Supporting St Kitts and Nevis to grow in a changing trade environment

Commonwealth technical assistance and the Guyana–Brazil Partial Scope Agreement

Kwadwo Frempong, programme officer, GiDD

Introduction

In April 2010, the Technical Cooperation and Strategic Response Group (TCSRG) placed a Commonwealth Fund for Technical Cooperation (CFTC) long-term expert in the Ministry of International Trade, Industry, Commerce and Consumer Affairs, Basseterre, for a period of three years. This request was to facilitate the economic diversification of the Federation of St Kitts and Nevis by strengthening the ability of the country to participate more effectively in global trade. Key to this technical assistance was how this project would support the St Kitts and Nevis accession to the Guyana–Brazil Partial Scope Agreement (PSA).

One of the Commonwealth approaches to technical assistance is to use Commonwealth experts to implement its projects due to the similarities in systems and structures in various sectors of the economies across the Commonwealth. This allows the flexibility to adapt to changing circumstances to ensure that project goals are achieved.

Like other small and vulnerable economies (SVEs) St Kitts and Nevis has been severely affected by the global economic crisis since 2008, compounding as it did pre-existing problems. In particular the US market had accounted for over 70 per cent of manufactured exports; declines there have made it crucial to access the growing Brazilian market as an alternative. With a population of just 39,600, St Kitts’s gross national debt, which averaged EC$3 billion in 2011, is one of the highest debt levels (per capita) in the world (that year the IMF declared it as being the second highest). A growing debt ratio, coupled with increasing interest rates that currently amount to 20 per cent of revenue, has adversely affected the country’s growth potential and made it more vulnerable to exogenous shocks.

Building capacity of key stakeholders

The St Kitts Government has tried several mechanisms to reverse these indicators and jumpstart efforts for sustainable recovery and growth, producing some modest results.

One of the challenges has been for the technical staff of the Ministry of International Trade, Industry, Commerce and Consumer Affairs, and other support ministries, to attend and participate in trade policy meetings and consultations – regionally and internationally. The Partial Scope Agreement and the CARICOM–Canada Trade Agreement were two processes targeted by this assistance project.

Input has improved the quality of the interventions and submissions by the ministry in various trade policy activities and has led to the establishment of the National Trade Policy Advisory Committee (NTPAC). A Trade Policy Management Handbook and the Guidelines for Negotiating Trade Agreements were also produced, which have served as two useful tools for improving trade policy development, management and implementation.

The NTPAC has improved the national consultation and preparation process because it includes representation from all major stakeholders. Negotiations for the CARICOM–Canada Trade and Development Agreement are made through the Technical Working Groups (TWG) and Trade Negotiating Group (TNG), organised by the Office of Trade Negotiations (OTN) and OECS Secretariat; negotiations of the Mutual Recognition Agreement in the Economic Partnership Agreement (EPA); and the private sector, in particular the manufacturers, which has been engaged in the process from the onset. The establishment of the qualifying origin (rules of origin) for the products that qualify for preferential treatment on arrival in Brazil is almost completed and the committee addressing this matter includes representation from the Manufacturing Council, the Customs and Excise Department, the Ministry of International Trade, Industry, Commerce and Consumer Affairs, and the Chamber of Commerce.

The outcome of such broad engagement is that compliance levels have improved; reference can be made to the implementation of Harmonised System 2007 and tariff reduction levels under the EPA. Training has been provided to customs officers to ensure the rules of origin are met and staff are prepared for the free circulation of goods under the OECS Economic Union. The implementation of trade agreements has also improved, in particular regarding the responsibilities of the Bureau of Standards (BTS), the Customs and Excise Department, the Ministry of Agriculture (SPS) and the Ministry of Trade.

Accession to Brazil–Guyana Partial Scope Agreement

One of the key deliverables of the project has been the St Kitts and Nevis accession to the Brazil–Guyana Partial Scope Agreement, which was signed on 11 May 2012 between Brazil and St Kitts and Nevis.

The Partial Scope Agreement refers to the exchange of tariff preferences on specified products among signatories to the
The private sector has also expressed its appreciation for the technical assistance received from the Commonwealth and the subsequent signing of the PSA. Addressing the business community in Basseterre, Dr Timothy Harris, senior minister and Minister of International Trade, explained the importance of the agreement in this manner: ‘The Partial Scope Agreement will provide our manufacturing sector, in particular, access to the largest economy in Latin America. This preferential access will increase sales and secure the jobs of many of our workers on our industrial estates.’

Mr John Mezzalingua, president of Kajola Kristada and a member of the Manufacturers’ Association, has said his company is ready to take advantage of the signing of the Partial Scope Agreement between the Federation of St Kitts and Nevis and the Republic of Brazil. At a reception – in honour of his company’s board of directors meeting to review the performance of the company and map out strategies for the future – he said: ‘After five to six years of negotiations with Brazil, we are very excited to be on the doorstep of signing this agreement. It is very significant.’ He added that his company was ready to export its products to Brazil and South America.

Mr Jose Rosa, general manager of Kajola Kristada and a leader of the Manufacturers’ Association, commended the expert, Andrew Satney, and the Commonwealth Secretariat for the technical support provided to the private sector, thereby enhancing its understanding of the PSA and its preparedness for it.

agreement. In this case, St Kitts and Nevis and Brazil will gain mutual access to their respective markets. The Brazil–Guyana Partial Scope Agreement is seen as a major boost to the manufacturing sector specifically and the country’s economy in general. The ratification process as well as other administrative arrangements encountered some delays that are being urgently addressed, but will nevertheless result in the expected increase of exports because local production capacity has already been increased to meet the demands of this new market.

Under the Guyana–Brazil Partial Scope Agreement, St Kitts and Nevis will reap strategic benefits through preferential access to the Brazilian market for its electronics products manufactured by the enclave sector, which is located at the C. A. Paul Southwell in Basseterre and Bourkes Industrial Estates in Sandy Point.

The manufacturing sector currently employs over 1,500 people. This figure is significant in a small economy like St Kitts and Nevis, with a workforce population of 20,000.

The manufacturing sector is comprised of local and foreign manufacturing companies. Exports from the electronics sector in particular attract an MFN (most favoured nation) tariff of 35 per cent in Brazil, which is considered prohibitive; removal of this duty could lead to increased orders for the various manufacturing enterprises operating in the electronics components manufacturing enclave sector. One company currently exports parts for the cable television industry to Brazil via Miami; hence business contacts have already been established. Increased production serves to enhance the trade profile of St Kitts and Nevis and by extension the wider region.

Access to the PSA could rebalance the terms of market access that exporters from St Kitts face when seeking to penetrate the Brazilian market. Specifically, St Kitts and Nevis’s top exports to Brazil face tariffs of 13–18 per cent with some firms alleging that their products are subject to duties of 35 per cent while, on the other hand, Brazil’s top export, frozen cut poultry (necks, backs and wings), is already duty free into the Federation of St Kitts and Nevis.

Brazil consistently enjoyed a merchandise trade surplus consistently between 2001 and 2009 with a significant spike in 2006 of over US$1.4 million representing one-off imports of prefabricated buildings, structures, parts and diesel trucks. In fact, Brazilian firms generated $1.1 million in sales from St Kitts and Nevis in the same year (a merchandise trade surplus of close to $1 million).

The reduction or removal of duties on imports as reflected in the PSA presents an opportunity for the expansion of trade between Brazil and St Kitts and Nevis. Manufacturing enterprises can source raw materials from Brazil, which is closer, thus reducing costs and enhancing ‘just in time’ delivery, as compared to sourcing from the Asia-Pacific. Consumers in St Kitts and Nevis are likely to benefit from greater access to a broader range of products at more competitive prices as an outcome of the agreement. The agreement is also expected to strengthen trade ties between Guyana and St Kitts and Nevis, thereby reinforcing one of the main objectives of the single market.

Conclusion

The amendment and enactment of appropriate legislation continues to be a concern and once again underscores the heavy work demands on Ministry staff in small states. This is an area where CARICOM might also play a role. However, it is clear that St Kitts and Nevis’s accession to the Guyana–Brazil Partial Scope Agreement is an initiative that holds much potential for economic growth in the country.

St Kitts and Nevis is now better able to ensure that its interests are adequately represented in trade agreements. The level of compliance has improved and the private sector (manufacturers and exporters) are more knowledgeable about trade agreements, which is reflected by the active participation in both national and sectoral consultations and their active engagements with the Ministry of International Trade, Industry, Commerce and Consumer Affairs for market and business opportunities.

<table>
<thead>
<tr>
<th>Table 1: Brazil imports to St Kitts and Nevis (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
</tr>
<tr>
<td>Brazil imports</td>
</tr>
</tbody>
</table>

Source: Statistics Department, Ministry of Sustainable Development, St Kitts