References

Lynch, D., 1996, "Measuring Financial Sector Development: A Study of Selected Asia-Pacific Countries," *The Developing Economies*, XXXIV-1, March 1996.

Van Beek, F., J. Rosales, M. Zermeno, R. Randall, and J. Shepherd, 2000, *The Eastern Caribbean Currency Union: Institutions, Performance, and Policy Issues*, IMF Occasional Paper 195, International Monetary Fund, Washington DC.

VII. Regional Integration and Trade Regimes[1]

A. Introduction

1. **The countries of the Eastern Caribbean Currency Union (ECCU), like many other Caribbean countries, rely heavily on international trade.** Traditionally, the production of agricultural goods (sugar and bananas) for foreign markets was the most important economic activity in the region, but in recent years the tourism sector has taken the lead. The countries of the ECCU also import a large share of their consumption needs (including food, manufactured goods, and energy).

2. **Integration initiatives and trade policy are a fundamental part of their development strategy.** The purpose of this chapter is twofold. First, it presents an overview of the recent progress achieved in regional integration. Second, it analyzes an important element of trade policy—protection via tariff and nontariff barriers—and compares the policies of the ECCU with those of other countries in the region.

3. **The rest of the chapter is organized as follows.** Section B deals with regional integration, analyzing the two regional integration initiatives in which the ECCU is currently involved. Section C discusses the trade regimes and trade policy of the ECCU, in particular, the use of tariff and nontariff barriers, and the impact that current tariffs exemptions have on the countries' fiscal accounts. At the end of the chapter, two appendices present accounts of developments in world banana and sugar markets, which are commodities of considerable significance to several ECCU countries.

B. Regional Integration in the ECCU

4. **The members of the ECCU are at the confluence of two distinct forces towards regional integration**. The first involves the smaller group of Caribbean Leeward and Windward Islands (the ECCU countries) which have formed the Organization of Eastern Caribbean States (OECS)[2], while the second covers the wider Caribbean region, the Caribbean Community (CARICOM). A description of the features and previous

---

[1] Prepared by Esther Suss, Patrick Njoroge, Paul Cashin, and Pedro Rodriguez.

[2] The members of the ECCU are also engaged in external trade negotiations at the multilateral level (Doha Agenda), inter-regional level (Economic Partnership Agreement with the European Union), and Hemispheric level (Free Trade Area of the Americas). This broader agenda of integration is being approached by the countries of the ECCU and CARICOM through a coordination strategy. The OECS members coordinate their joint negotiating position through the OECS Secretariat. In turn, the OECS Secretariat, through the Caribbean Regional Negotiating Machinery (RNM), coordinates these views with those of other CARICOM members, thereby yielding a common position which is presented at trade negotiations by the RNM on behalf of all CARICOM members.

achievements of these regional integration initiatives can be found in IMF (2003).[3] Consequently, this section focuses on the recent achievements and agenda of both the OECS and CARICOM.

The Organization of Eastern Caribbean States

5. **The OECS was established by the "*Treaty of Basseterre*", which was signed in June 1981 by seven of the region's governments:** Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Since then the British Virgin Islands and Anguilla have both been admitted to the OECS as associate members.[4]

6. **The overarching objective of the OECS is the creation of an economic union of OECS member states**. Pursuing the creation of an economic union was first agreed by the OECS Authority in July 2001.

7. **At the January–February 2002 meeting of the OECS Authority**, **the Heads of Government agreed on, among others, the following measures for member states**:

- Legislative arrangements to facilitate the free movement of OECS nationals should come into effect not later than March 12, 2002.

- The Immigration Acts be amended to allow OECS nationals to travel freely within the sub-region and remain in another territory for a period of six months.

- In Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines, the Alien Landholding Licenses would not apply to OECS nationals, but while the licenses remain in the other member states, measures would be contemplated to exempt OECS nationals from payment of the license fees.

- In addition to regular passports and travel permits, photo identification cards, including driver's licenses and national identification cards, will be accepted at ports of entry.

---

[3] IMF (2003), "Regional Integration and Trade Policy", in *Eastern Caribbean Currency Union: Selected Issues*, IMF Country Report 03/88, International Monetary Fund, Washington, DC.

[4] Thus, the OECS comprises the eight member countries and territories of the ECCU and the British Virgin Islands (BVI). The BVI and Anguilla were admitted in 1984 and 1995 respectively. Unlike a "full member", the rights and obligations of an "associate member" do not extend to all aspects of the Treaty, and these are specified when the member is admitted.

- A common passport for OECS nationals should be introduced by January 2003. Persons granted economic citizenship would not be issued an OECS passport.

8. **In October 2002, the OECS Authority reiterated its commitment to the creation of the OECS Economic Union** and agreed to appoint a committee that would review the "*Treaty of Basseterre*" and recommend how this could be aligned with the requirements of an economic union. The OECS Authority also established target dates for the free movement of goods and services (end-2003), free movement of labor (end-2007), and endorsed the Eastern Caribbean Central Bank's (ECCB's) program to develop the region's money and capital markets. The report on the implications for the "*Treaty of Basseterre*" of the proposed economic union of the sub-region was reviewed in January 2004, and an agreement was reached to draft a new Treaty, rather than amend the "*Treaty of Basseterre*".

9. **While progress has been made in implementing some measures, the countries of the OECS have not been able to meet the implementation schedule that was agreed upon in January 2002.** Most progress has been made in the area of facilitation of travel and freedom of movement in the sub-region. For instance, the travel facilitation initiative was legislated in 2002, allowing OECS nationals to travel freely within the area and remain in another territory for up to six months. On the matter of removal of work permit requirements, the governments of Antigua and Barbuda, Montserrat, and St. Vincent and the Grenadines have agreed, on the basis of reciprocity, to remove work permit requirements for: (i) self-employed professionals and their immediate family; and (ii) self-employed service providers, their technical and managerial staff, and immediate family. The governments of Grenada and St. Kitts and Nevis, while agreeing in principle, expressed the need to consult further with their respective cabinets. The remaining governments undertook to study the proposals and communicate their positions to the OECS Secretariat as early as possible. Regarding common citizenship, a draft of the Common Citizenship Act is already under review by member states and it is expected to be discussed at the May 2004 meeting of the OECS Authority, while negotiations are ongoing with companies that have expressed interest in producing OECS passports.

10. **Other areas of integration in which OECS countries have made progress are joint representation at world fora and provision of civil aviation services**. In the area of joint representation, the OECS is planning to set up a Technical Mission in Geneva in the first half of 2004 in order to facilitate a more effective representation of OECS interests in the World Trade Organization (WTO). Regarding civil aviation services, in January 2004 the governments gave their commitment to pass the new Civil Aviation Act in their national parliaments during the first quarter of 2004. The Act provides for the transformation of the current Directorate of Civil Aviation (DCA) to an autonomous Civil Aviation Authority. The approval of the new civil aviation regulations will allow OECS member states to effectively meet their international civil aviation obligations and, specifically, to be in compliance with those of the United States Federal Aviation Administration (FAA), which will expedite the process of the OECS returning to Category One status.

The Caribbean Community

11. **The CARICOM was established by the "*Treaty of Chaguaramas*" which was signed in Trinidad in July 1973** by Barbados, Jamaica, Guyana, and Trinidad and Tobago; these countries were joined shortly thereafter by eight other territories, principally from the Eastern Caribbean.[5]

12. **In the 1989 "Grand Anse Declaration", the Conference of Heads of Government (the highest decision-making body of CARICOM) decided to create a Caribbean Single Market and Economy (CSME).** This would integrate the CARICOM economies into a unified market with free movement of goods and services, capital and labor, and create a single economy that operates under the same coordinated and harmonized economic policies. The intention was that this would allow the region to exploit economies of scale from a large internal market and strengthen its international bargaining position in an effort to deal with globalization, but without establishing a political union. To implement the CSME, the "*Treaty of Chaguaramas*" was suitably modified by negotiating nine Protocols.[6]

13. **Two factors hindered the adoption of CSME.** *First*, the process has been characterized by slow progress in bringing national laws into line with the tenets of the Protocols. The risk that the CSME process may eventually lead to a process of political unification has been a source of concern for many countries. *Second*, a lack of awareness and, therefore, ownership by the public in the member countries.

14. **In an effort to accelerate the adoption of the CSME, a revised treaty was signed in February 2002** which incorporated all the previous Protocols, and whose ratification would bring into force the agreed components of the CSME. As of February 2004 seven members (Antigua and Barbuda, Grenada, Guyana, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago) have ratified the revised treaty, while five (Barbados, Belize, Dominica, Jamaica, and St. Kitts and Nevis) are yet to ratify it. The Bahamas and Montserrat have not yet signed the revised treaty.

15. **Free movement of labor and the establishment of the Caribbean Court of Justice (CCJ) are two areas in which CARICOM has made some progress.** Regarding the free movement of labor, most national countries have passed the necessary legislation to facilitate the movement of some work categories (university graduates, artists, media

[5] The current 15 members of CARICOM are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Haiti is the newest member, as from July 2002. Anguilla, the British Virgin Islands (BVI), Cayman Islands, and Turks and Caicos are associate members.

[6] See IMF (2003), op. cit., for an overview of the initial work program of the "Grand Anse Declaration" and of the content of the Protocols.

workers, musicians, and sports persons). With respect to the CCJ, an important step forward was made in July of 2003 with the signature of four legal instruments related to the establishment and operation of the court. The inauguration date of the CCJ is scheduled for the third quarter of 2004.

16. **In spite of the progress that has been made, important challenges remain for the successful completion of the CCJ and labor mobility initiatives**. In the case of free movement of labor, there is the concern among the relatively richer countries that migration from poorer countries will be large. Regarding the CCJ, it is uncertain whether it will actually be the final court of appeal, since some countries may retain access to the Privy Council and others are planning to maintain their own appeal system.

C. Trade Regimes and Practices in the ECCU

Trade Regimes

17. **Trade liberalization is one of the key objectives of CARICOM to meet the goal of forming a single market in the region.** In 1973, a common external tariff (CET) was adopted that applied uniform tariffs to imports from outside the region. Starting in 1993, the countries agreed to a schedule of phased reductions in the CET; the objective was to lower the maximum CET from 45 percent to 20 percent on most types of goods by 1998. However, ECCU countries were allowed to adjust at a slower pace. Despite that, several of these countries have found it difficult to implement the final reduction, due to concerns about domestic production and a lack of alternative policies to replace lost revenues from lowered tariffs. As of end-2002, with the exception of Antigua and Barbuda and St. Kitts and Nevis, all the ECCU countries had implemented the fourth phase of the CET; that is, the maximum tariffs on most non-agricultural goods from non-CARICOM countries is 20 percent.

18. **A comparison of the restrictiveness of trade regimes is presented in Table VII. 1, with the ranks ranging from 1 (least restrictive) to 10 (most restrictive)**. The severity of both tariff and non-tariff barriers was assessed using the IMF's qualitative indexes of trade restrictiveness. For each country, the tariff regime is ranked from 1 to 5, one being the least restrictive. Additionally, nontariff barriers (NTB) are ranked from 1 to 3, where one is the least restrictive. The overall index of trade restrictiveness is obtained by combining the rankings for tariff and nontariff barriers. The ranking of tariffs in Table VII.1 are based on simple average of tariff rates.

19. **According to the overall index of restrictiveness, the trade regimes of the six ECCU members are moderately restrictive, ranging between 5 and 6.** In contrast to the ECCU countries, most of the other Caribbean countries have less restrictive trade regimes (the Dominican Republic, Jamaica, and Trinidad and Tobago). Notable exceptions are the Bahamas and Barbados, which have regimes similar to the ECCU countries. All Caribbean countries considered in the sample have trade regimes in the moderate range, with the Bahamas being the most restrictive and Jamaica and Trinidad and Tobago at the other extreme. When effective average tariff rates (which take into account customs and other

charges) are considered, the restrictiveness of the ECCU countries are highest (with the exception of Bahamas).

20. **For a number of ECCU countries, state monopolies import key products and nontariff barriers (such as quantitative restrictions) exist on some imports.** In contrast, non-ECCU countries generally have licensing systems. Further liberalization of trade regimes in ECCU countries has been partly constrained by a lack of trained personnel and high administration costs.

21. **Other charges on traded goods also confirm that that ECCU countries are typically more restrictive than other Caribbean countries.** As Table VII.1 indicates, ECCU countries impose a flat rate customs charge on imports (ranging from 4 percent to 10 percent) while two countries (St. Kitts and Nevis and St. Lucia) impose a consumption tax on imports. This is more restrictive than non-ECCU countries, where stamp taxes or surcharges on a small number of imports are generally imposed. The higher customs duties in ECCU countries reflects, in part, these countries' dependence on revenues from trade, and their lack of administrative capacity to implement other revenue measures to substitute for any lowered tariff revenues. In other non-ECCU Caribbean countries, a value-added tax and/or an income tax serve as alternate sources of revenue.

Fiscal Implications of the Trade Regime

22. **A comparison of average and imputed tariff rates reveals that the imputed rates are consistently lower than the average rates, but this difference has narrowed over time (Figure VII.1).**[7] Imputed tariffs are calculated as the ratio of collected import duties to total imports of merchandise goods. As Table VII.2 indicates, imputed tariff rates are lower than average tariff rates by a factor of 2, reflecting in part discretionary exemptions and low collection rates. While average tariff rates declined between 1995 and 2002 for all countries, the imputed rates increased during this period for three of the six ECCU countries (Antigua and Barbuda, Dominica and St. Vincent and the Grenadines), possibly indicating better collection rates and/or a decline in tariff exemptions. As of 2002, the differential between actual and imputed tariffs was smallest for St. Lucia (at 3.2 percent), and largest for Grenada (at 5.5 percent).

23. **Average tariff rates in all ECCU countries fell sharply in 1998, and (with the exception of Dominica) increased marginally thereafter**. The decline in ECCU tariff rates in 1998 is most likely a reflection of the implementation of the second phase of the CET. In Antigua and Barbuda actual tariff rates spiked in 2000, before returning to their pre-2000 level.

[7] This estimation method has its difficulties, in that it does not give due regard to the timing of imports and the uneven distribution of imports across the tariff lines. The composition of imports may also have changed over time.

24. **To estimate the fiscal impact of the difference between actual and imputed tariffs, the rates were weighted by the value of imports and expressed as a share of GDP.** These results, for ECCU countries, are given in the last panel of Table VII.2. On average, the annual amount of budget revenue forgone over the period 1995-2002 ranges from a high of 3.8 percent of GDP (Grenada) to a low of 1.5 percent of GDP (St. Kitts and Nevis and St. Lucia). As of 2002, forgone revenue to the budget was at least 2 percent of GDP in each of Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines.

25. **Other estimates of the fiscal revenue foregone due to exemptions granted on all taxes (customs duties and consumption taxes) point to larger losses than those suggested in Table VII.2.** Bain (1995) estimates the revenue foregone at the beginning of the 1990s to be: 4.1 percent of GDP in Dominica (1992–93), 13.5 percent of GDP in Grenada (1991), 5.5 percent of GDP in St. Lucia (1992), and 7.1 percent of GDP in St. Vincent and the Grenadines (1991).[8] More recently, an IMF technical assistance mission estimated that in 2001 the revenue foregone was around 5 percent of GDP in Dominica and around 6 percent of GDP in St. Vincent and the Grenadines. Preliminary estimates by the government of Grenada suggest that for 2003 the revenue foregone in that country was around 8.5 percent of GDP.

26. **The above results are important in the context of the current economic and fiscal environment faced by ECCU countries.** Many of these countries are having difficulties in raising sufficient revenues to balance their budgets, and have continuing problems associated with their high levels of external debt. Some part of these net revenue shortfalls could be addressed by reducing, if not eliminating, exemptions on import duties.

Composition of Exports from ECCU Countries

27. **Although agriculture remains an important sector of ECCU economies, there has been a gradual shift away from agriculture in ECCU countries, particularly from 1990 onwards** (Figure VII.2). In large part, the decline in agricultural exports is due to the high cost of production in ECCU countries compared with their competitors in South and Central America, and to the reduction in preferential access to markets in the European Union (see Appendix I). The decline of agriculture has been particularly marked in St. Lucia, with a sizeable reduction also occurring in Dominica—in both cases this decline has been driven by the steady shrinkage of banana export receipts (see Appendix II). Major exceptions have been Grenada and St. Vincent and the Grenadines. In Grenada, the almost total disappearance of banana exports has been offset by a dramatic increase in exports of nutmeg; in St. Vincent and the Grenadines, there has also been some success in diversifying agricultural exports into non-banana crops, particularly arrowroot.

[8] Bain, Laurel (1995), "Tax Concessions and their Impact on the Revenue Base of the ECCB Territories," unpublished manuscript, Eastern Caribbean Central Bank, Basseterre.

28. **The countries experiencing sharp declines in agricultural exports are largely dependent on banana exports and the preferential access to the European Union (EU) market.** The move to significantly alter these countries' access to the EU market has had a severe impact on their economies. In 1997, the EU found that employment in the banana industry was over 50 percent of the labor force in St. Vincent and the Grenadines, and about 30 percent of the labor force in Dominica and St. Lucia. The same study found that as the market for bananas (and thus domestic incomes) shrank, more and more small-scale farmers were withdrawing from farming and either moving to the cities or emigrating. Larger and wealthier farmers were taking over these small plots, which should lower costs of production. Indeed, it is estimated that the number of active banana growers in the Windward Islands (Dominica, St. Lucia, St. Vincent and the Grenadines and Grenada) has declined from 24,000 in 1993 to about 7,000 in 2001.[9]

29. **While the share of merchandise exports in economic activity has not been rising during the 1990s for most ECCU countries, the contribution of tourism receipts remains important.** As ECCU countries run large balance of trade deficits on merchandise goods, net receipts from tourism operate to partially offset trade imbalances in the current account (Figure VII.2). Nonetheless, the economic importance of tourism varies across ECCU countries, with tourism receipts (as a share of GDP) ranging from about 40 percent (Antigua and Barbuda and St. Lucia) to about 20 percent (all other ECCU countries).

Trade Integration and the ECCU

30. **The increased integration obtained through the Caribbean common market and the CET has not resulted in significantly more trade among ECCU countries (Table VII.3).** For most ECCU countries, intra-ECCU trade (export and import) flows (as a share of GDP) in the period 1998-2002 have not increased vis-à-vis the 1995–97 average—indeed, in four of the six ECCU countries (Dominica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines) they have declined (Figure VII.3). This largely reflects the ECCU countries' declining overall trade-to-GDP ratio, which has accompanied the shrinkage of their traditional agricultural exports. In general, trade with other Caribbean countries has increased from 1995–97 to 1998–2002, but in large part this is attributable to imports of petroleum and petroleum products from Trinidad and Tobago. However, when measured as a share of total (export and import) trade flows, average intra-ECCU trade has increased slightly across the two sub-periods, with intra-ECCU exports rising from about 12 to 15 percent of total ECCU exports between 1995 and 2002 (Figure VII.4). As to specific countries, the Windward Islands of Dominica, Grenada and (in particular) St. Vincent and the Grenadines stand out as depending to a much greater extent than other ECCU countries on

[9] See IMF (2002), "The Restructuring of the Banana Industry in St. Lucia and the Windward Islands," in *St. Lucia—Selected Issues and Statistical Appendix*, IMF Country Report 02/14, International Monetary Fund, Washington DC.

intra-ECCU trade, with St. Vincent and the Grenadines having about one-third of its total trade with other ECCU countries.

Caribbean Preferential Trade Arrangements: Bananas and Sugar

The Windward Islands (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) have a preferential trade arrangement in bananas with the European Union (EU), while St. Kitts and Nevis, together with other major Caribbean countries, have a preferential arrangement with the EU in sugar.

The EU Banana Regime

Prior to the establishment of a Single European Market (EU) in 1993, several national arrangements regarding imports of bananas existed. France and the United Kingdom imported duty-free from their ex-colonies and overseas departments in the Caribbean, Africa and the Pacific ("ACP" bananas); Spain and Greece produced sufficient quantities for own consumption in the Canary Islands and Crete; Portugal and Italy imported a minor share of total bananas from Madeira, the Azores and Somalia while the largest share came from Latin America ("dollar" bananas) at a tariff of 20 percent; all banana imports of Denmark and the Benelux countries had a 20 percent tariff; and Germany imported dollar bananas duty free. The unified EU banana regime operated from 1993–98 with the following features:

- The annual ACP banana quota allowed the twelve traditional producers to export, duty-free, up to a maximum of 857,500 tons; volumes were allocated to each country via licenses.

- The annual quota for dollar bananas was initially set at 2 million tons with a tariff of ECU 100 per ton; in 1994 following negotiations with Costa Rica, Colombia, Nicaragua, and Venezuela, this quota was raised to 2.1 million tons (further to 2.2 million tons later) and the tariff reduced to ECU 75 per ton. These four countries were allocated almost half of total import licenses.

- EU banana producers were entitled to subsidies or compensation payments when the price fell below a certain threshold. This, together with the quantity restrictions, contributed to the price of bananas in the EU being about 80 percent higher than the world price.

- In 1995, an increase of 353,000 tons was added to the dollar quota, equivalent to the consumption of three new members—Austria, Finland and Sweden.

From its beginning, the EU banana regime was controversial and several legal challenges were presented to the GATT. In 1995, four Latin American banana exporters (Honduras, Guatemala, Ecuador, and Mexico) and the United States lodged a complaint with the World Trade Organization (WTO), arguing that they were restricted in their access to the EU market. In 1997, the WTO Dispute Settlement Panel (DSP) found that the EU could keep its preferential agreements with the ACP countries, but needed to reform some aspects such as the licensing system. The EU appealed this decision and lost in 1998, which meant that the reforms needed to be implemented as of January 1, 1999.

The key elements of the reformed system were: (i) an overall tariff-quota of 2.2 million tons annually at the duty of ECU 75 per ton for third country bananas and duty free for non-traditional ACP producers; (ii) the allocation of nearly 90 percent of the dollar banana quota to the main suppliers (Ecuador, Costa Rica, Colombia and Panama); (iii) elimination of export certificates and a simplified import license system; (iv) elimination of national allocations—each ACP country could export as much as desired up to the combined limit of 857,700 tons; and (v) a revision of the calculated EU production costs and an increase in the threshold for triggering compensation payments.

However, Ecuador filed another complaint with the WTO, and in April 1999 the WTO found that the while the reformed regime discriminated against U.S. marketing companies and Latin American producers, the EU could still grant preferential status to ACP countries under the Lomé Convention, for which a WTO waiver had been granted.

In order to settle the remaining controversy over the banana regime, in April 2001 the EU approved reforms to the system to come into force as of July 1, 2001. These reforms included: (i) the elimination of national allocations of the dollar quota; (ii) the transfer of 17 percent of the dollar quota to nontraditional operators (those not trading during the reference period); (iii) the transfer, as of January 1, 2002, of 100,000 tons from the ACP to the dollar quota; and (iv) the replacement of this regime by a tariff-only regime (no quotas or licenses) for dollar bananas as of January 1, 2006.

The introduction of a tariff-only regime in 2006 will remove the restrictions on the volumes of bananas imported into the EU, but allows the tariff preference for ACP bananas to remain until 2008. The fundamental issue outstanding is what level will be set for the EU tariff on dollar bananas? If the tariff is set too low, it is likely that the Windward Island countries would be squeezed out of the market as total imports rise and prices paid to importers fall. In addition, ten new countries will accede to the EU in 2004, and as a consequence the EU banana market will rise from 4 million to 4.5 million tons. Within the context of the Common Agricultural Policy (CAP), there is concern that the entry of these countries may make the EU banana arrangement unsustainable. It is through the CAP that payments are made to producers when prices fall, and the new EU member countries have no historic ties with ACP countries.

The EU Sugar Regime

Many sugar-producing countries in the Caribbean are experiencing difficulties arising from reduced preferential access to EU markets, as well as the prospect of deregulation of the EU sugar market by 2007. Since 1975, under the terms of the Lomé Convention, the ACP countries have been able to provide certain quantities of raw sugar to the EU at guaranteed prices. The Sugar Protocol (SP) currently provides for EU imports of 1.29 million tons of ACP-produced sugar. If there were to be a shortfall in the supply of sugar to EU refiners, the Special Preferential Sugar (SPS) Agreement allows for extra allocations of sugar from the ACP countries to be imported duty-free, or at a reduced tariff. In the period

September 2001–August 2002, the EU imported just over 1.5 million tons of sugar under these terms.

The price that EU currently pays ACP sugar producers is about twice the international price of sugar. Other sugar producers, such as Australia and Brazil, have filed a complaint with the WTO concerning this arrangement in February 2003. At issue is not the preferential treatment given to ACP countries, but rather the subsidies given to these countries. The EU imports raw sugar from the ACP countries at above-market prices, then refines the sugar and re-exports it at below-market price, which according to the other sugar producers results in unfair competition. The current arguments are reminiscent of the banana dispute.

Notwithstanding the decline in the Caribbean sugar industry over the last century, the industry remains an important source of foreign exchange and employment in six Caribbean countries (St. Kitts and Nevis, Barbados, Belize, Guyana, Jamaica, and Trinidad and Tobago). Under the SP, these countries export annually about one-third of the ACP total. In 2002, sugar production costs for the largest Caribbean producer, Guyana, were about US$0.20 per pound; for the second largest producer, Jamaica, about $0.32 per pound, while the international cost was about $0.11 per pound. At this time, the EU paid Caribbean producers $0.20 per pound.

This preferential scheme is being dismantled and by 2007, Caribbean sugar industries will have to compete in the international market. These countries experienced a free-market arrangement in 2001 when the EU started its program of Everything But Arms (EBA) as a start to removing its tariffs for LDCs. While sugar was classified as a sensitive good—with tariffs being reduced gradually—in 2001–02 the EU reallocated some 75,000 tons of sugar away from the ACP producers to some of the other LDCs. For the largest Caribbean producers (Belize, Guyana, Jamaica, Trinidad and Tobago), their SPS allocations were reduced by up to half. Some of these countries have started preparing for the consequences of total deregulation, but the down-sizing of the industry will result in large losses in employment, which has already resulted in labor actions in some countries.

The Evolution of Banana and Sugar Prices[1]

Sugar is an internationally-traded commodity with a "world" price reflecting current demand and supply conditions. Nevertheless, the proceeds that specific producers receive from the sale of sugar can be vastly different because of the existence of domestic subsidies for production. This is particularly the case for sugar producers selling their product in the United States and European Union. Appendix Figure VII.1 shows the historical price of sugar since January 1990, together with an estimate of the long-run trend (see smooth line).[2] The figure clearly reveals the large subsidies available to producers of sugar sold in the United States and European Union markets. It also suggests a downward trend in the world price of sugar that is particularly acute since July 2001. The average real price of sugar was nearly 11.5 cents per pound during the 1990–1999 period, but has since fallen to less than 9 cents per pound. This downward trend in prices is expected to continue in 2003/04 and 2004/05, but at a slower pace, until world demand—estimated to be 138 million tonnes in the 2003/04 season relative to a demand of 135 million tonnes—catches up with supply by 2005/06. However, steady growth in the supply of sugar, particularly from Brazil, China and Thailand, will continue to place considerable downward pressure on world prices in the near term. Appendix Table VII.1 shows the IMF's baseline forecasts for nominal and real (shown in parentheses) sugar prices for 2004–08.

Appendix Table VII.1. IMF Sugar Price Baselines (Annual Averages)

Date	Forecasted Price (U.S. cents per pound)		
	World	USA	European Union
2004	6.9 (7.3)	22 (23.4)	26.9 (28.6)
2005	6.8 (7.1)	22.3 (23.4)	26.9 (28.3)
2006	7.2 (7.5)	22.6 (23.6)	26.9 (28.1)
2007	7.6 (7.8)	22.8 (23.5)	26.9 (27.8)
2008	8 (8.2)	22.9 (23.4)	26.9 (27.5)
Average	**7.3 (7.6)**	**22.51 (23.5)**	**26.9 (28.1)**

Bananas are an internationally-traded commodity with supply dominated by low-cost producers in Latin America and the Philippines. Banana prices are quite volatile, reflecting seasonal imbalances between production and demand. Appendix Figure VII.2 shows the historical price of bananas since January 1990 and an estimate of the long-run

[1] Prepared by the Commodities Unit of the IMF's Research Department.

[2] Sugar prices are expressed in U.S. cents per pound. Nominal prices were deflated by the Fund's manufacturer's unit export value index (1995=100).

trend in prices (smoothed line).[3] There has been a long-term decline in the real price of bananas that has become quite pronounced since July 2002. The average long-run real price of bananas was US$524 per metric tonne during the decade 1990–1999, but has fallen to average only US$464 per metric tonne since July 2002, well below the average cost of production for many producers. Significant increases in output (and exports) by Brazil and the Philippines appear to be the main factors behind the decline.[4] Banana prices are expected to recover slightly in 2004, and move up thereafter, reflecting the impact of steady growth in demand and a possible constraint on supply due to the threat of the Black Sigatoka disease (see Appendix Table VII.2).

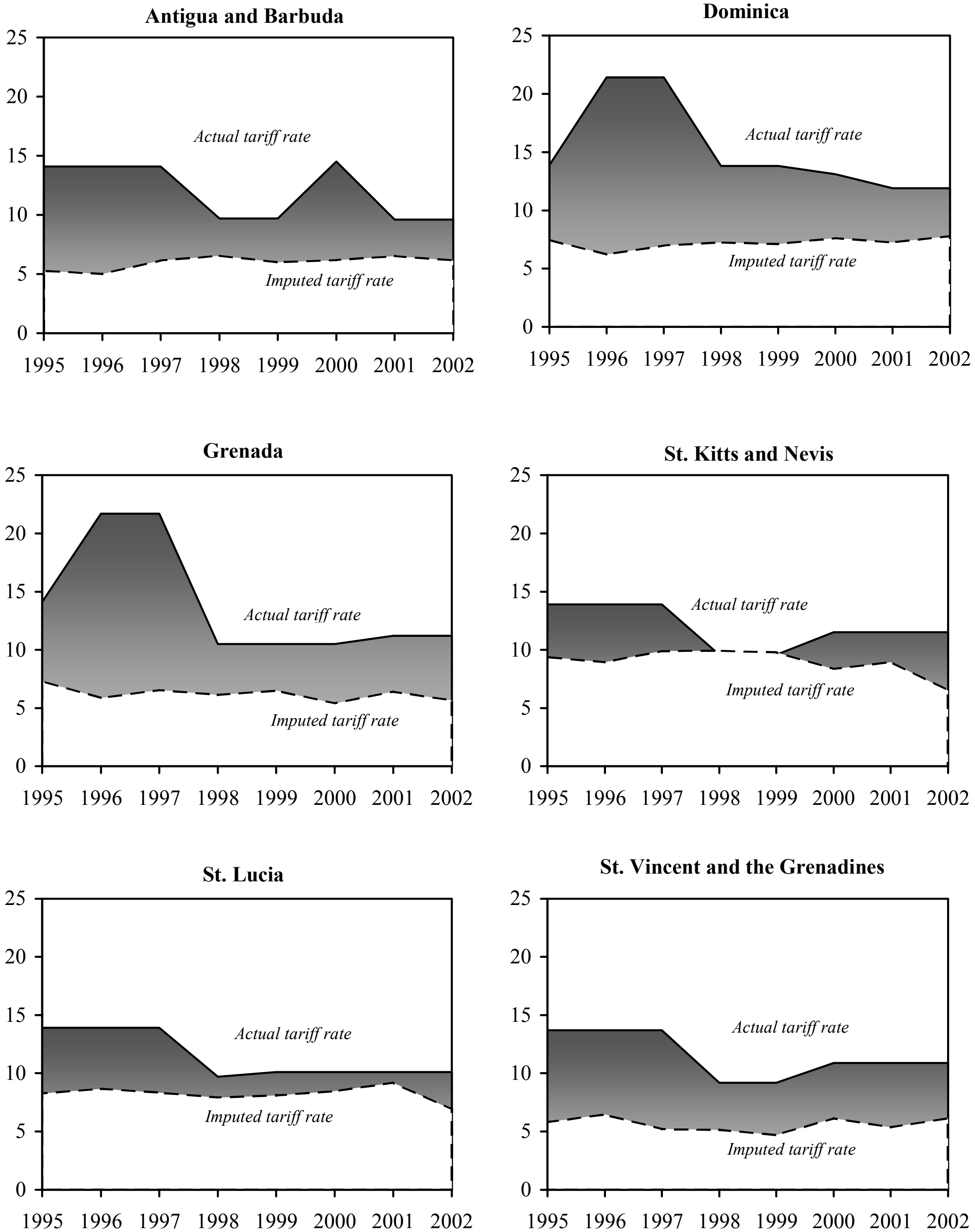
Appendix Table VII.2. IMF Banana Price Baselines (Annual Average)

Date	Forecasted Price (U.S. dollars per metric tonne)
2004	400 (426)
2005	440 (464)
2006	460 (480)
2007	480 (496)
2008	500 (511)
Average	**456 (476)**

[3] Banana prices are expressed in U.S. dollars per metric tonne. Nominal prices were deflated by the Fund's manufacturer's unit export value index (1995=100).

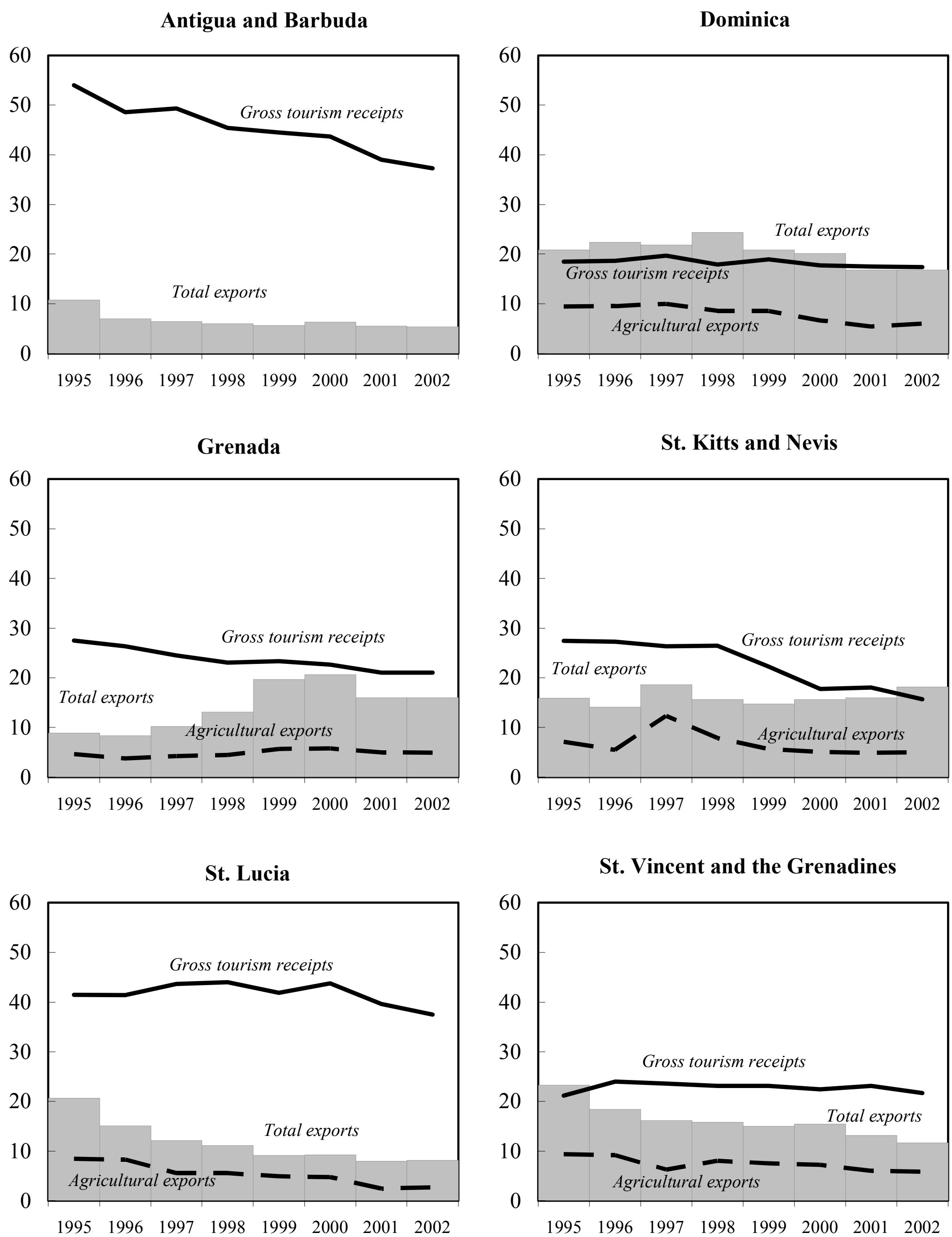
[4] Brazil exported 126,000 tonnes in the first half of 2003, which is more than its exports for the whole of 2001.

Figure VII.1. ECCU: Actual Tariff Rate and Imputed Tariff Rate, 1995–2002
(In percent)



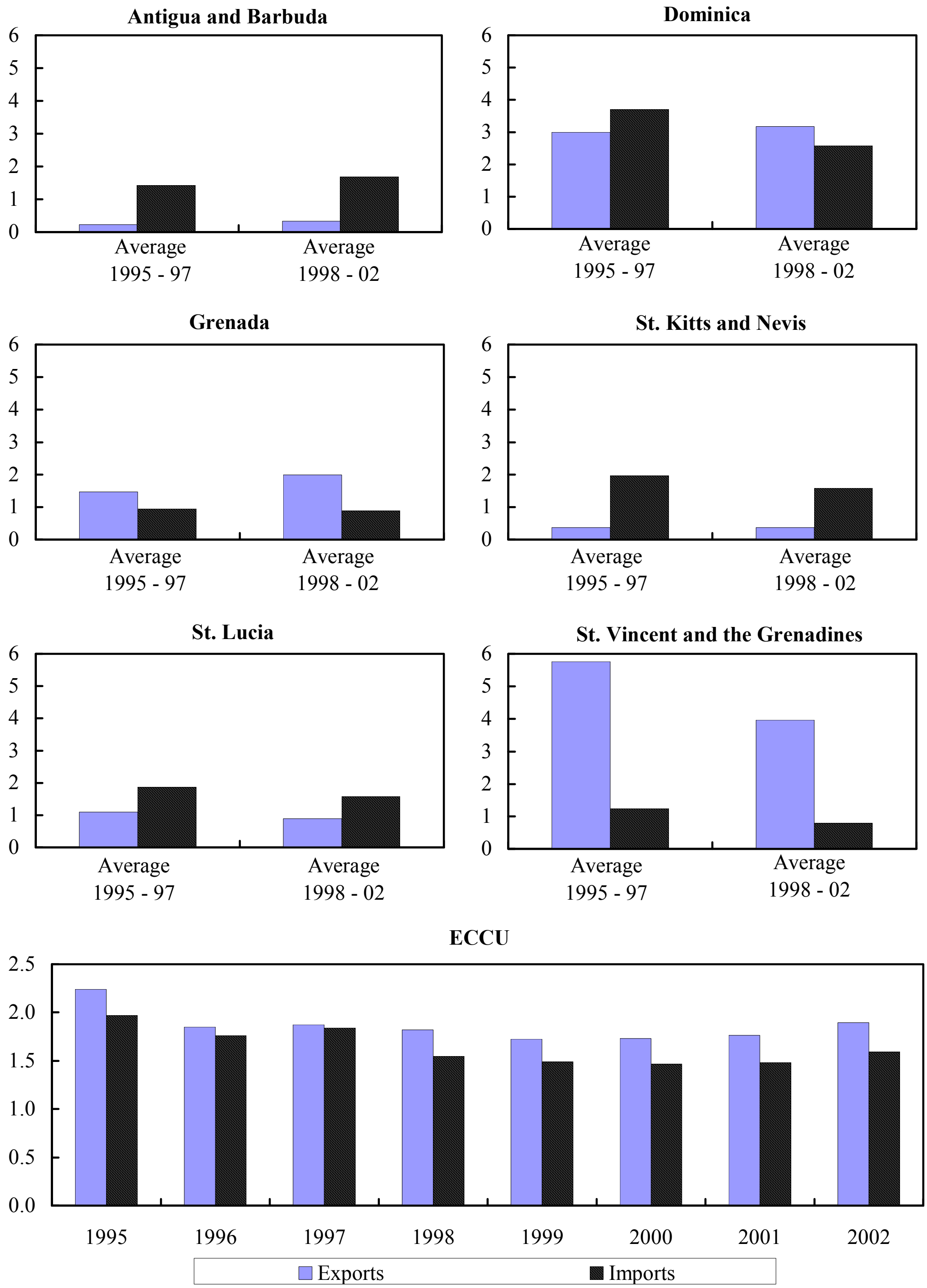
Sources: ECCU country authorities; IMF Trade Restrictiveness Database; and Fund staff estimates.

Figure VII.2. ECCU: Exports of Goods and Tourism Receipts, 1995–2002
(In percent of GDP)



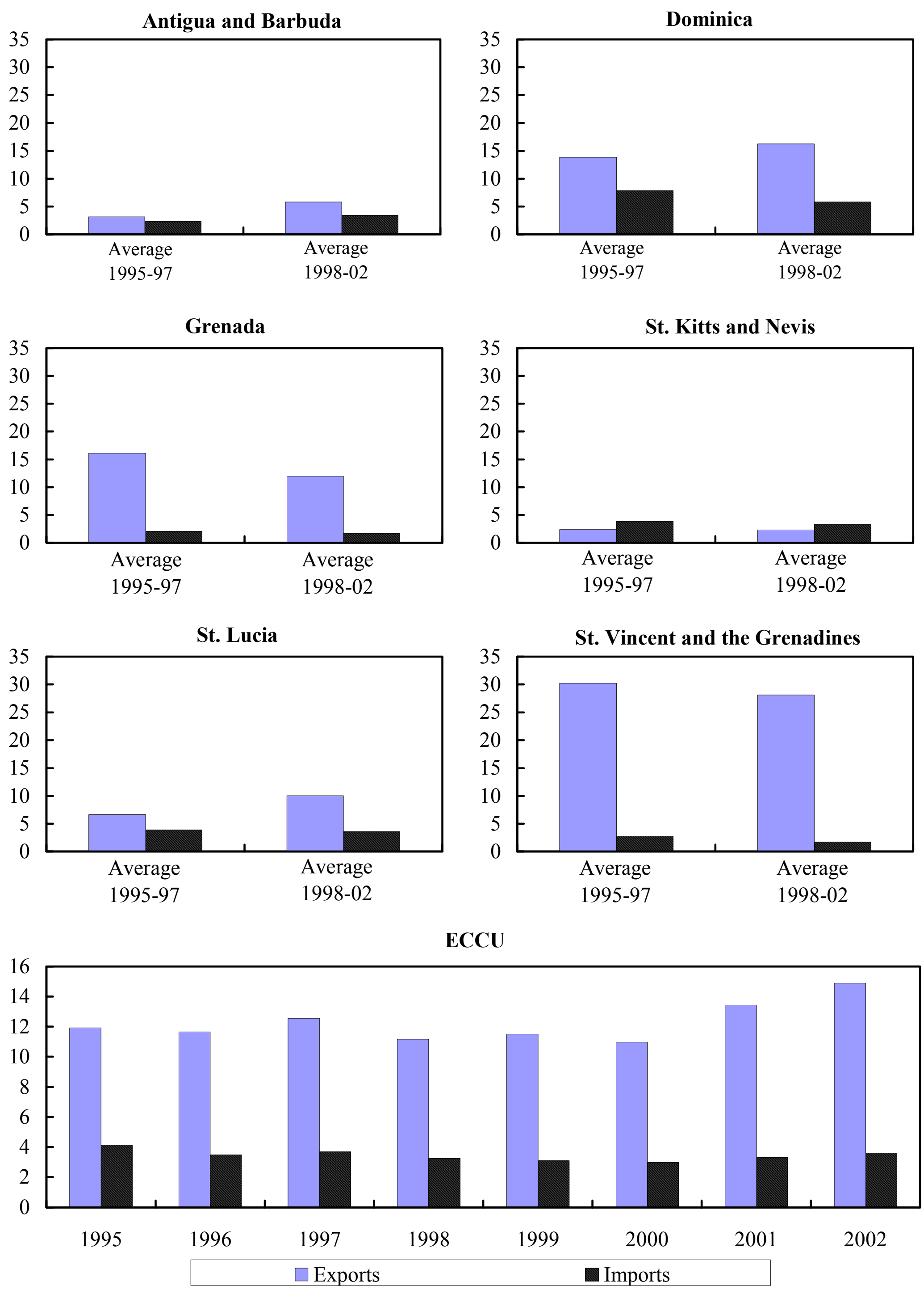
Sources: IMF Direction of Trade Statistics; IMF Balance of Payments Statistics; Fund staff estimates.

Figure VII.3. Intra-ECCU Trade Flows as a Share of GDP
(In percent)



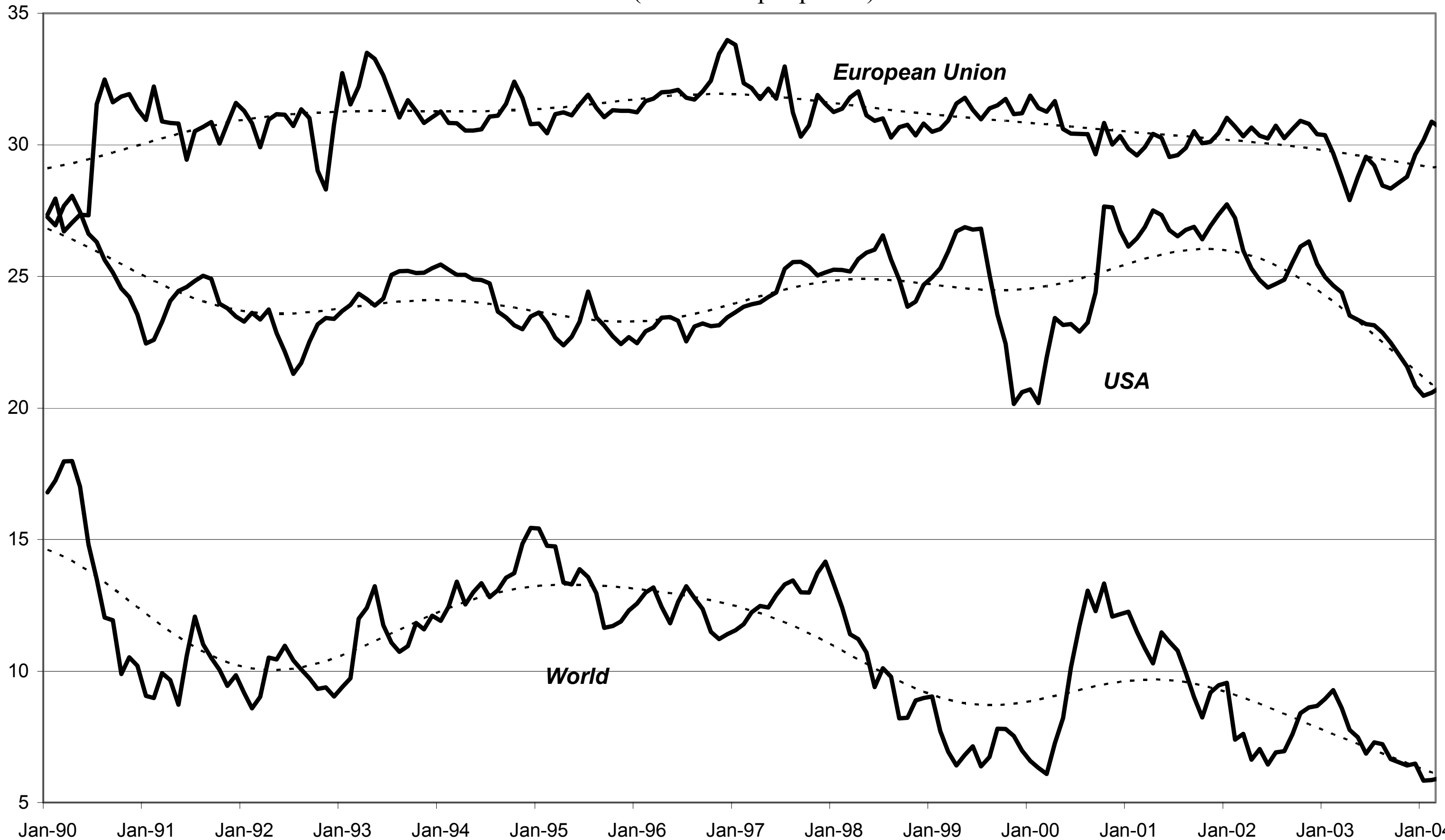
Sources: ECCU country authorities; and Fund staff estimates.

Figure VII.4. Intra-ECCU Trade Flows as a Share of Total Trade Flows
(In percent)



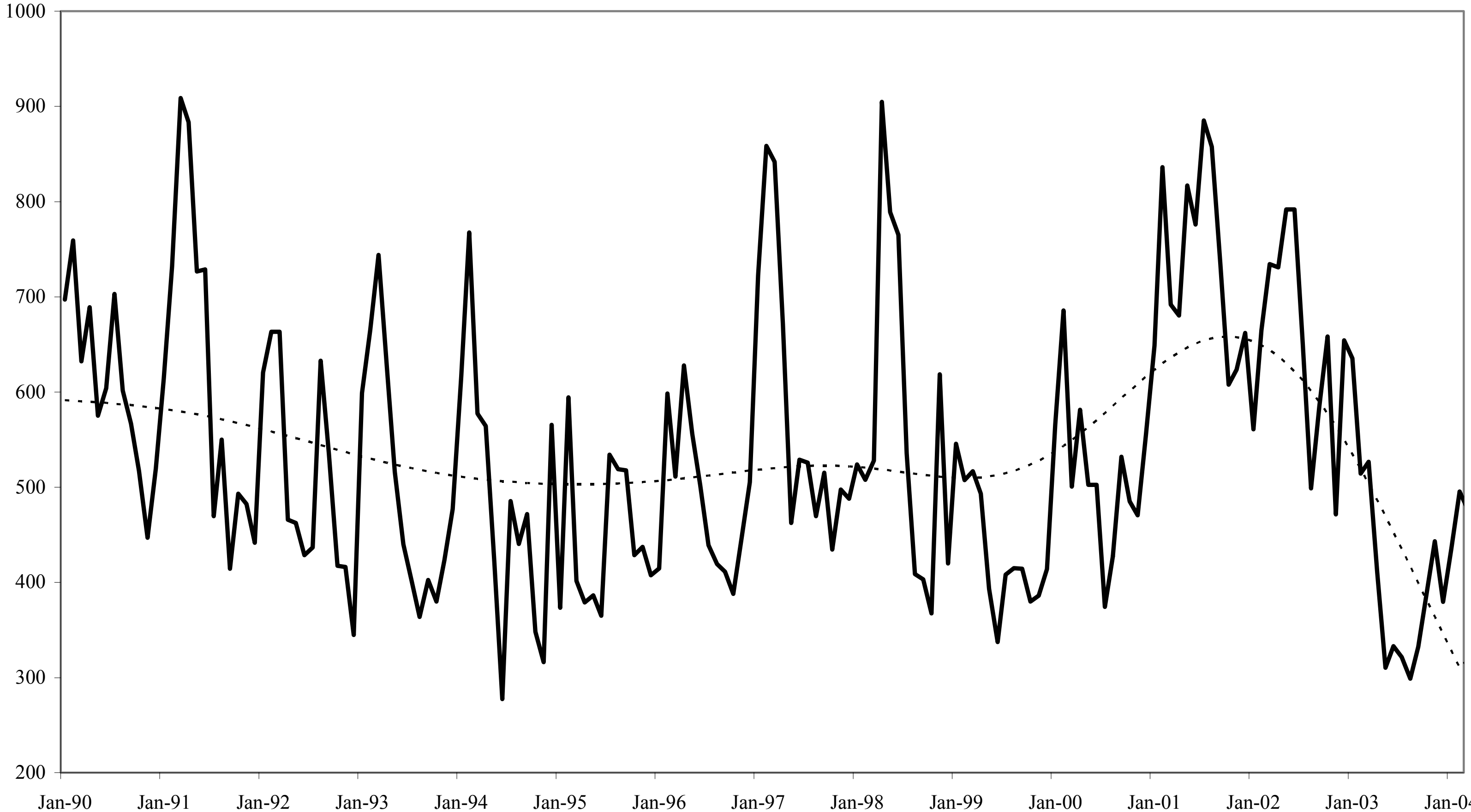
Sources: ECCU country authorities; and Fund staff estimates.

Appendix Figure VII.1. Real Sugar Prices, January 1990–February 2004
(U.S. cents per pound)



Source: International Monetary Fund, Commodity Price System.
Notes: Sugar (USA) is the U.S. import price, CSCE nearest futures, c.i.f. New York; sugar (EU) is the European Union negotiated import price for raw unpackaged sugar from ACP countries, c.i.f. European ports; sugar (world) is the free market price, CSCE nearest futures, c.i.f. New York. Dashed lines are measures of the long-run trend (smoothed versions) of the respective real price series. All nominal price series were deflated using the Fund's manufacturers' unit export value index.

Appendix Figure VII.2. Real Banana Price, January 1990–February 2004
(U.S. dollars per metric tonne)



Source: International Monetary Fund, Commodity Price System.

Notes: Banana (Central American and Ecuador) is the U.S. importer's price, f.o.b. U.S. ports, U.S. dollars per metric tonne (Chiquita, Dole and Del Monte). The dashed line measures the long-run trend (smoothed version) of the real price series. The nominal price series was deflated by the Fund's manufacturers' export unit value index.

Table VII.1. Description of the Trade Regimes in the ECCU and Major Competitor Countries

Country (Latest Year)	Restrictiveness Rating: Overall 1/	Restrictiveness Rating: NTB 2/	Restrictiveness Rating: Tariff 3/	Tariffs 4/: Max.	Tariffs 4/: Min.	Tariffs 4/: Simple Average	Tariffs 4/: Effective Average 5/	CET Status	Nontariff Barriers	Other Charges
Antigua & Barbuda (2003)	6	2	3	70	0	9.6	19.6	3rd phase	State monopoly in 5 key products; licensing requirements	10% customs fee (2002)
Dominica (2001)	5	2	2	165	5	11.9	14.9	4th phase	State monopoly on imports of rice, sugar;price controls on cement and fuel.	3% customs fee (2003)
Grenada (2001)	6	2	3	40	0	11.2	16.2	4th phase	State trading in milk,sugar, rice; some imports of agricultural products restricted.	5% customs fee (2001)
St. Kitts and Nevis (2003)	6	2	3	70	0	11.5	17.5	3rd phase	QRs for 4 products; licensing for eggs and other ag. products; state trading in sugar.	6% custom service fee (2003); 22.5% consumption tax on imports (2003)
St. Lucia (2002)	5	2	2	95	2.2	10.1	14.1	4th phase	Licensing for large number of agricultural and construction materials.	4% customs fee (2003); 0-35% consumption tax of imports (2003)
St. Vincent and the Grenadines (2001)	5	2	2	40	0	10.9	14.9	4th phase	Licensing for a large number of goods; QRs on number of goods including magarine, beef,chairs.	4% customs fee (2002)
Barbados (2001)	6	2	3	243	0	12.4	12.4	4th phase	Import licenses for some food products; government monopoly for poultry imports.	1% enrironmental levy on some products (2001)
Bahamas (2002)	5	1	5	260	0	30.7	34.0	na	None.	0–20% stamp tax on various imports (2002)
Dominican Republic (2003)	5	2	2	40	0	8.6	10.6	na	Moderate import licensing; some state trading.	2% import surcharge (2003);5-75% consumption tax on non-essential imports (2002)
Jamaica (2003)	5	2	1	75	0	8.9	8.9	4th phase	Licensing for certain imports; state trading in cocoa and coconuts.	18–85% stamp duties on some goods (2002)
Mexico (2001)	6	2	3	260	0	16.5	17.3	na	Restrictive licensing covering 6.7% of imports; ban on used cars.	0.8% customs processing fee (2002)
Trinidad & Tobago (2002)	4	2	1	70	0	7.9	7.9	4th phase	Negative list QRs for 6 products; state trading in some products.	5–100% import surcharges on agricultural products (2002)

Source: International Monetary Fund's Trade Restrictiveness Database.

1/ On a scale of 1(low) to 10 (high).
2/ Nontariff barriers (customs and other charges); measured on a scale of 1 (low) to 3 (high).
3/ On a scale of 1 (low) to 5 (high).
4/ The simple average is the unweighted average of the actual tariff rates.
5/ The effective rate is the sum of the average tariff, customs and other charges.

Table VII.2. ECCU: Actual and Imputed Tariff Rates, 1995–2002

	1995	1996	1997	1998	1999	2000	2001	2002
(In percent)								
Imputed Tariff Rate 1/								
Antigua and Barbuda	5.3	5.0	6.2	6.6	6.0	6.2	6.5	6.2
Dominica	7.5	6.2	7.0	7.3	7.1	7.6	7.3	7.8
Grenada	7.3	5.9	6.6	6.1	6.5	5.4	6.4	5.7
St. Kitts and Nevis	9.4	8.9	9.9	9.9	9.8	8.3	9.0	6.5
St. Lucia	8.3	8.7	8.3	7.9	8.1	8.5	9.2	6.9
St. Vincent and the Grenadines	5.8	6.5	5.2	5.1	4.7	6.1	5.4	6.1
Actual Tariff Rate 2/								
Antigua and Barbuda	14.1	14.1	14.1	9.7	9.7	14.5	9.6	9.6
Dominica	13.9	21.4	21.4	13.8	13.8	13.1	11.9	11.9
Grenada	14.1	21.7	21.7	10.5	10.5	10.5	11.2	11.2
St. Kitts and Nevis	13.9	13.9	13.9	9.6	9.6	11.5	11.5	11.5
St. Lucia	13.9	13.9	13.9	9.7	10.1	10.1	10.1	10.1
St. Vincent and the Grenadines	13.7	13.7	13.7	9.2	9.2	10.9	10.9	10.9
Actual Less Imputed Rates								
Antigua and Barbuda	8.8	9.1	7.9	3.1	3.7	8.3	3.1	3.4
Dominica	6.4	15.2	14.4	6.5	6.7	5.5	4.6	4.1
Grenada	6.8	15.8	15.1	4.4	4.0	5.1	4.8	5.5
St. Kitts and Nevis	4.5	5.0	4.0	-0.3	-0.2	3.2	2.5	5.0
St. Lucia	5.6	5.2	5.6	1.8	2.0	1.6	0.9	3.2
St. Vincent and the Grenadines	7.9	7.2	8.5	4.1	4.5	4.8	5.5	4.8
(In percent of GDP)								
Revenues Forgone 3/								
Antigua and Barbuda	5.9	5.7	4.5	1.6	2.0	4.3	1.4	1.6
Dominica	2.9	7.5	7.0	2.9	3.1	2.6	2.0	1.6
Grenada	2.8	7.8	7.3	2.3	2.0	2.8	2.4	2.9
St. Kitts and Nevis	2.3	2.7	1.9	-0.1	-0.1	1.7	1.2	2.5
St. Lucia	2.7	2.4	2.8	0.8	0.9	0.8	0.4	1.3
St. Vincent and the Grenadines	3.6	3.3	4.4	2.2	2.4	2.1	2.5	2.0

Sources: IMF's Trade Restrictiveness Database; IMF Direction of Trade Statistics; and Fund staff estimates.

1/ Imputed tariff rate, calculated as the ratio of import duties collected to imports of merchandise goods.
2/ Simple (unweighted) average.
3/ Calculated as the differential between actual and imputed tariff rates, multiplied by the value of imports.