Making the EPA work for CARICOM Businesses

Dr. Debbie Mohammed (Lecturer in International Trade at the IIR and Arthur Lok Jack Graduate School of Business)

The CARIFORUM–EU Economic Partnership Agreement (EPA) is now in its sixth year of existence, yet this Agreement, which evoked such intense emotions and opinions as to its intentions and real benefits to CARICOM countries, now seems to be on most countries’ “backburners” as they focus on new trade agreements with other partners. The EPA provides a host of opportunities for CARICOM exporters yet there appears to be little interest in penetrating the European Union (EU) market, whether on the goods or services fronts, leaving the region in the same predicament it was in before the EPA. CARICOM governments have been busy negotiating new trade agreements with countries of Latin America and Asia among others, ostensibly to facilitate market expansion and stimulate exports which hopefully will drive economic growth, but there has been little export activity to the EU. This begs the question: how useful are negotiated agreements without the interest of the business sector? More specifically, how can already negotiated agreements such as the EPA work for regional business?

What is the EPA?
Simply put, the EPA is a trade partnership aimed at promoting development amongst its CARIFORUM (i.e. the 15 states of CARICOM plus the Dominican Republic) and EU members. It subscribes to the model that free trade is the principal vehicle for growth and development and so is deemed WTO (World Trade Organization) plus, as it covers goods, services, investment and E-commerce, as well as trade-related issues such as competition, procurement, innovation and intellectual property rights and the environment. The Agreement also provides a development component to assist CARIFORUM countries in building trade capacity and developing requisite scale and product diversity though stronger regional integration. The EPA is seen both as a tangible manifestation of the new trading system in which preferential trade will no longer be tolerated by a global community committed to free trade, as well as the “success” of this partnership to include a comprehensive list of issues/sectors which the WTO has been unable to negotiate to date.

Export Performance
The emphasis on a trade partnership and connotations of reciprocal trade has not been lost on certain sectors including academia, labour unions and business. The EPA, which replaced decades of preferential trade and aid to CARICOM countries under the Lomé Conventions with a commitment to progressively liberalize all sectors, has been a source of contention from the beginning. For many businesses, moving beyond the predictable business model of quotas and guaranteed prices, or expanding beyond the CARICOM market, requires new business strategies, uniquely differentiated products/services and incorporation of requisite EU standards and regulations which are viewed as both costly and risky. This is not to suggest that some major regional brands e.g. Angostura, S.M Jaleel & Company, El Dorado Rum and Grace Kennedy, have not utilized the EPA. However, the contention is that these large firms were already exporting to the EU market prior to the EPA and so the real value in the EPA has to be its ability to attract new/other exporters in a diverse range of goods and services segments. A recent report notes that the overall performance of CARIFORUM goods exports to the EU has declined when compared to overall terms of trade under the Lomé and Cotonou periods. In fact, CARIFORUM states have recorded negative balances of trade with the EU under the EPA, except for 2008 when a positive balance of US $118.m was achieved. In the area of services where CARICOM governments, trade negotiators and business felt the greatest potential existed, the overall export pattern has also been disappointing. Some national service associations such as the T&T Coalition of Service Industries and regional organizations such as Caribbean Export have organized trade missions to the EU in segments such as tourism and creative industries which have yielded positive results. The T&T Chamber of Industry and Commerce also conducted a Trade Mission to three EU countries - UK, Germany and Netherlands, which was funded by the Trade.com facility. The Sectors included ICT Services, construction and food and beverage. However, these are more exceptions than the norm, and so there have been little marked service exports in a range of industries and translating to consistent exports.

The poor export performance of most CARIFORUM countries and efforts made to address specific contributory factors will undoubtedly take centre stage at the stipulated 5-year EPA review carded for late 2014. Difficulty accessing funds under the European Development Fund (EDF) has been identified as a major factor impeding timely EPA implementation at the national level. Reduction in aid for trade funds has also contributed to the scale of EPA implementation while domestically, supply side challenges including transportation, innovation, productivity, efficiency and private sector financing challenges are identified as key inhibitors in exporting to the EU markets. These tend to be the typical explanations advanced by both private sector and government as they cooly play the blame game. The business sector appears less prone to venturing outside of the domestic or CARICOM markets and continues to rely heavily on governments for sector identification and development. Governments’ slow pace of streamlining procedures, such
as customs, standards/testing and improving infrastructure - particularly transportation - adds to the cost of doing business which further pigeonholes an already risk-averse private sector.

Making the EPA work for business

There are specific roles for both the governments and private sectors of the region to play in extracting benefits of the EPA or any other trade agreement.

**Government:** Careful consideration must be given when negotiating trade agreements to the types of goods and services being negotiated to ensure there is 1) trade complementarity and 2) that supply side factors support a consistent, competitive supply. It makes little sense to secure trade agreements which essentially involve a one-way flow of goods and services.

There are several assistance programmes under the EDF which can be utilized to facilitate trade, including upgrade of customs facilities and procedures, establishment of SPS testing labs, introducing the latest industry-specific regulations, standards and labeling requirements as well as legal requirements for doing business in EU markets.

**Private sector:** The private sectors must reorganize themselves more along the lines of North American and European business entities. While it is true that businesses in the region are very small, this does not preclude them from utilising and strengthening industry associations to share latest information on industry standards or invest in areas such as testing. In this era of increased competition, expansion of markets and improving competitiveness is essential for the sustainability of businesses.

The opportunity afforded to exporters to meet the higher standards of the EU facilitates preparation for other world markets. Businesses will therefore have to 1) develop the confidence to look beyond the domestic/regional markets and the security of government protection; 2) identify new products or customize existing products and 3) devise new business strategies, including alliances and partnerships in order to successfully withstand the competitions which accompany such trade agreements.