canada and the United States in the FTAA will have
to be granted to the EU as well in the imminent negotiations under the EU-ACP
framework.

3. In preparation for tariff negotiations in the FTAA, CARICOM should conduct a detailed
study of its applied tariffs and the status of implementation of the CET in each Member
State. The study should analyse the differences in tariff rates for the same products
among CARICOM States and identify the tariff peaks that will be the focus of attention
by other FTAA countries. It should also compare CARICOM applied tariff rates for a
range of specified products with tariffs for the same products in other countries that
have export interest in the CARICOM market.

4. Before any tariff negotiations are concluded in the FTAA, CARICOM should ensure that
its CET is applied in a uniform manner. The differential rates being applied by different
member states should be made to converge, perhaps by 2003.

5. A detailed study on tariff levels in other regional integration movements should be
commissioned that would outline the range of products of interest to CARICOM
producers for which tariffs are high and hence should be subject to intense scrutiny in
the FTAA negotiations. In particular, there should be a detailed focus on the tariffs on
CARICOM products with export interest in new Latin markets.

6. Regarding the actual revenue impacts of tariff reductions in small countries, it is
recommended that CARICOM closely examine the experience of El Salvador that
unilaterally cut tariffs in the late 1990s. Anecdotal indications from Salvadorean officials
suggest that the revenue loss was not significant and in fact, revenues may have
increased. It will be worthwhile to study the policy measures that were put in place when
the tariff cuts were introduced since they may provide some lessons for CARICOM
States, particularly the OECS.

7. There is a clear basis for special and differential treatment for CARICOM States in the
negotiations due to their small size and levels of development. However, the general
approach seems to be merely longer transition periods for implementing obligations
rather than the traditional non-reciprocal preferential treatment to which CARICOM is
accustomed. It is in CARICOM’s interest to have different staging categories and the
longest time lines for tariff reductions in the FTAA to reflect the sensitivity of various
sectors. For some products, there should be a maximum time of 15 years for tariff
elimination.

8. Since FTAA Ministers agreed that all tariffs will be subject to negotiations, it will be very
difficult for CARICOM to exempt products from the liberalization process. Any
proposal for such exemptions should be very carefully designed and there should be a
clear and justifiable rationale for each.

9. CARICOM Member States should meet to discuss the ramifications for each State of the
different possible tariff negotiation modalities in the FTAA and to develop an agreed
approach. The common approach should then be proposed to the FTAA Negotiating Group on Market Access as early as possible.

10. CARICOM officials should also receive input from the private sector and various other stakeholders in the Region regarding products that need to be shielded from tariff liberalization under the FTAA. However, clear, rational and transparent criteria should be developed in order to arrive at a credible list of sensitive products that would need special provisions in the FTAA.

11. At the same time, in order to reduce costs and promote the development of industries with high import content (tourism, etc.), CARICOM should identify on a product-by-product basis those tariffs that can be reduced or eliminated. This should serve as a basis for CARICOM’s proposals for tariff reduction and improve the appeal of its overall offer to other FTAA negotiating partners. In focusing on tariffs on products that are important to import-intensive industries, individual Member States may need to re-examine their exemptions lists under the CET.

12. As a precondition for any tariff reduction in the FTAA, CARICOM States should request tangible, binding commitments on technical assistance from the larger countries regarding mechanisms for diversifying the tax regimes of individual states in order to reduce reliance on customs-related taxes, particularly in the OECS sub-region.

13. With respect to the choice of the base rate for the FTAA negotiations, the use of the WTO bound rate or the lowest preferential rates being applied, are both inappropriate for CARICOM. The Region should therefore propose the MFN applied rate as the base rate.

14. For CARICOM, the base year is not of particular importance but the choice should be one for which all CARICOM States are able to provide (or have provided) information on trade flows and their national customs tariff.

15. Both formula and request-offer approaches to tariff negotiations will pose significant technical and other challenges for the Region. CARICOM should carefully examine and consider the ramifications of the basket system proposed by the US for dealing with the tariff negotiations in the FTAA, taking due account also of the agreement by the Negotiating Group on Market Access that items currently zero-rated in national tariffs count towards meeting their initial obligations.

16. Market access in agriculture will be a very sensitive issue in the FTAA and it will be affected by developments at the multilateral level. CARICOM should defer any commitment to negotiate in this area in the FTAA until the mandated WTO agriculture negotiations are concluded. In any event, there should be insistence on the removal of subsidies to agriculture.
REFERENCES


ANNEX I

CARICOM'S COMMON EXTERNAL TARIFF (CET)

General Structure

In 1991, CARICOM members agreed to a harmonized CET for imports from outside the Common Market. In January 1993, it was decided to implement a revised CET regime involving a four-phase reduction to be completed over five years, at the end of which the tariff ceiling would be lowered to 20 per cent for non-exempt industrial goods. Phase IV, with a tariff ceiling of 20%, was to have been reached by members on 1 January 1998. There are also different (lower) tariff levels for the larger CARICOM countries (Barbados, Guyana, Jamaica, Suriname, Trinidad and Tobago) that are referred to as more developed economies (MDCs), and for the smaller countries referred to as less developed economies (LDCs).

<table>
<thead>
<tr>
<th>Phase</th>
<th>Date of implementation</th>
<th>Tariff ceiling for industrial goods (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase I</td>
<td>1 January 1993 - 31 December 1994</td>
<td>30 - 35</td>
</tr>
<tr>
<td>Phase II</td>
<td>1 January 1995 - 31 December 1996</td>
<td>25 - 30</td>
</tr>
<tr>
<td>Phase III</td>
<td>1 January - 31 December 1997</td>
<td>20 - 25</td>
</tr>
<tr>
<td>Phase IV</td>
<td>1 January 1998</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: CARICOM Secretariat.

The structure of the CET differs between competing and non-competing imports, as well as between inputs, intermediate and final goods, forming a hierarchy in which non-competing inputs bear the lowest tariffs, while competing final goods bear the highest tariffs. Agriculture received special treatment in the form of higher protection, in view of its importance to employment creation, rural development and foreign exchange earnings and because of the need to provide protection from dumping by industrialized countries. Under the CET, agricultural commodities face a 40 per cent tariff while agricultural inputs all have a zero tariff rate. Rice is treated differently from other agricultural products since it is considered to have a cost of living effect.

In addition, the structure of the CET includes four Lists (A, B, C, and D) which give effect to certain principles. List A consists of goods whose production may account for less than 75 per cent of regional consumption, but which a country might wish to stimulate and, therefore, protect. The country would, therefore, be allowed to treat the product as competing while other countries apply lower rates. List B comprises special concessions to the LDCs, but is no longer operational. List C consists of products that are highly revenue sensitive (cigarettes and alcoholic beverages), for which minimum rates were established, allowing each country to set its own rate. The actual rates applied by different countries for products on List C show wide differences.

List D allows Belize to suspend the CET for specific products (gas stoves, non-electric stoves, refrigerators, etc) and Part 111 of List D allows LDCs to suspend the rates on pharmaceuticals, since some of them have a zero or minimal tariff on these products. Products deemed to have a cost of living effect were assigned tariffs of 0, 5 and 10%. In addition to these exceptions to the CET, each
country also has its own set of exceptions. Many of these exceptions are designed to provide specific protection to locally produced goods.

Countries differ widely in their policies regarding duties on goods that are used as inputs. Some countries, notably Trinidad and Tobago, exempt inputs from duties while Grenada levies up to 5% duty on raw materials and other intermediate inputs. Suriname also allows manufacturers to import raw materials on a duty free basis. While duty exemptions are allowed and are widely used for various purposes, there is a list of products for which countries are not allowed to give duty exemptions (e.g. frozen fish, bacon, carrots, etc.).

**Status of Implementation of the CET**

In principle, the national tariffs of all CARICOM States should conform to the CET but to date, the actual implementation process is at various stages across the region. Of the MDCs, Barbados, Guyana, Jamaica and Trinidad and Tobago have implemented the final phase of rates ranging from 5 per cent to 20 per cent; while Suriname is at the third phase with rates of 5 per cent to 20/25 per cent. Grenada and Belize implemented the CET in 2000. LDC member states in the final phase of implementation with rates of 0-5 per cent to 20 per cent are: Saint Lucia and St. Vincent and the Grenadines. Dominica and St. Kitts and Nevis are in the third phase with rates ranging from 0-5 per cent to 20/25 per cent. Dominica aimed at implementing Phase IV on 1 July 2001. Antigua and Barbuda is still in the first phase with rates of between 0-5 per cent and 30/35 per cent. The WTO has pointed out that the implementation of the CET has caused some problems in Grenada where import duties exceed WTO bound rates for some products.

Overall, across CARICOM, it is not clear how many product lines are in the lowest category and how many high tariffs remain. For example, from April 1, 2000, Barbados tariffied its non-tariff protective measures (licensing restrictions) on the importation of selected agricultural products and manufactured goods. These restrictions were replaced by an equivalent level of protection for the product sectors in the form of bound rates of duty ranging from 40% to 207%. These bound tariffs are supposed to be gradually reduced by 2004, but will still remain well above the level of the CET.  

### Implementation of the CET in the OECS

<table>
<thead>
<tr>
<th>Country</th>
<th>Phase I</th>
<th>Phase II</th>
<th>Phase III</th>
<th>Phase IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua/ Barbuda</td>
<td>1 June 1999</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominica</td>
<td>1 September 1993</td>
<td>1 October 1995</td>
<td>1 January 1999</td>
<td>1 July 2001&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Grenada</td>
<td>1 July 1993</td>
<td>1 July 1995</td>
<td>1 January 1997</td>
<td>1 January 2000</td>
</tr>
<tr>
<td>St. Kitts/ Nevis</td>
<td>5 July 1993</td>
<td>1 January 1995</td>
<td>1 January 2001</td>
<td></td>
</tr>
<tr>
<td>St. Lucia</td>
<td>1 July 1993</td>
<td>1 July 1997</td>
<td>Not implemented</td>
<td>1 January 2000</td>
</tr>
</tbody>
</table>

<sup>a</sup> - expected date of implementation.  

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ANNEX II

NAFTA TARIFF REDUCTIONS

NAFTA negotiations were modelled along the lines of those conducted under the Canada-US Free Trade Agreement (CUSFTA), effectively resulting in two additional packages of bilateral tariff reduction: Canada-Mexico and USA-Mexico. Under the NAFTA rules, Canada/USA trade continued to be governed by the CUSFTA tariff phase-out. Tariffs on most goods traded between Canada and Mexico and between the USA and Mexico were eliminated immediately or will be phased-out in 5 or 10 annual steps, beginning January 1, 1994. Exceptions to the foregoing were Canada’s supply-managed goods (dairy and poultry), where tariff phase-out did not apply and corn and dried lentils, where Mexico negotiated a 15-year tariff phase out. In the case of USA-Mexico, ceramic tiles, glassware and some footwear had tariffs phased out over 15 years.

As in the CUSFTA, tariffs in NAFTA were phased down from applied levels, including from Canada’s General Preferential Tariff level and the USA’s General System of Preferences, where applicable. However, the safeguard provisions allowed for the rate to be restored to the MFN applied level. Unlike the CUSFTA, NAFTA does not provide for the removal of tariffs on the same products over the same periods of time by all three participants. This reflected Mexico’s different stage of industrial development vis-à-vis Canada/USA and the mismatch between Mexico’s developing economy and the developed economies of Canada and the USA.

NAFTA provides that goods already tariff free will remain tariff free. It also stipulates that the three countries may agree to accelerate tariff removal. Unlike the CUSFTA, where only one base rate and phase out schedule applies per product, NAFTA contains an additional schedule for the elimination of tariffs on joint USA/Mexico production to ensure that rates are phased down from tariff levels that would have applied at the border.

Canada-Mexico Liberalization Under NAFTA

Canada and Mexico agreed to phase out virtually all tariffs over a maximum of 10 years. Mexico also agreed to eliminate import licenses. The tariff reductions will either be immediate or generally phased out in equal annual cuts over 5 or 10 years. Mexico will provide immediate duty-free access for many of Canada’s key export interests including many fish items, some grains, many important ferrous and non-ferrous metals and minerals, fertilizers and sulphur; certain wood and paper items, most telecommunications equipment, and many types of machinery manufactured in Canada, including agricultural, resource and industrial, as well as health and medical equipment.

Canada’s tariffs on key import-sensitive sectors will be phased out over the long term (10 years) including such areas as apparel, most footwear, toys, plastic articles and other miscellaneous manufactured articles. Canada will impose special tariffs to prevent sudden surges of imports of certain fresh, frozen or prepared fruits and vegetables and cut flowers. Tariff cuts to Mexico’s import-sensitive sectors will also be phased in over 10 years; including furniture, pharmaceuticals, certain grains, some wood products, some finished metal products, toys and some sporting goods. Both Canada and Mexico have the right to take safeguard measures that allow them to re-impose duties to protect producers from surges of imports.
Selected Mexico - United States Tariff Reductions Under NAFTA

Textiles and apparel

With respect to trade between Mexico and the United States, tariffs for many textile and apparel articles were completely eliminated upon entry into force of the Agreement (tariff staging category A). Others will be eliminated over a six-year period, and all tariffs on textile and apparel articles will be eliminated within ten years. Moreover, Appendix 2.1 to Annex 300-B provides that duties for articles in the B6 (six-year) and C (ten-year) tariff phaseout categories shall at no time exceed 20 percent ad valorem. Although this maximum rate of 20 percent applies until the stipulated rate reductions result in an ad valorem rate that is 20 percent or less, it does not serve as the base for subsequent rate reductions.

Automotive Products

The NAFTA will significantly liberalize US access to the Mexican market in automotive products, including:

- The immediate reduction by 50 percent of tariffs on passenger automobiles, with remaining tariffs phased out in equal stages over 10 years;
- The immediate reduction by 50 percent of tariffs on light trucks, with remaining tariffs phased out in equal stages over five years;
- Tariffs on all other vehicles phased out in equal steps over ten years;
- The immediate elimination of tariffs on certain auto parts, with duties on most other parts phased out over five years;
- Restrictions on the import of used cars into Mexico will be phased out between 2009 and 2019.

Agricultural Products

The provisions for agricultural goods were negotiated bilaterally. As a result, different provisions apply as to trade between Mexico and the United States, than to trade between Canada and Mexico. For trade between the United States and Canada, the NAFTA incorporates the provisions of the CUSFTA.

Annex 703.2, Section A, of NAFTA applies to trade between the United States and Mexico. Mexico will replace import licensing requirements on U.S. agricultural products with either a tariff-rate quota or an ordinary tariff, that will be phased out over a 10-year period, with the exception of corn, dry beans and milk powder which will be phased out over a 15-year period. Import quotas imposed under Section 22 of the U.S. Agricultural Adjustment Act, as amended (7 U.S.C. 624) will be replaced with tariff-rate quotas for Mexico which will also be phased out over a 10-year period, with the exception of peanuts which will be phased-out over a 15-year period. Section 22 import quotas will remain in place for all imports from countries other than Mexico, including those from Canada. Quantities within the quota amounts will be subject to duty-free treatment while quantities in excess of the tariff-rate quota will be subject to an over-quota tariff.
Mexico and the United States will also gradually liberalize bilateral trade in sugar. Both countries will apply tariff-rate quotas of equivalent effect on third country sugar by the sixth year after the Agreement enters into force. All restrictions on trade in sugar between the two countries will be eliminated by the end of the 15-year transition period. Details on the special provisions relating to market access for sugar during the transition period are provided in Annex 703.2, Sections A and B.