

# Overhauling the Trade Relationship Between The Caribbean, Central America and The EU

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For much too long, the banana wars defined the relationship between the Caribbean and Central American countries and the EU. Extensive Central American plantations servicing the distribution networks of large, non-European multinationals faced high trade barriers in Europe. Their lower-cost bananas had to compete against those grown not only in European Overseas Countries and Territories but also in African and Caribbean countries enjoying duty-free access, albeit within quota limitations. Dispute Settlement in the World Trade Organization (WTO) found this regime to be inconsistent with multilateral trading rules.

Change has taken more than ten years. In 2001, the WTO granted authorisation to the new trade regime between the EU and African, Caribbean and Pacific (ACP) members of the Cotonou Partnership Agreement seeking to eradicate poverty, improve governance, promote sustainable development and foster regional integration. The condition was that, by January 2008 the Cotonou trade regime should be replaced by WTO-compatible trade agreements between the EU and each of the six ACP sub-regions: four African, one Caribbean and one Pacific. The EU would be then in a position to comply with WTO rulings on bananas.

Formal negotiations for the Caribbean-EU Economic Partnership Agreement (EPA) started in February 2006 and ended in December 2007. Covering trade in goods, services and investment as well as trade-related issues, it entered into provisional force as scheduled. It was signed later, in October 2008, and ratified by the European Parliament in 2009. Meanwhile banana exporters in Africa settled for Interim Agreements covering only trade in goods, allowing them more time to conclude the rest of their EPA negotiations.

Resolving the banana wars by complying with WTO rulings thus became viable. Latin American banana exporters accepted a deal that reduced EU tariffs and enlarged quotas. This then became the basis for further liberalisation efforts in the context of the new Central America (CA)-EU Association Agreement discussed at the Central American Integration System (SICA) Forum held in London in November 2011.

But bananas are not the only story. Clearly, Europe cares about the Caribbean and Central America for historic reasons that go back to colonial times. Moreover, when taken together, the 22 countries of the Caribbean and Central American are not small. Despite the disparities in national wealth, their 69 million people produced in 2009

US\$245 billion worth of goods and services – not as much as Brazil, Mexico or Argentina, but certainly more than Chile, Colombia or Peru. Their co-ordinated actions in international organisations regularly twist the arms of heavier-weighted countries. Many an election to bodies such as the UN Security Council or the International Court of Justice has been lost by less than the 22 votes these countries can deliver.

Moreover, Caribbean and Central American countries are right at the centre of transport routes between Europe and North America and developing-country markets in Latin America and the Asia-Pacific region. Sadly, this is a source of security challenges for region, which has become a favoured transit point for illicit substances headed for Europe and North America. And while interdiction efforts will always be needed, new trading activities need to be developed as well. If not, our societies will continue suffering the cancerous effects of having shares of their populations supporting the transit of such substances. In this sense, the Caribbean-EU EPA and the CA-EU Association Agreement must be part of the response to the challenge of trade in illicit substances.

The EPA liberalises the EU market in goods, services and investment for the Caribbean. It provides for duty- and quota-free market access for the entire universe of agricultural and industrial products, with the most convenient rules of origin ever offered to any developing country. It also liberalises trade in services – whether cross-border or consumed abroad – as well as foreign direct investment, allowing for the commercial presence of Caribbean firms in Europe.

A very generous degree of liberalisation was also tabled for the one mode of delivery where Caribbean countries are most competitive: movements of natural persons. Quota-free market access will be available for a number of contractual-service suppliers as well as independent architects, engineers, doctors and nurses, *inter alia*. Most non-professional activities are also covered, including our top priority, entertainment. Our bachata, merengue, reggae and soca music bands will have now the right to enter the EU.

The movements of natural persons are by definition temporary, not exceeding six months per year. As such, they are an alternative to permanent migration. (Remittances are already our second largest source of export revenue, but these depend, unfortunately, on the increasingly unlikely prospects for further migration.) It remains to be seen if any visa restrictions will be used to nullify or impair these concessions, which should create more socially just trading conditions. Because, when also the individuals themselves can participate in international trade, this has the potential of changing our export profile in such a way that it reaches a larger share of the population.

Meanwhile, unprecedented rules have been agreed by both parties to regulate investment and trade in services in a pro-competitive manner. Foreign investors won't be allowed to gain a commercial presence by lowering environmental or labour standards or through corruption. Sectoral rules on computer services, courier, finance, shipping and tourism will ensure that liberalisation is not hampered by anti-competitive practices or discriminatory regulations.

This is the trading regime the Caribbean needs. For trade in services is already crucial for our economies. Construction, finance, telecommunications and tourism are among the most dynamic of sectors complementing already more traditional activities like bananas, providing for better remunerated jobs and generating much needed income in foreign currency, while countering the above-mentioned temptations created by the transit of illicit substances.

The EPA should help deepen regional integration in the Caribbean, so that local firms can realise economies of scale. And by covering issues such as services, investment and competition policy, local firms can expect to address regional needs on a more comprehensive basis. Likewise, foreign firms working in any member country can expect to freely service the needs of other countries in the region.

In addition, through the 'regional preference' clause included in the EPA, whatever, for example, the Dominican Republic gave Europe on trade in goods, services and investment applies also to the rest of the Caribbean, and vice versa. Surely this clause should reinforce neighbouring countries' trade surpluses with the Dominican Republic—any remaining concerns about its effects should be put to rest. A more cohesive region should thus emerge, fostered by binding commitments on developing trade infrastructure as well as by new investment flows in such strategic sectors as telecommunications, energy and transport.

So, the banana wars have ended: the Caribbean-EU EPA is a reality. What next? As concluded at last November's SICA forum, the other major element in our developing regional relationship with Europe, the CA-EU Association Agreement, should have been finalised by now. But as of 15 February 2012, the EU's web pages had little new to say on the matter.

Negotiations for the CA-EU Association Agreement were launched in Vienna in May 2005 and concluded in Madrid in May 2011. Because Central American countries do not belong to the Cotonou Agreement, their Association Agreement with the EU had to include also provisions on co-operation and political dialogue. According to the EU, it is currently undergoing legal review, and in a welcome development Panama is among the beneficiaries.

At the SICA forum, Central American and European negotiators conveyed their expectation for the trade provisions of their agreement to enter into force provisionally

by July 2012. European negotiators, however, shared the only details so far available to this diplomat on specific benefits of the agreement.

Initially, its rules on trade in goods provide 'enhanced' access only for those Central American products eligible already under the Generalised System of Preferences-Plus (GSP-Plus) regime. As for other non-agricultural products, access into the EU will be liberalised over 10 years. This transition should avoid the sudden erosion of the privileges that Caribbean and other ACP countries enjoy by virtue of the EPA and Interim Agreements. Clearly, however, this will delay the diversification of Central American exports to Europe. (No information is available about specific liberalization commitments on services, investment or government procurement.) According to the Costa Rican Embassy in Belgium, the trade part of the CA-EU Association Agreement 'is expected to be applied by the middle of 2013.'

Not having a text to evaluate, it is difficult to do justice to the outcome of a six-year negotiation process. But if the Caribbean and Central American countries are going to punch above their weights, there should be a faster convergence between the Caribbean-EU EPA and the CA-EU Association Agreement. All of us should play by the same rules and enjoy the same privileges, so that the promise of freer trade opens the door to the realities of economic diversification and development. The sooner we achieve this, the better for the prosperity and security of all.