



Hearing at the European Parliament on 04 December 2008 on the Economic Partnership Agreement EU-CARIFORUM

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There has been considerable praise for and criticism of the CARIFORUM EPA. While its supporters praised it as the only ‘full-fledged’ EPA that promotes regional integration its opponents criticised it as too onerous and not being in line with Caribbean development objectives.

The missing link in the debate had been a factual analysis of the agreement and its commitments. ODI has started with such analysis by answering, among others, the following key questions:

1. What is CARIFORUM’s approach to liberalisation?
2. How soon will the trade liberalisation commitments bite?
3. What are the implications of the other provisions of the trade in goods chapter?

What we have *not* done is to express any view on the development impact of the EPA. Such conclusion can only be made after country-specific studies have been undertaken.

1. What is CARIFORUM's approach to liberalisation?

Though the EPA appears to include a single regional liberalisation schedule for CARIFORUM (with some national exceptions) the reality is that the schedule comprises 15 country-specific schedules with a certain level of overlap.

For each product the schedule shows the treatment to be accorded within CARIFORUM *unless* a country has registered an exception. These ‘exceptions’ vary from about 400 tariff lines in case of Dominica up to more than 3,600 in case of Bahamas.²

¹ This statement is based on the results of the studies “Analysis of Contents of the CARIFORUM and Pacific ACP Economic Partnership Agreements and Challenges for 2008” and “Implications of the CARIFORUM–EC Economic Partnership Agreement for Belize”. Both studies were commissioned by the Commonwealth Secretariat and conducted by Dr Christopher Stevens, Dr Mareike Meyn and Jane Kennan.

² On a HS-6 digit level.

The different liberalisation commitments of the countries make it very difficult to provide summary figures on countries' liberalisation commitments. To give one example: in the first liberalisation tranche countries will liberalise between 23% (Dominica) and 88% (Antigua/Barbuda) of items that are *not* the same as those for the whole CARIFORUM group.

Even after the end of the 25 years implementation period the CARIFORUM countries will not have a common external tariff on all their EU sourced imports.³

2. How soon will the trade liberalisation commitments bite?

Though the EPA text states that the first tranche of liberalisation starts “by 2011”⁴ it also lists for each item in its liberalisation schedule how it will be treated by the start of 2009. Comparing the 2009 tariffs with countries' latest available MFN tariffs (2006) it shows that these are higher for all countries but Haiti which suggest that unless they have done already completed the process countries still have some ‘pre-EPA liberalisation’ to do before the end of December.

Looking at the timetable for major liberalisation the different implications of countries' liberalisation commitments become apparent. While Jamaica will liberalise only about 11% of products that currently face a tariff of 20% or more this figure is more than 90% for Bahamas. The revenue implications of the EPA will therefore be quite different among the CARIFORUM countries.

3. What are the implications of the other provisions of the trade in goods chapter?

The EPA is a complex document. The implications of its implementation will differ from country to country and will only fully become apparent over time. The EPA covers a comprehensive set of commitments that rule not only CARIFORUM trade with the EU but also intra-CARIFORUM trade. The implementation of the following rules will require policy changes within CARICOM/CARIFORUM.

Removal of ‘para-tariffs’

The application of *ad valorem* customs and other charges is widespread and a relevant income source for many Caribbean countries. The EPA foresees the elimination of such ‘para-tariffs within 10 years.’⁵

Removal of non-tariff barriers

Art. 26 of the EPA requires the immediate removal of all non-tariff barriers. It prohibits comprehensively any import or export restriction except customs duties and taxes as outlined in the tariff liberalisation schedules. Given that many Caribbean countries apply non-automatic licenses, minimum prices and other import restrictions these practises infringe the EPA rules. The EPA also foresees national treatment on

³ Taking 2007 volumes on the HS-6 digit subhead 6.5% of import CARIFORUM sources from the EU will face different tariffs in 2033.

⁴ “By 2011” indicates that a tranche of tariff liberalisation has to be completed until the beginning of 2011. The same applies to the other liberalisation tranches, i.e. 2013-2023 indicates that the liberalisation process has to be completed by 01 January 2023.

⁵ With a start to be made in year 7 and to be accompanied by support for fiscal reform (Art. 16.4).

internal taxation and regulation (Art. 27) prohibiting any discriminatory treatment between imports and domestic production.

Regional preference

The eight less developed CARICOM countries (LDCs)⁶ fear that import surges from the larger islands harm their industrial development. They have therefore used the provisions of the CARICOM Treaty to suspend community-origin treatment for certain products for up to 10 years.

The 'regional preference' clause of the EPA, however, foresees extending any 'favourable treatment' given to the EU to the other CARIFORUM members within 1-2 years of entry into force of the EPA. In other words, the liberalisation required under the EPA applies not only to trade with the EU but also vis-à-vis CARICOM and the Dominican Republic (to which CARICOM LDCs have not had to liberalise hitherto).

4. Where does this leave us?

The analysis of the CARIFORUM liberalisation schedule and the EPA text shows:

- There will be significant differences in countries' liberalisation tranches. Permanent exceptions from the regional norm will also maintain after the end of the implementation period. This appears to be in contradiction with the region's intention to move towards a common market by 2015.
- It appears that immediate change is required by most countries to bring applied MFN tariffs in line with the 2009 tariffs stated in the liberalisation schedule.
- Most countries have backloaded the liberalisation of high tariff items but some countries will experience significant revenue losses in early tranches. The removal of 'para-tariffs' puts additional strains on revenues and fiscal reforms.
- The EPA rules EU-CARIFORUM and intra-CARIFORUM trade comprehensively. This does not only require countries to adapt their trade practise vis-à-vis the EU but also towards their neighbours, thus having implications on current practise of special and differential treatment within the region.

Given the complexity of the agreement and the lack of time countries have had to reflect on its implications it is recommended that the EU exercise due restraint in enforcing its provisions. If further analysis shows that post-signature revision is desirable this should be made possible.

⁶ Which are Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines according to Article 4 of Revised Treaty of Chaguaramas.