

ECONOMIC ANALYSIS OF A PROSPECTIVE FREE TRADE AGREEMENT BETWEEN CANADA AND THE DOMINICAN REPUBLIC

Executive Summary

In response to today's rapidly evolving global trading environment, the Government is committed to an aggressive bilateral trade negotiations agenda, which is supported by Budget 2007 and the Government's economic plan, *Advantage Canada*. Consistent with the Global Commerce Strategy (GCS) and the strategic international commerce framework in support of *Advantage Canada*, Canada is in the process of renewing and strengthening its engagement in Latin America and the Caribbean. As part of this engagement, the Government announced on June 7, 2007, the launch of free trade agreement (FTA) negotiations in the Hemisphere, including with the Dominican Republic.

Government to government exploratory discussions, economic assessment and Canadian domestic consultations reveal that an FTA with the DR would have a number of potential benefits:

- Improve market access for Canadian exporters through the elimination of tariffs, reduction of non-tariff barriers and better management of sanitary and phytosanitary issues;
- Create greater transparency, certainty, predictability and enhanced market access for Canadian service providers in areas such as financial, professional (engineering), environmental, mining, energy and construction services;
- Enhance trade and investment opportunities across a broad spectrum of sectors, including a range of agriculture and agri-food products (e.g. frozen french fries, fruit, pulses, meats), natural resources and information and communication technology;
- Enhance the stability and predictability of the investment climate for Canadian investors;
- Maintain the competitive position of Canadian exporters, which would otherwise be eroded due to FTAs the DR has signed with competitors;
- Facilitate the movement of business persons between Canada and the DR;
- Broaden Canada's network of trade agreements to a market where its interests are similar to those of the U.S. with the objective of building on and promoting a competitive North American platform;
- Support Canada's broader foreign policy objectives in the Hemisphere by strengthening ties with a country that has taken great strides to improve economic stability and to open itself up to integration within the Americas and beyond; and
- Contribute to the shared goal of deepening development and economic integration in the Hemisphere through mutually supportive trade, labour and environmental practices.



1. Background

Canada has an enduring connection with Latin America and the Caribbean, with historical ties initially based in commercial exchanges, and strengthened through people-to-people links and closer political ties. These connections have fostered a sense of community within the region. Our economies, societies, and the health and security of our citizens are inextricably intertwined.

Recognizing the importance of this relationship, Canada is in the process of renewing and strengthening its engagement in Latin America and the Caribbean. In this regard, the Government intends to grow and deepen Canada's presence in and contribution to the region by working with partners to strengthen democratic governance, address security challenges and enhance the prosperity of our citizens by increasing commercial and investment links.

Pursuing free trade with the DR supports Canada's larger foreign policy, trade and development objectives of deepening our engagement in the Americas. Moreover, FTA negotiations provide a platform for dialogue and cooperation on such issues as labour and the environment and establish mechanisms that can facilitate future dialogue on a broad spectrum of issues.

The Government of Canada agreed in 2002 to explore the possibility of a free trade agreement (FTA) with the DR. Exploratory discussions to this end, held in 2002 and 2003 were productive. At that time however, Canada was not prepared to set a date to launch negotiations as priority was given to concluding other regional trade agreements being negotiated.

Guided by the new government's November 2006 *Advantage Canada* economic plan and its commitment to pursue more bilateral free trade agreements, along with the Prime Minister's pledge to re-engage relationships throughout the Americas, the government has reconfirmed its interest in an FTA with the DR. Officials met on January 11, 2007, in Ottawa, to build on earlier exploratory discussions and Canada announced the launch of free trade negotiations with the DR on June 7, 2007.

Trade liberalization context

Canada negotiates trade agreements to provide the market advantage and opportunities that sustain Canada's productivity and growth. More trade agreements will help the economy to be even stronger and more successful within a rapidly changing global economy. Recent difficulties in concluding the Doha round of multilateral trade negotiations have led many countries to pursue bilateral or regional negotiations more aggressively to capture the benefits of freer trade. Canada has lagged behind on this front. Canada has recently concluded its first FTA in six years (with EFTA), but our competitors have been forging ahead more vigorously. The U.S., for example, has concluded FTAs covering no less than 16 countries since 2001. The EU has concluded FTAs with 18 countries and Mexico has concluded FTAs with 43 countries.



The U.S. and other countries' FTAs are hurting Canada's competitiveness in traditional and established markets such as the DR. Industry stakeholders, and export dependent provinces, are concerned and are urging the government to pursue more FTAs. Concerns include the possible erosion of Canada's market share in countries where our competitors have gained market access and the potential for Canada to lose influence in shaping the trading rules of the future. Canadian businesses are increasingly calling upon the Government to pursue bilateral trade agreements to ensure that they can fully participate in global market opportunities.

The Dominican Republic: A commitment to reform and trade liberalization

Canada seeks to strengthen ties with countries that have already taken significant strides to improve economic stability and to open themselves up to integration. The DR has demonstrated its preparedness to engage in comprehensive FTA negotiations through efforts in recent years to modernize and liberalize its regulatory and trade environments and strengthen its economy.

During the last seven years, many areas have been subject to comprehensive reforms that have enhanced the competitiveness of the Dominican economy, and provided the institutional basis for its development. The main comprehensive reforms carried out in the last years include new legal statutes on telecommunications, stock markets, export promotion, environmental protection, tax and customs reform, electronic commerce, monetary and financial reform.

The DR has a record of support for trade and investment liberalization in the Hemisphere and beyond. The DR is a member of the World Trade Organization and concluded an FTA with the U.S. and the four Central American countries of El Salvador, Guatemala, Nicaragua and Honduras (CAFTA-DR) in August 2004. The agreement, which succeeds the United States Caribbean Basin Initiative (which granted the DR unilateral concessions to the U.S. market), was ratified by the DR in September 2005 and entered into force on March 1, 2007. The DR also has FTAs with CARICOM (1998) and Panama (1987).

In addition to negotiated preferences, the DR enjoys unilateral concessions granted by various countries under the Generalized System of Preferences (GSP), and the European Union's Cotonou Convention. The DR, as part of a larger group of Caribbean countries, is currently engaged in negotiations with the European Union on an FTA which will succeed the Cotonou Convention.

2. Market Profile of the Dominican Republic

Population (2005): 9 million

Gross domestic product (2005): US\$29.3 billion

Principal exports (2001-05): Ferronickel, textiles and apparel, medical devices, tobacco products, raw cane sugar,

Main destination of exports (2001-05): U.S., Puerto Rico, Haiti, Netherlands, Belgium



Principal imports (2001-05): Fuels, vehicles, machinery, articles of iron or steel, plastics and articles of plastic

Main source of imports (2001-05): U.S., Japan, Spain, Brazil, Canada

Sources:

Oficina Nacional de Estadística (www.one.gob.do)

Banco Central de la República Dominicana (www.bancentral.gob.do)

2005 data is provisional

3. Canada-Dominican Republic bilateral trade and investment relationship

The DR is an important and established trade and investment partner for Canada. In 2006, two-way merchandise trade between Canada and the DR totalled \$277 million. Canadian merchandise exports to the DR totalled \$163 million and consisted mainly of mineral fuel and oil; stone; plaster and cement; fish and seafood; machinery parts; and leguminous vegetables. Imports from the DR amounted to \$114 million in 2006, and consisted mainly of electrical machinery, apparel, medical devices (including surgical catgut, cannulae and dental floss), and agricultural products such as cocoa, tobacco products and fresh fruit and vegetables. Canadian commercial services exports totalled \$24 million and imports totalled \$46 million in 2004 (the last year for which official data is available)¹. The stock of Canadian direct investment in the DR totalled \$1.8 billion in 2006.

According to Canadian data, between 1995 and 2006, merchandise imports from the DR grew at an average annual rate of 4.4 per cent, while merchandise exports grew at an average annual rate of 6.9 per cent. Please see Annex A for more information on the Canada-DR bilateral economic relationship.

4. Potential impact of Dominican Republic preferential trade arrangements with third parties on Canada

Preferential treatment granted by the DR to other countries will put Canadian companies at a competitive disadvantage unless Canada negotiates comparable preferential treatment through an FTA. A competitive disadvantage can lead to loss of business in established markets and lost opportunities for new business. The U.S. is Canada's main competitor in the DR market and the entry into force of the CAFTA-DR confers preferential market access terms for U.S. exports. In order to maintain and improve their competitive position vis-à-vis their U.S. counterparts, Canadian companies will need similar preferential access to the DR's market.

Canadian agri-food exporters, for example, are at an immediate disadvantage as more than half of U.S. agricultural exports now receive duty-free treatment with the entry into force of the CAFTA-DR.

For some pulse crops the DR has granted immediate duty free access to the U.S. (e.g. lentils and peas), with other pulse crops receiving tariff elimination over 5-15 years.

¹ Note that this figure excludes travel, transportation and government services.



Pulse crops currently comprise 10% of total Canadian exports to the DR and will continue to be subject to tariffs of between 20 and 89% in the absence of the Canada-DR FTA. Canadian exporters of high quality beef and many processed food products will also continue to face high tariffs of up to 40% on some products, while the U.S. will enjoy preferential access for these products. Exports of frozen french fries from Canada face strong competition from the U.S. and are subject to tariffs ranging from 15-41%. Under the CAFTA-DR, U.S. exports of frozen french fries will benefit from tariff elimination over 5 years. Tariffs on other agricultural products of interest to Canada are also being eliminated over a number of years.

Canadian fish exports currently comprise 13% of Canada's total exports to the DR and are subject to tariffs of up to 20%. With the implementation of the CAFTA-DR, some U.S. fish exports now receive immediate duty free access, with all tariffs on fish and fish products being phased out over 5 years.

Canadian exporters of industrial products will also be at a disadvantage vis-à-vis U.S. exports, as the DR will be phasing out all tariffs on industrial products within ten years, with 80% of industrial products receiving immediate duty-free access.

In terms of trade in services, the CAFTA-DR has broader sectoral coverage than what the DR has offered in the Doha Round General Agreement on Trade in Services (GATS) negotiations to date. The CAFTA-DR may lead to a loss of competitiveness for Canadian services providers in the region to the extent that parties receive more liberal access to the DR's services market than Canada, particularly in key sectors of interest such as financial, engineering, environmental, mining/energy and telecommunications services.

5. Market access opportunities

While the DR has achieved significant market liberalization in the past years, access barriers and rigidities remain a problem in some areas. An FTA could address, *inter alia*, high tariff levels on key Canadian export interests and non-tariff barriers, as well as restrictions on cross-border trade in services and investment.

An FTA would also offer the means to create mechanisms that allow for the early identification of issues and timely consultations to address specific issues, so as to minimize the risk of future trade barriers and promote joint cooperation.

Trade in goods

Canada will be seeking the elimination of tariffs on substantially all trade with the DR. The DR has relatively high tariffs in a number of areas of export interest to Canada. The DR has an overall applied most favoured nation MFN tariff rate of 8.64%, an average applied industrial tariff of 7.8%, and an average applied agricultural tariff of 14.9%.

A reduction in DR tariffs could contribute to enhanced market opportunities for Canada in areas including (average applied tariff in brackets): fish and seafood products (15.2%), auto parts (9.4%), electrical machinery (8.2%), construction materials, including cement articles (14%), wood and forestry products (6.7%) prefabricated housing (10%), industrial machinery (3.3%) and some paper and paperboard items (7.9%). Eliminating



tariffs on these and other products would also be beneficial in providing Canadian exporters with more predictability regarding the tariff treatment they can expect in the DR market.

Canadian tariffs are comparatively low, with an overall average MFN rate of 6.7%. Canada's average applied tariff (trade weighted) to the DR on industrial products is 6.4%, and 0.069% on agricultural products. Moreover, 55% of goods imported into Canada from the DR enter duty free, with another 17% being eligible for duty free treatment under the General Preferential Tariff (GPT)² program. Given that the large majority of goods imported from the DR already enter Canada free of duty or are eligible for duty free status, the marginal impact of an FTA with the DR in terms of increased import competition for Canadian industries is expected to be very small.

Please see Annex B for a comparative list of DR and Canadian tariffs for key products.

Free trade agreements provide additional areas of potential benefit to Canadian exporters and consumers, which include, but are not limited to: rules of origin that ensure the benefits of the FTA flow only to goods qualifying as originating in the territory of either or both countries; establishment of effective customs procedures to administer and enforce the FTA's rules of origin; and the reduction of administrative and transaction costs for businesses through trade facilitation measures; lower prices and improved choice for consumers.

Canada also plans to address a number of other trade-related practices with the DR in the course of negotiations. For instance, the DR tariffs clearly reveal a pattern of escalation particularly marked for textile products, wood products, and paper products. Other market concerns include the domestic regulations applied to importers, including user fees and contract-related laws and regulations.

Non-tariff barriers

While difficult to quantify, Canadian industry cites non-tariff barriers, such as technical barriers to trade, as a significant challenge to achieving market access internationally. Indeed, as tariffs decline, non-tariff barriers have tended to become increasingly important challenges to trade. As a result, Canada will seek to ensure that non-tariff barriers are addressed effectively under an FTA with the DR by: promoting non-discrimination; promoting good regulatory practices including transparency, the use of international standards or their relevant parts and the streamlining of conformity assessment procedures; and, seeking the creation of a mechanism to address specific technical barriers to trade. The effective management of non-tariff barriers will help to facilitate market access for Canadian industry and exporters.

Over the past few years, Canadian agricultural exporters have raised concerns about several sanitary and phytosanitary (SPS) restrictions imposed by the DR. The DR

² The GPT program was instituted in the 1970's to help encourage economic growth through trade in developing countries.



currently maintains a BSE-related ban on Canadian beef and cattle. Canadian potato exports have been subject to frequent phytosanitary restrictions. Canadian pork and potato exporters have raised concerns about the DR's discretionary import permit system. Canada will be seeking an effective means to manage SPS issues on a timely basis and to avoid trade problems. We will also be seeking to ensure that import permits are granted on a non-discretionary basis.

6. Cross-border trade in services and investment opportunities

Services

An FTA with the DR would provide a significant advantage to Canadian service providers over other countries which do not have a preferential trade arrangement with the DR and allow Canada to compete on similar terms with countries that already have FTAs.

In the context of the Doha Round GATS market access negotiations, the DR has included a rather broad scope of commitments in their GATS Schedule of Commitments, however, the depth of commitments is very limited. In particular, the DR's approach toward national treatment has been defensive to date in the context of the GATS.

As a result of the CAFTA-DR, the U.S. and Central American countries have much more liberal access to the DR's services market than other WTO Members in almost every service sector, with the exception of transport services and tourism services, which are fairly open in the DR's GATS schedule. This includes market access in sectors of particular interest to Canadian service providers such as professional services, financial services, research & development services, construction services, telecommunications services and mining/energy services. The limited depth of bound commitments in these sectors in the context of the GATS puts Canada at a disadvantage *vis-à-vis* U.S. service providers, in particular. In addition, the DR has excluded environmental services and distribution services from its GATS schedule, which represent areas of market access interest for Canada as well.

Canadian exporters would also benefit from an FTA with the DR in terms of improvements in rules designed to increase transparency of regulations, broader access through temporary entry for business persons including a range of service providers and investors, as well as a framework for the negotiation of mutual recognition agreements and provisions respecting professional licensing, and qualification requirements and procedures.

The DR's reservations (i.e. limitations or exclusions to market access) in the CAFTA-DR reflect some sensitivities in the cross-border trade of professional services, health and social services, energy-related services, audiovisual services, communications services (advertising, news agency, broadcasting), recreational and cultural services, maritime and air transport, educational services, lottery services, and distribution services. The DR also listed reservations on investment relating to services incidental to environmental services (water distribution, waste management and irrigation), mining, electricity, oil exploitation and exploration, and fishing.



Financial Services

While the DR has maintained a relatively open financial services sector, our financial institutions have noted a few areas of concern. These issues relate primarily to transparency and the inconsistent application of laws by different arms of the government. Additionally, the legal system has conflicting rules and laws that would need to be addressed in some form through the proposed FTA.

Canada is seeking a high quality financial services chapter similar to the one adopted in the NAFTA, which would be beneficial for Canadian financial institutions choosing to expand their operations in the DR. They would benefit, among other things, from: increased certainty and predictability; increased market access; increased transparency; national treatment; and most favoured nation provisions.

Investment environment

Canadian investment in the DR is received favourably and is sought after. Canadian investment continues to play an essential role in the Dominican economy and Canadian investments are expected to increase in the mining, tourism, and textile industries. The DR has negotiated a high standard investment chapter in their agreement with the U.S., therefore, Canada can expect to achieve a high standard investment agreement with the DR based on our new model Foreign Investment Protection and Promotion Agreement (FIPA). The new model FIPA reflects significant post-NAFTA modifications that resulted in a clarification of non-discriminatory treatment including a minimum standard of protection, obligations respecting direct and indirect expropriation, transparency in the dispute settlement process and clearer rules and procedures for the resolution of disputes.

Investment rules in an FTA based on Canada's model FIPA would provide Canadian investors greater stability, transparency and protection for their investments.

7. Other opportunities

An FTA would seek to ensure that each party maintains measures to proscribe anti-competitive business conduct and takes appropriate action, so that the benefits of trade and investment liberalization are not undermined. FTA obligations can assist in opening up markets in which procurement by the government is an important or dominant component.

FTAs also contain procedures for the avoidance and settlement of disputes. Although there is no history of trade remedy usage between Canada and the DR, an FTA could reaffirm the WTO Agreement's exclusive governance of trade remedy rights/obligations, including the resolution of any related disputes.

In addition, an FTA provides scope to explore new or improved approaches to trade policy in areas such as telecommunications, electronic commerce, and intellectual property rights which in turn can promote investment and innovation and support market access gains in many sectors of the economy. In keeping with its approach to FTA



negotiations, Canada will pursue appropriate provisions regarding the environment and labour in the context of the FTA negotiations.

8. Canadian domestic consultations

In November 2002, the Government of Canada embarked on a comprehensive consultation process with the Canadian public, provinces and territories, businesses and non-governmental organizations to seek input and to help define the scope of a potential free trade initiative with the DR.

The vast majority of responses across a broad cross-section of the Canadian economy were favourable and included support from sectors such as agriculture and agri-food, fisheries, biotech, some manufacturing, various service providers (including financial services), though concerns were raised by the sugar and textile sectors. Labour and environmental concerns were also raised by certain stakeholders. The reaction from the Provinces and Territories was supportive and generally echoed the interests and concerns of industry.

Canadian business, representing a variety of interests in the region, including agri-food, financial services, mining and construction and engineering services, have recently reiterated their strong interest in an FTA with the DR, as have some Provinces. The Government of Canada continues to consult Canadians on the free trade negotiations with the DR to ensure that stakeholders remain apprised of developments and that their interests and concerns are understood and taken into account during the negotiations process.



ANNEX A – Canada-DR Bilateral Economic Relationship

Trade in goods – Key Canadian Non-Agricultural Exports to the DR (\$CDN)

	2002	2003	2004	2005	2006
Preparations of/non-crude petroleum oils and oils obtained from bituminous minerals	0	33,381	65,910	299,761	22,276,794
Articles of cement, concrete or artificial stone	0	0	0	21,571,726	16,912,262
Fish (incl. fish meal) - dried, salted, smoked or in brine	20,913,802	11,656,990	13,682,574	18,442,858	13,404,805
Copper wire	0	0	1,943,417	5,913,175	10,162,542
Semi-finished products of iron or non-alloy steel	0	0	0	0	7,282,734
Mineral or chemical fertilizers, potassic	4,649,201	1,180,520	3,740,619	6,426,106	5,133,934
Transmission apparatus for TV/radio broadcasting	3,162	3,177	61,508	3,475,992	4,805,346
Other uncoated paper or paperboard in roll or sheets nes	81,781	489,457	1,091,390	4,226,181	4,029,490
Trucks and other vehicles for the transport of goods	307,386	0	633,025	774,844	3,638,541
Total Non-agricultural Exports	102,808,874	61,425,316	79,315,245	121,802,377	144,992,100

Trade in goods – Key Canadian Agricultural Exports to the DR (\$CDN)

Leguminous vegetables - dried and shelled	1,912,562	8,597,334	13,847,444	14,385,212	8,133,034
Wheat	4,497,870	10,318,859	661,863	1,632	1,777,958
Frozen French fries	414,213	594,361	1,499,257	935,502	1,150,903
Fresh potatoes	513,241	710,550	943,065	1,843,571	643,247
Pork	57,410	13,829	28,451	182,332	243,442
Total Agricultural Exports	26,074,833	23,886,636	21,983,942	23,491,373	18,014,311
Total exports to the DR	128,883,707	85,311,952	101,299,187	145,293,750	163,006,411

Source: Statistics Canada



Trade in goods – Key Canadian Non-Agricultural Imports from the DR (\$CDN)

	2002	2003	2004	2005	2006
Apparatus for switching or protecting electrical circuits - voltage not exceeding 1000 volts	23,156,790	27,407,653	28,258,078	29,329,284	24,480,752
Instruments and appliances used in medical, surgical or veterinary sciences	10,325,069	11,004,183	13,961,989	13,797,883	13,442,701
Electrical apparatus for telephonic line use (incl. telephones and modems)	947,547	103,639	2,228,564	4,893,528	9,571,326
Mens/boys suits, ensembles, jackets, blazers, pants and shorts, woven	13,207,671	7,761,251	6,934,162	7,639,499	7,096,119
Electrical transformers, static converters and inductors	2,536,093	6,902,552	7,994,253	6,081,335	5,686,278
Foundation garments	4,327,219	3,786,126	4,926,797	5,410,770	4,405,169
Sweaters, sweatshirts and waist-coats - knitted	320,327	303,246	1,255,818	2,973,847	2,606,818
Other chemical preparations for pharmaceutical use	758,190	3,429,099	3,039,218	2,360,680	2,228,789
Total Non-Agricultural Imports	90,167,330	90,574,693	98,705,600	99,879,956	98,002,737

Trade in goods – Key Canadian Agricultural Imports from the DR (\$CDN)

Edible vegetables	3,976,142	3,774,364	4,038,188	4,072,483	4,536,335
Fruits and nuts	6,682,935	5,406,214	4,744,694	3,141,612	3,704,141
Cocoa beans, whole or broken, raw or roasted	14,620,870	10,563,199	14,482,138	5,090,950	3,249,225
Raw sugar	0	0	891	0	41
Refined sugar	0	0	0	0	0
Total Agricultural Imports	28,037,399	23,931,962	29,476,991	20,122,447	16,069,134
Total imports from the DR	118,204,729	114,506,655	128,182,591	120,002,403	114,071,871

Source: Statistics Canada



Bilateral trade in commercial services³ – (CAD thousands)

	2000	2001	2002	2003	2004
Exports to the DR	5000	12000	5000	10000	24000
Imports from the DR	18000	25000	29000	25000	46000
Total	23000	37000	34000	35000	70000

Source: Statistics Canada

Bilateral investment stock - (CAD millions)

		2001	2002	2003	2004	2005	2006
Canadian direct investment in DR	not available	134	80	not available	1331	1847	
DR foreign direct investment in Canada	not available	not available	not available	not available	not available	not available	

Source: Statistics Canada

ANNEX B Illustrative List of DR Tariffs

³ Excludes transportation, travel, and government services



	DR's Average Applied MFN Tariff	Canada's Average Applied MFN Tariff
Industrial Goods	7.8%	3.9%
Agricultural Products	14.9%	20% ⁴
Fish Products	15.2%	1.4%

DR – Key Exports to Canada	Canada's Average Applied MFN Tariff	CAFTA-DR Treatment Provided by U.S. to DR
Electrical Machinery	2.8	Free immediate
Medical Devices	1.3	Free immediate
Apparel	16.4	Free immediate
Textiles	6.4	Free immediate

Canada – Key Exports to the DR	DR's Applied MFN Tariff	CAFTA-DR Treatment Provided by U.S. to DR
Beef	20 to 40	Free over 15 years or TRQ (phased out over 15 years)
Pork	25 to 40	Free over 12 to 15 years or TRQ (phased out over 15 years)
French fries	20	Free over 5 years
Pulses	20-89	Free immediate to free over 10 years or TRQ (phased out over 15 years)
Articles of cement (H.S. 6810)	14	Free over 10 years
Newsprint (H.S. 4801)	0	Free
Other uncoated paper or paperboard (H.S. 4805)	3.3	Free immediate to free over 5 years
Mineral or chemical fertilizers (H.S. 3104)	0	Free
Copper wire (H.S. 7405)	5.0	Free immediate to free over 10 years
Fish, salted, smoked, cured and in brine (H.S. 0305)	13.6	Free immediate to free over 5 years
Shrimp	20.0	Free over 10 years (back-loaded tariff phase-out)

⁴ Canada's average agricultural tariff is 5% when tariffs on over-quota supply managed products are not included.