

PRESENTATION BY THE
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‘Special and Differential Treatment (S&DT) for the
Caribbean in the Free Trade Area of the Americas (FTAA)’

at the

MEETING BETWEEN
CARICOM TRADE MINISTERS
AND MEMBERS OF
THE US CONGRESSIONAL CARIBBEAN CAUCUS
MIAMI, 24 MAY 2004

Members of Congress

Ministers

President of the Inter-American Economic Council

Assistant Secretary-General of CARICOM

Ambassadors

Member of the Business Community

Government Officials

Ladies and Gentlemen:

I wish to extend my thanks to the Inter-American Economic Council for organizing and hosting this important forum.

This interchange, that brings together CARICOM Trade Ministers and members of the United States Caribbean Congressional Caucus (CCC), will enable a deepening of the level of engagement.

My presentation, today, explores Special and Differential Treatment (S&DT) for the Caribbean within the context of the Free Trade Area of the Americas (FTAA). However, since the agenda of the meeting centers on strengthening relations between CARICOM and the United States, I will touch briefly on this theme.

A: ENHANCING CARICOM-US ECONOMIC PARTNERSHIP

It is vitally important that the enhancement of economic partnership between CARICOM and the United States, based on interdependence and mutuality of benefits, is pursued.

1) INTERDEPENDENCE

Over and above the value of trade between CARICOM and the United States is the fact that key products are exchanged; reinforcing our commercial relations. We import technology and manufactured products, and in turn, we supply important services - like banking, tourism, and products – like bauxite, and ammonia, nitrogen and fertilizers.

2) MUTUALITY OF BENEFITS

There is considerable US investment in the region; and not inconsiderable investment of Caribbean persons, both resident and outside of the US. This interdependence extends to workforce contribution of Caribbean nationals in the US – across the spectrum from high to low skills. Remittances also are a significant factor.

3) ENHANCING RELATIONS

This level of interdependence, notwithstanding, we must work to *enhance* the relationship to include strategic business alliances; greater freedom of movement of natural persons, and the strengthening of intellectual property rights, to name a few.

B: CARICOM's STRATEGY OF ADJUSTMENT AND DEVELOPMENT**1) ADJUSTMENT**

CARICOM's adjustment process is well advanced, as many economies are diversifying their export sectors, to include new industries such as informatics, while increasing their competitiveness in modern sectors such as tourism. There has been a major effort to reorganize and rationalize sectors where the cost of labour and lack of economies of scale have made it difficult to compete in the world market.

Revamped marketing arrangements have compressed the adjustment period in major export sectors such as bananas and apparel. Several

economies have successfully completed major structural transformation, as is evident in the movement from export agriculture to tourism and industrialization.

The Caribbean has shown a capacity to compete in complex global industries, where its skill level provides a comparative advantage; most notably in financial services.

2) DEVELOPMENT

CARICOM countries are forging ahead with development strategies. The collective framework for this is the region's pursuit of the CARICOM Single Market and Economy (CSME). This will provide a seamless regional economic space, which will facilitate the movement of goods, services, capital and other factors of production.

Attaining international competitiveness in the export of goods and services within CARICOM must be complemented by secure market access, particularly to developed countries. To that end CARICOM is simultaneously involved in three separate theatres; namely, the World Trade Organization (WTO), FTAA, and CARIFORUM-European Union (EU) Economic Partnership Agreements (EPA). These complement the already existing trade agreements CARICOM has with Costa Rica, the Dominican Republic, Cuba, Columbia and Venezuela.

CARICOM is charting its own course in development, but its relationship with the United States is important. A stronger partnership could reinforce

the development prospects of the region. It is envisioned when the FTAA comes into effect, it will encompass and could enhance partnership outside of the Caribbean Basin Initiative (CBI).

C: FTAA NEGOTIATIONS

1) SCOPE AND STRUCTURE

The FTAA is intended to substantially liberalize all international transactions within the hemisphere. It covers 9 negotiating groups; namely: market access; investment; services; government procurement; dispute settlement; agriculture; intellectual property rights; subsidies, antidumping and countervailing duties; and competition policy. These negotiating groups have specific mandates from Ministers and the TNC to negotiate text in their subject areas and meet regularly throughout the year. There are three Committees and Groups that include the Consultative Group on Smaller Economies, the Committee of Government Representatives on the Participation of Civil Society, and the Joint Government-Private Sector Committee of Experts on Electronic Commerce. A Technical Committee of Institutional Issues was created to consider the overall architecture of an FTAA.

2) STATE OF NEGOTIATIONS

Despite formal and informal efforts by the TNC to re-start the FTAA process following the Miami Ministerial last November, the negotiations remain deadlocked as countries failed on three occasions to agree on the

scope of the common and balanced set of rights and obligations which will be applicable to all countries, as well as the procedures for plurilateral negotiations.

Trade Ministers at Miami agreed to revisit the scope and structure of the FTAA negotiations in an attempt to address the technical and political difficulties, which had resulted in the impasse in several negotiating areas since January 2003. The Miami Declaration introduces a two-tiered structure into the negotiations. All countries will negotiate a common and balanced set of rights and obligations in all nine negotiating areas, which will be applicable to all countries. Countries that so choose can agree to negotiate additional obligations and benefits on a plurilateral basis. Both sets of negotiations should be conducted simultaneously and should be completed according to the established schedule, that is January 2005.

The TNC has been instructed to develop a common and balanced set of rights and obligations applicable to all countries in the nine negotiating areas, and to establish the procedures for plurilateral negotiations, the scope and modalities of which will be decided by the participating countries. The 17th TNC, which met from 2-6 February 2004, adjourned without agreement on either the scope of the common set of rights and obligations or the procedures for plurilateral negotiations. Efforts to break the impasse during two informal meetings of Vice Ministers from selected FTAA countries in Buenos Aires on 9-10 March, and again on 31 March – 1 April, also proved unsuccessful, resulting in a decision to postpone re-convening the 17th TNC until more progress is made at the informal level.

The TNC Co-Chairs, in a Joint Communiqué issued on May 3, proposed to convene another informal meeting of Vice Ministers at the end of May. CARICOM, however, has called for Ministerial intervention to break the impasse, and has proposed to the Ministerial Co-Chairs the convening of an informal meeting of Trade Ministers to address the main areas of contention, which revolve around the treatment of agricultural subsidies and to a lesser extent, the scope of the negotiations on services and investment.

With only 9 months remaining until the scheduled end of the negotiations, this additional delay in resuming the negotiations makes the task of meeting the January 2005 deadline for the conclusion of negotiations difficult. Venezuela, which is becoming increasingly isolated in the FTAA process, continues to reserve its position regarding the completion date. Additionally, as the US presidential election campaign moves into high gear, the US government is not likely to place priority on restarting the negotiations prior to the elections in November. Further, President Bush is not likely to place external trade policy issues at the center of his election campaign, given mounting criticisms about his track record of jobless growth and the growing anti-free trade sentiment at the highest political level in the Democratic camp. MERCOSUR is also concentrating on reviving and deepening the sub-regional integration process and is moving ahead with its bilateral negotiations in other parts of the world, for example, the European Union. MERCOSUR has also reiterated its request to CARICOM to negotiate a bilateral trade agreement.

D: CHARACTERISTICS OF SMALL DEVELOPING ECONOMIES

Small developing economies, such as those of CARICOM, have certain characteristics, such as a high degree of openness, limited diversity in economic activity, export-concentration on one to three products, significant dependency on trade taxes, and small size of firms.

1) HIGH DEGREE OF OPENNESS

External transactions are large in relation to total economic activity, as indicated by the high ratio of trade to GDP. There is heavy reliance on external trade because of a narrow range of resources and the inability to support certain types of production, given the small scale of the market. Economic openness is measured by imports and exports of goods and services as a percentage of GDP.

2) ECONOMIC VULNERABILITY

Economic vulnerability can be a feature of an economy of any size and level of development, but it is compounded by size, susceptibility to natural disasters, and remoteness. The high degree of openness and the concentration in a few export products, particularly some primary products and agricultural commodities whose prices and demand are subject to fluctuations in world markets, make small economies vulnerable to external economic events and expose them to real shocks of an intensity unparalleled in larger countries.

The limited range of economic activity in small economies is reflected in concentration on one to three exports, accompanied in the majority of cases, by a relatively high reliance on primary commodities. In extreme cases, one primary product export accounts for nearly all of exports, e.g., in 1991, bananas accounted for 92 percent of total exports in Dominica and 87 percent in St. Lucia.

Export concentration is compounded by the dependence on one or two export markets, e.g. Britain absorbs 80 percent of Dominica's bananas and 90 percent of St. Lucia's exports.

3) SMALL SIZE OF FIRMS

Firms from small countries are small by comparison with multinational corporations and firms in large economies. Small firms are at a disadvantage in the global marketplace because they cannot realize economies of scale, are not attractive business partners, and cannot spend significant funds on marketing, research and development. Comparing 1996 total sales of the largest national firms, General Motors (US - \$164 billion) is 9 times larger than Petrobras (Brazil - \$17 billion), which in turn is 35 times larger than Neal & Massey (Trinidad & Tobago - \$0.5 billion). Sales and employment of some multinational corporations are larger than the GDP and population of many countries.

4) PHYSICAL VULNERABILITY

One of the peculiarities of small developing countries, particularly small islands, is the prevalence of natural disasters. The World Bank has

estimated the impact of a natural disaster on a small economy and its financial sector can be far more devastating than it is on a large economy, where the damage is relatively localized. For example, the damage to Jamaica from Hurricane Gilbert in 1988 amounted to about 33 percent of GDP; to Antigua from Luis and Marilyn in 1995, to about 66 percent of GDP; to Montserrat from Hugo in 1989, to about 500 percent of GDP. In comparison, the damage to the United States from Hurricane Andrew in 1992, while much larger in an absolute amount, amounted to only 0.2 percent of GDP.

5) DEPENDENCE ON TRADE TAXES

Small economies have a high dependence on trade taxes as a percent of government revenue. Trade taxes account for more than one-half of government revenue in St. Lucia, Belize, and the Bahamas, and over one-third of government revenue in Guatemala and the Dominican Republic. The difficulty in liberalization is not protectionism, but the difficulty of re-organizing the tax system.

E: SPECIAL AND DIFFERENTIAL TREATMENT OF CARICOM ECONOMIES

As relates to S&DT, appropriate provisions for small developing economies of CARICOM can be grouped under seven headings.

1) ASYMMETRICALLY PHASED IMPLEMENTATION TIMETABLES

Given the small size of firms in smaller economies and the small scale of production and limited size of the market, export sectors will require a longer period of adjustment than larger firms and larger, more developed economies. Hence, there must be asymmetrically phased implementation of rules and disciplines, permitting a longer adjustment period for smaller economies. For example, in agricultural trade, in particular, food items, smaller economies should be allowed the flexibility to implement their commitments to reduction of protection and domestic support over a longer period than the implementation period prescribed for larger economies.

2) A LOWER LEVEL OF OBLIGATIONS

Smaller economies would be required to undertake commitments and concessions to the extent consistent with their adjustment capacity, development, financial and trade needs, and their administrative and institutional capabilities for implementation. This should be negotiated on an issue-by-issue basis and where appropriate, and product-by-product basis.

3) EXEMPTIONS FROM COMMITMENTS

Given the vast disparities in size, the extremely small size of some economies and the human, financial and institutional cost involved in implementing the FTAA, smaller economies should be permitted some exemptions. This would not only address the question of disparities, but also avoid delays, which may occur because smaller economies, despite their best effort, were not able to meet certain requirements and

timetables. For example, if, as is likely, exports subsidies are outlawed, smaller economies should be exempt from this requirement, or standardizing technical requirements through national organizations and participation in international standardization processes where these have no applicability because of lack of production or importation or exports. Where complete exemptions are not feasible, the minimis provisions would be helpful.

4) TECHNICAL ASSISTANCE AND TRAINING

The promise of technical assistance to the small economies is widely accepted. Such assistance could:-

- (a) contribute to efforts by small economies to undertake the structural, institutional and legislative adjustment
- (b) promote the development of adequate institutional capacity including training to improve their handling of negotiations, and implementation of the international trade agreements
- (c) assist small economies in fulfilling their obligations under the various international agreements, in particularly commitments under the WTO

5) ADJUSTMENT FINANCING

The idea of a Regional Integration Fund or similar mechanism to support adjustment for smaller economies in the FTAA is gaining growing acceptance among FTAA countries. The Miami Declaration mandates the Consultative Group on Smaller Economies (CGSE) to present

recommendations to the TNC at its eighteenth meeting on financing methods and facilities to address the adjustment needs resulting from the differences in levels of development and size of economies in the hemisphere. CARICOM continues to take a leading role in this initiative. The RNM has contracted the services of a leading Caribbean diplomat to prepare a proposal on the Regional Integration Fund, which will be tabled in the CGSE, following consultation with, and approval by Member States.

Hemispheric Co-operation Programme (HCP)

The Miami Declaration instructs the TNC with the support of the CGSE to further develop the HCP by identifying the modalities and procedures for the management and implementation of the HCP once the FTAA negotiations are completed. The HCP continues to be an important initiative for CARICOM countries, all of which have prepared trade capacity building strategies and action plans, which were presented to the international donor community at the first financing meeting of the Programme in October 2003. To date, Canada has committed some CDN\$ 24 million to the HCP, CND\$6 million of which will be disbursed through the Inter-American Development Bank. In Miami, CARICOM expressed concern about the slow pace of commitment of resources to the HCP and called on the donor community to urgently provide predictable and multifaceted financial and non-financial support, in particular non-reimbursable financing, to meet the objective and capacity building priorities set out in the national and sub-regional capacity building strategies and action plans under the HCP.

Sub-regional Round Table meetings with donors are to be held within four to six months. Notwithstanding the impasse in the negotiations, a number of sub-regions and countries, for example the Andean Community and Panama, are proceeding to convene Sub-regional Round Table Meetings with donors to commit resources to the funding of National Action Plans and Trade Capacity building projects. The RNM is convening a CARICOM preparatory meeting on the HCP to review the Trade Capacity Building Strategies prepared by Member States and to identify common needs across national strategies, which can be addressed through regional interventions. The results of this meeting would inform CARICOM presentations to donors in the CARICOM Sub-regional Round Table which the RNM hopes to convene in early July.

Ladies and Gentlemen, I thank you.

