European Union

Organisation of Eastern Caribbean States

Capacity Building in support of Preparation of Economic Partnership Agreement

Programme 8 ACP TPS 110 – Project 091 OECS

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CREATING A NATURAL ADVANTAGE

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CREATING A NATURAL ADVANTAGE

1 Establishing the Baseline

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1 Throughout much of their history, the countries comprising the Organization of Eastern Caribbean States (OECS) have been the beneficiaries of unilateral trade preferences. The Lomé Convention and its successor, the Cotonou Agreement, assured preferential access to markets in the European Union (EU), with the various incarnations of the Caribbean Basin Initiative (now the Caribbean Basin Trade Partnership Agreement, CBTPA) providing preferential access to the US market. However as the global trade policy environment has evolved, the future of unilateral preferences is very much in doubt. Under the Cotonou Agreement, all ACP countries must move away from preferential trading arrangements with the EU towards more reciprocal trading arrangements that are consistent with the WTO principles. Simultaneously, the OECS, as part of CARICOM, is participating in negotiations to create a Free Trade Area of the Americas (FTAA), and in global trade negotiations as part of the Doha Round.

2 The specter of negotiating an Economic Partnership Agreement with the EU and an FTAA with hemispheric trading partners that requires a simultaneous erosion of trade preferences for key exports and a reduction in the Common External Tariff (CET) presents significant challenges to the OECS countries. This is especially true as regards the agricultural sector. Unilateral trade preferences provided by the EU for sugar and bananas have long been viewed as critical to the survival of these industries. Additionally protection of certain domestic agricultural activities is considered critical to achieving some degree of agricultural diversification and retaining an acceptable level of food security.

3 While these trade negotiations offer significant challenges, and will inevitably result in a break with the historical trade arrangements between the OECS and it major trading partners, they also offer considerable opportunities for a new beginning for the OECS countries to attain many longstanding economic development and structural transformation goals. Capturing these opportunities will require critical examination of much current "conventional wisdom" as well as enlightened and novel negotiating strategies.

A Macroeconomic Overview

4 The OECS is a sub-regional grouping which includes Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines[1]. There are a wide range of regional and national studies on the economies of the OECS. Many of these studies have noted that the OECS, due to a number of

1/ The OECS was established in 1981. Its objectives are to promote within and among its members, cooperation, unity and solidarity, territorial integrity, awareness of international obligations, harmonization of foreign policy and economic integration. The OECS established a single monetary area, a common currency (the Eastern Caribbean Dollar) and a common Central Bank (the Eastern Caribbean Central Bank).

international developments and domestic policy deficiencies, have found themselves mired in a prolonged state of uncertainty. A major and pivotal factor has been the continuing significant changes to the trading landscape within which OECS countries have, historically, operated. OECS countries have benefited from 'special and differential treatment' under a number of Agreements, for example, the European Union (EU) Lomé/Cotonou Agreement, Canada's CARIBCAN, the USA's Caribbean Basin Initiative. These preferential arrangements are now being reconsidered and revised.

5 The World Bank in its study titled "Towards a New Agenda for Growth" advocates that the OECS should *reposition itself by adopting innovative approaches to growth and competitiveness.* With such action, the report notes that the OECS Region can successfully position itself to compete in an increasingly globalized economy. Without action however, it risks eroding many of the social gains attained over the last three (3) decades. The issue confronting OECS policy makers is how to respond appropriately to this process of global economic liberalization.

6 One of the more recent global trade events is the negotiation for an EU/ACP Economic Partnership Agreement (EPA), a free trade agreement between the European Union and the Africa, Cariforum and Pacific Region[2/]. The EU/ACP EPA is said to present a number of opportunities to participating countries. Some of the more readily cited opportunities include enhanced market access, funding and investment opportunities and development of the agricultural, industrial and services sectors.

7 As members of CARIFORUM, the OECS naturally stand to share in the opportunities offered by the EPA arrangement. Notwithstanding the readily cited advantages, the EPA will present enormous challenges for the ACP countries. For the OECS region in particular, the EPA will lead to a marked decline in special one-way preferences to small developing economies. Bananas and sugar, which remain the OECS's two main agricultural exports, stand to lose even more ground in EU markets as a result of the conclusion of an EPA, which will exacerbate the already unstable situation in banana producers countries of Dominica, Grenada, St. Vincent and the Grenadines and St. Lucia.

8 In reviewing the macroeconomic profile of the OECS, this section of the paper, considers the key productive sectors of the OECS and highlights the key policy issues that will need to be addressed by the OECS as the sub-region prepares for an EU Economic Partnership Agreement.

OECS Economic Structure

9 The general structure of the OECS in terms of the contribution to value-added by major industry groups for 1980, 1990 and 2000 is depicted in Table 1.1. While there are some differences across countries, the general trends in the economic structure are similar.

10 ***The Service Sector*** is predominant in all countries. In addition to the traditional services (distribution, transport, government), the OECS has been

[2/] The Caribbean Forum of ACP States (CARIFORUM) represents the regional configuration of the 14 CARICOM countries and the Dominican Republic.

promoting tourism, data processing and financial services. Services were the only sector that consistently increased its contribution to value-added over the 1980 to 2000 period. However, the data show that there has been a general decline in these rates since the 1980s. The tourism sector has been a major contributor to production, government revenue, employment and foreign exchange in the OECS. Indeed, the tourism sector has been a main growth area in the OECS (Table 1.2). The contribution of services to value added in 2000 ranged from 54.4 percent in St. Kitts and Nevis to 73.1 percent in Antigua and Barbuda. Estimates of the impact of the tourism sector in St Lucia in 1998 indicate that both the direct and indirect effects on output, employment, government revenue and imports have been significant [see IMF, 2003, pp 8-9].

11 ***Industrial Production*** was second leading contributor to value-added in the OECS, with contributions to GDP ranging from 18.8 percent in Dominica to 30.1 percent in St. Kitts and Nevis in 2000. The importance of the remaining two sectors, manufacturing and agriculture varied across countries in their contribution to value-added. In Grenada and St. Kitts and Nevis, the contribution of the manufacturing sector to value-added exceeded that of agricultural while the converse was true in the remaining countries. The contribution of agriculture to value-added declined over the 1980 to 2000 period in all countries and in 2000 exceeded 10 percent in only two countries, Dominica and St. Vincent and the Grenadines.

12 ***Agricultural Production*** has historically been concentrated in a few areas: bananas in the Windward Islands and until recently, sugar in the Leeward Islands. A combination of natural disasters (especially hurricanes) and uneconomic production have resulted in a scaling down of banana production and the closure of sugar production operations. Indeed, there has been a significant decline in the growth rate of agricultural production in the 1990s and 2000s (Table 1.2). The removal of trade preferences for bananas in the EU market and the competition from Latin American producers have forced OECS governments to hasten the pace of production diversification.

13 ***The Manufacturing Sector*** has always been small in the OECS. It is characterised by traditional products such as soap, apparel and garments, food, beverages and milling products primarily for domestic consumption. Because of the small domestic markets for manufacturing goods, locally produced goods are subject to high operating costs with low levels of technology used in most enterprises. Economies of scale cannot be realised with such a domestic market focus.

Table 2.1 Share of Value-Added by Major Producing Sector for the OECS in Selected Years

		1980		1990		2000	
Country	Industry groups	Value	Share	Value	Share	Value	Share
Antigua and Barbuda	1 Agriculture, hunting, forestry	$41,670,000	7.9	$37,330,000	4.0	$43,300,000	3.4
	2-4 Industry	84,780,000	16.1	179,620,000	19.4	270,100,000	21.1
	3 Manufacturing	19,330,000	3.7	30,210,000	3.3	30,900,000	2.4
	6-9 Services	380,370,000	72.3	676,630,000	73.2	936,300,000	73.1
	Total	526,150,000		923,790,000		1,280,600,000	
Dominica	1 Agriculture, hunting, forestry	64,120,000	25.2	92,490,000	23.3	81,980,000	16.8
	2-4 Industry	41,850,000	16.4	68,850,000	17.4	91,990,000	18.8
	3 Manufacturing	13,580,000	5.3	26,430,000	6.7	31,630,000	6.5

	6-9 Services	134,880,000	53.0	208,500,000	52.6	282,800,000	57.9
	Total	254,430,000		396,270,000		488,400,000	
Grenada	1 Agriculture, hunting, forestry	66,160,000	21.6	64,010,000	12.6	56,830,000	7.5
	2-4 Industry	44,440,000	14.5	86,040,000	16.9	164,970,000	21.9
	3 Manufacturing	11,030,000	3.6	31,330,000	6.2	60,730,000	8.0
	6-9 Services	184,770,000	60.3	327,740,000	64.4	472,160,000	62.6
	Total	306,400,000		509,120,000		754,690,000	
Saint Kitts and Nevis	1 Agriculture, hunting, forestry	31,810,000	13.0	23,260,000	5.7	25,000,000	4.0
	2-4 Industry	64,260,000	26.3	104,304,000	25.7	188,200,000	30.1
	3 Manufacturing	41,250,000	16.9	46,240,000	11.4	71,800,000	11.5
	6-9 Services	107,380,000	43.9	232,741,000	57.2	339,400,000	54.4
	Total	244,700,000		406,545,000		624,400,000	
Saint Lucia	1 Agriculture, hunting, forestry	69,140,000	13.8	130,600,000	13.4	86,040,000	7.0
	2-4 Industry	81,720,000	16.4	162,940,000	16.8	235,320,000	19.1
	3 Manufacturing	32,530,000	6.5	73,000,000	7.5	69,870,000	5.7
	6-9 Services	316,080,000	63.3	605,400,000	62.3	840,020,000	68.2
	Total	499,470,000		971,940,000		1,231,250,000	
Saint Vincent and the Grenadines	1 Agriculture, hunting, forestry	40,990,000	14.6	95,980,000	19.5	74,000,000	11.4
	2-4 Industry	62,790,000	22.3	103,570,000	21.1	131,800,000	20.3
	3 Manufacturing	27,590,000	9.8	38,510,000	7.8	37,900,000	5.8
	6-9 Services	149,650,000	53.3	253,430,000	51.6	407,100,000	62.6
	Total	281,020,000		491,490,000		650,800,000	

Source: United Nation Common Database

14 A recent study on the potential of the OECS manufacturing sector to expand into export markets found that only a few companies in the food and beverage and electronics sub-sectors had a strong potential to be 'world class' [Marshall and Williams, 2002]. While there is some potential to develop regional enterprises through the process of production integration in the OECS, the following major constraints must be directly addressed [Cato, 2005, p 211]:

- high cost production and marketing due mainly to the cost of energy, labour, communications and business support services;
- inadequate investment in technology and plant;
- rapidly shrinking domestic and regional market shares for OECS products;
- high freight costs due to inadequate freight services brought about by low volumes;
- low levels of labour productivity and shortages in required skills;
- high cost of working capital;
- low levels of investment capital;
- inadequate quality control systems;

- poor management, marketing and planning skills.

Table 1.2 Sectoral Composition of GDP and GDP Growth 1980-2003

Sector	Shares of GDP (%)			Average Growth Rates (%)			Contribution to GDP Growth		
	1980s	1990s	2000s	1980s	1990s	2000s	1980s	1990s	2000s
Agriculture	14.3	10.3	7.4	3.0	-1.3	-1.6	0.4	-0.1	-0.1
Industry	19.3	21.0	23.2	8.1	3.7	2.0	1.6	0.8	0.5
Mining & Quarrying	0.7	0.9	0.9	14.6	3.0	0.3	0.1	0.0	0.0
Manufacturing	7.4	6.6	6.3	6.9	1.5	0.9	0.5	0.1	0.1
Elect & Water	2.9	3.8	4.8	7.4	7.0	3.7	0.2	0.3	0.2
Construction	8.3	9.8	11.1	9.0	4.2	2.1	0.8	0.4	0.2
Services	71.5	76.1	78.8	6.0	3.8	1.5	4.0	2.6	1.0
Services ex Govt Services	52.8	60.6	63.5	6.6	4.8	1.3	3.6	3.0	0.9
Wholesale/Ret Trade	11.7	12.6	12.0	5.4	3.8	0.2	0.6	0.5	0.0
Hotels & Rest	10.9	9.2	8.6	6.9	4.6	1.7	0.6	0.4	0.1
Transport/	4.2	11.4	11.1	7.5	3.2	0.9	0.8	0.4	0.1
Communications	6.9	8.6	10.9	14.4	9.8	1.0	0.6	0.8	0.1
Banks & Insurance	6.9	9.3	11.1	8.0	6.5	2.5	0.6	0.6	0.3
Real Estate /Housing	6.7	5.5	5.5	3.0	2.2	2.8	0.2	0.1	0.2
Govt Services	18.7	15.5	15.3	4.6	2.21.9	2.7	0.9	0.3	0.4
Other Services	4.2	4.1	4.2	4.9	4.2	1.8	0.2	0.2	0.1
GDP at Factor Costs				5.9	3.3	1.4	5.9	3.3	1.4

Source: ECCB

Economic Performance

Economic Growth

15 The decade of the 1980s represented a relatively strong period of growth in the OECS averaging 5.9 percent per year. This was largely due to a favourable external environment when preferential market access and strong prices resulted in a twofold increase in banana export earnings. Additionally, increases in foreign investment fueled an expansion in the tourism sector and large flows of concessional aid (peaking at 9 percent of GDP) financed investments in infrastructure.

16 In recent times however, economic performance has been much less robust. Between 1999-2000, growth averaged 2.4 percent and 1.4 percent between 2000-2004. In 2004, growth picked up, as evidenced by an increase in real GDP by 3.9 percent that year, compared to 3.5 percent in 2003. The downward turn in the economies may be linked to a number of factors including a decline in world prices for their agricultural exports, erosion of preferential access to European markets, decline in productivity growth in the major sectors and a contraction of private investment and recession in the world economy in the 1990s. A recent study on economic growth in the OECS indicated that an increase in foreign demand/exports has a positive and highly significant impact on real GDP growth. In addition, a reduction in the overall effective tariff (a proxy for trade reforms and integration) enhances economic growth [IMF, 2005, chapter VII]. Other exogenous factors, such as,OECD negative rating of the offshore banking services of several of the countries, the rising incidence of HIV Disease, drug abuse and crime continue to weaken and threaten the economic sustainability of these countries.

Fiscal Performance

17 A review of the literature indicates that most of the Eastern Caribbean countries have experienced significant deterioration in their fiscal performance over the last few years. In light of this, governments have increasingly resorted to domestic and external commercial sources to finance public investment programs and disaster relief. The downside to this is the concomitant increase in debt in the OECS. The World Bank notes that the six independent OECS countries rank among the top 16 most highly indebted emerging economies in the world[3/]. This increased borrowing has added to debt servicing and strained limited fiscal resources. The Report cautioned that unless growth is increased and debt reduced, the OECS may face an increase in poverty and unemployment.

Foreign Direct Investment

18 The OECS has been successful in attracting foreign investment (FDI) over the last two decades. However, the more significant foreign direct investment flows over the period 1997 – 2004 were channelled largely to the tourism industry, which accounted for 60 percent of total foreign direct investment in the OECS (Table 1.3).

Table 1.3
OECS - Share Foreign Direct Investment Per Economic Sector, 1997-2004
In percentage of the Total

Sector	1997	1998	1999	2000	2001	2002	2003	2004	Avg.
Tourism	60.12	74.83	81.56	63.86	47.04	56.67	35.43	60.99	60.06
Manufacturing	1.53	0.16	0.40	1.20	1.90	0.24	0.52	0.74	0.84
Transportation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Construction	2.89	0.92	0.00	0.00	0.00	0.00	5.56	11.48	2.61
Sporting	2.06	6.24	1014	0.00	0.00	0.00	0.00	0.00	1.18
Medical	0.00	0.00	0.00	0.00	0.24	0.34	0.00	0.00	0.07
Financial	0.00	0.00	0.00	0.00	0.24	1.20	0.00	0.00	0.18
Banking and Insurance	1.42	0.00	0.74	0.30	0.00	0.00	0.00	0.00	0.31
Commercial	2.11	0.08	0.00	4.84	0.84	0.00	0.00	0.00	0.98
Petroleum	1.50	0.72	0.25	0.00	0.00	0.00	0.00	0.00	0.31
Education	0.00	3.12	1.88	0.00	0.00	0.00	1.47	0.00	0.81
Agriculture	0.00	0.00	2.04	0.62	0.25	0.67	0.28	0.01	0.48
Other	28.36	13.94	11.99	29.18	49.48	40.87	56.73	26.79	32.17
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: OECS Secretariat, CSME: Findings of an Empirical Study on the Benefits for OECS Countries

Trade

19 The OECS's major trading partners include the United States, Europe and other CARICOM countries. Primary exports from the OECS include tourism services, banana, sugar, cocoa, nutmeg and maize. Imports consist mainly of manufactures, especially consumer goods. Table 1.4 lists the top 10 merchandise exports from the OECS to CARICOM and the rest of the world in 2003. Of the just over half of the exports which go to the rest of the world, some 70 percent are directed to markets for which the OECS have preferential access. Within CARICOM, almost half of these exports are protected by CET rates of over 10 percent. Of these top ten exports, only

[3/] World Bank (2005) "Organizational of Eastern Caribbean States: Towards a New Agenda for Growth", World Bank, Washington

four, beer, electrical apparatus, nutmeg and essential oils, demonstrated positive growth over the 1998 to 2003 period.

Table 1.4
Top Ten OECS Merchandise Exports

				Direction of trade		
	Total	Share	Growth	OECS	Caribbean	RoW*
	US$m	%	%	% share		
Total	172.2	100.0		19.8	22.2	58.0
Bananas	39.6	23.0	-13.4	6.9	7.2	85.9
Electrical apparatus	27.8	16.1	9.7	0.5	0.1	99.5
Soap & soap products	12.6	7.3	-6.6	11.5	80.1	8.5
Nutmeg & others spices	10.8	6.3	1.3	0.3	1.3	98.4
Beer	10.6	6.2	14.3	34.4	61.2	4.3
Essential oils	7.0	4.0	6.8	7.5	78.7	13.9
Sugars & sugar confect.	7.3	4.2	-3.1	0.0	0.0	100.0
Paper products	5.6	3.3	-2.3	41.1	54.8	4.1
Arrowroot & other tubers	4.0	2.3	-3.0	18.5	48.2	33.3
Fish, frozen & fresh	3.9	2.3	-2.7	5.4	6.1	88.5
Other products	43.1	25.0		52.0	18.2	29.8

*RoW: Rest of World
Source: OECS Secretariat, CSME: Findings of an Empirical Study on the Benefits for OECS Countries

Social Performance

20 Internally, high unemployment, inadequate provision of social services and the persistence of poverty are all issues with which the countries of the Eastern Caribbean continue to face. The OECS Human Development Report points out that resource poverty tends to be more prevalent in the OECS as large segments of the population are deprived of adequate shelter, education and healthcare. Poverty levels in the OECS region range from 19 percent in St. Lucia to 33 percent in St. Vincent and the Grenadines (Table 1.5). Analyses have shown that the highest levels of poverty are to be found in the rural, and in particular, the agricultural sector, and that the low levels of human capital development may be closely linked with poverty status.

Table 1.5
Poverty Profile in OECS Countries

Country	% Below the Poverty Line
Antigua and Barbuda	N/a
Dominica	33
Grenada	32
St. Kitts and Nevis	31
St. Lucia	19
St. Vincent and the Grenadines	33

Source: OECS Human Development Report 2002

Sectoral Performance

21 ***Agriculture:-*** is one of the dominant sectors in the OECS in terms of output, exports and employment. The performance of this sector has however fallen occasioned by adverse weather conditions, declining productivity and lack of competitiveness. The continued stagnation and decline in the agriculture sector will have serious implications for the OECS economies as they seek to deepen their

integration with the rest of CARICOM, the hemisphere and with the EU, through the EPA.

22 ***Manufacturing:-*** generally, is not considered to be a major sector in many OECS economies. High labour costs, inefficiency and underdeveloped infrastructure continue to hinder the meaningful development of this sector, as reflected in modest growth and performance. From 2000, output is estimated to have contracted in Dominica, St. Kitts and Nevis, St. Vincent and the Grenadines, while increasing in St. Lucia and Antigua and Barbuda. In St. Vincent and the Grenadines and Dominica, increasing competition from both regional and extra-regional suppliers was the main reason for the decline, while the depressed performance in St. Kitts and Nevis reflected the weakening US market conditions for electrical and electronic components. However, Antigua and Barbuda experienced growth as a result of strong demand for beverages, construction materials and furniture.

23 ***Services****:-* encompass mainly transport, travel, communications, construction computer and software, insurance, financial services, royalties and license fees, other business services, personal, cultural and recreational services (Table 1.6). These services contribute a significant share of OECS foreign exchange earnings, accounting for between 65 and 80 percent of total exports of goods and services (Table 1.7).

Table 1.6
Exports of Services - Decomposition by Category, 1985-2002

In percentage of the total	1980-85	1985-90	1990-95	1995-2000	1992-95	1995-2002
OECS						
Transport	0.44	9.40	10.94	9.31	8.57	8.67
Travel	88.91	79.20	77.12	73.83	74.6	66.6
Communications	…	1.64	1.27	…	…	…
Construction	…	…	0.12	0.08	0.00	0.09
Computer and Information Services	…	…	…	…	0.00	0.09
Insurance	…	1.01	1.20	2.01	1.93	2.03
Financial Services	…	…	…	1.78	0.00	2.28
Royalties and License Fees	…	…	0.12	…	0.00	0.02
Other Business Services	10.49	7.70	9.17	11.92	13.40	18.36
Personal, cultural, recreational services	…	…	…	…	…	…
Government Services	…	1.71	1.02	1.44	0.21	1.18
MDCs						
Transport	15.6	11.7	11.41	10.76	15.6	11.29
Travel	67.07	74.67	72.69	70.43	63.43	65.68
Communications	0.56	0.72	2.66	5.92	4.88	7.52
Construction	…	…	…	0.04	1.96	3.68
Computer and Information Services	…	…	0.39	1.18	1.18	2.21
Insurance	1.71	1.67	1.63	2.45	4.35	4.44
Financial Services	…	…	0.22	1.45	5.13	4.86
Royalties and License Fees	0.03	0.20	0.11	0.12	0.09	0.17
Other Business Services	10.54	7.21	7.93	5.25	1.60	2.48
Personal, cultural, recreational services	…	…	0.05	0.18	0.39	0.53
Government services	4.47	3.30	2.90	2.21	2.62	3.48

Source: OECS Secretariat, CSME: Findings of an Empirical Study on the Benefits for OECS Countries

Table 1.7
Share of Exports in Services as a Percentage of Total Exports of Goods and Services for OECS Economies, 1985-2003

(In percentages)	1985	1990	1995	2001	2003

Antigua and Barbuda	88.3	94.0	86.8	91.2	89.9
Dominica	25.4	35.7	55.0	63.0	69.2
Grenada	60.5	68.5	80.1	67.7	77.6
St. Kitts and Nevis	53.3	64.3	68.9	64.3	60.5
St. Vincent and the Grenadines	24.2	35.9	54.6	75.5	77.8
St. Lucia	53.7	53.7	69.8	84.0	82.8
OECS	59.0	65.2	74.0	80.0	81.1
Caricom	29.6	45.6	48.0	48.3	58.4
Latin America	15.1	17.5	16.1	14.4	15.0
Source: OECS Secretariat, CSME: Findings of an Empirical Study on the Benefits for OECS Countries					

24 ***Tourism***:- also encompasses a range of services from eco-tourism, wedding and honeymoon tourism, sports tourism to cultural tourism. This sector has exhibited the most dynamic growth levels in the OECS. Tourism accounts for 28.8 percent of GDP, 38.7 percent of employment and 54.2 percent of export earnings. While these shares vary across the countries, virtually all OECS Member Governments have/are in the process of defining and implementing actions to expand the sector[4/]. Such actions include the enactment of the necessary legislation to encourage private sector investment, through, for example, the "Hotel Aids Act/Ordinance" or "Tourism Incentives Act". These acts generally provide a waiver of custom duties for items imported for and capital expenditure incurred on construction, expansion or renovation of a hotel. This tax relief can range from a period of five to fifteen years or more depending on the size and nature of the hotel development.

Conclusions: Key Characteristics of the OECS

25 The OECS Member States are small island developing states with a total population of about eight hundred thousand. These countries depend on a few productive sectors along with remittances and official development assistance to generate foreign exchange. As a result of their geographic location, these countries are very vulnerable to natural disasters, the effects of which are extremely devastating to social and economic development in the Region. The countries are also susceptible to external economic shocks especially with respect downward shifts in the US economy and in world prices for the few commodities they do export.

26 Among the main limiting features that impede their growth and development include:

- *Small Open Economies:* The structure of OECS trade patterns is extremely skewed with exports being concentrated in one or two sectors and imports being spread over a very large range of consumption, intermediate and capital goods. External trade is important both for the supply of goods and services for domestic consumption as well as to absorb domestic production. Notwithstanding the importance of external trade, the OECS share of international trade is miniscule accounting for a mere 0.002 percent.

- *High Production Costs:* The OECS is known for its high production costs and low output volumes. This is largely due to high capital costs, high costs of technology and management, high transportation costs, and a lack of scale economies.

4/ World Bank, (2005) Organization of Eastern Caribbean States: Towards a New Agenda for Growth.

- *Physical and environmental vulnerability:* The OECS are highly susceptible to natural disasters. In measuring the economic vulnerability of small island economies, the Commonwealth Secretariat found that the Eastern Caribbean states are significantly more vulnerable to external economic and environmental hazards than larger states.[5] Severe weather conditions are known to destroy infrastructure and disrupt key economic activities, particularly agriculture and tourism, as was documented from the recent experiences in Guyana (floods) and Grenada (Hurricane Ivan).

- *Narrow Economic Base:* Historically, the OECS have relied upon the export of traditional agricultural commodities, supported by international preferential trade arrangements. The OECS' two main agricultural products (banana and sugar) remain significant sources of foreign exchange earnings and output. In recent years, tourism and other services have emerged as important economic activities particularly, data processing services and a number of offshore financial activities.

27 As small developing countries, the external trading environment is critical to the survival of the OECS. Because of their relative openness and concentration on a narrow range of, largely low technology and skill intensive products, exogenous changes can have significant effects on the fiscal and external positions of the OECS. This situation is exacerbated by the occasional natural disasters which incur a significant diversion of resources from productive investments into reconstruction activities. It is therefore important that the terms negotiated in an EPA with the EU further enhance growth and development in the region.

28 In the absence of a well-conceptualised and effectively implemented policy response, the growth prospects for the individual OECS economies range from low to moderate. Indeed, the World Bank notes:

“The states that comprise the OECS have considerable potential, but to realize it they must define a new development path, and develop the skills, services and technology to leverage their natural advantages of language, proximity to the large US market, stable democracy and the environment. Greater regional cooperation will also be critical to boosting growth and competitiveness both nationally and regionally”.

29 Accordingly, in terms of defining a new development path in the OECS, a number of studies highlight possible sectors with good scope for expansion. One such sector which is consistently deemed to offer good long term growth potential is services, including offshore education, health services, offshore financial services and telecom-related services. However, such growth prospects will continue to hinge on external developments, and importantly, on the nature and depth of the economic reform process. Well directed fiscal policy reform will be particularly for public expenditure management. OECS governments will need to address the composition and levels of public expenditures, in particular relatively high wage bills, if they are to make progress in reversing the imbalances, containing rising debt burdens and

5/ Commonwealth Secretariat, 1999. Small States: A Composite Vulnerability Index. Paper presented at the World Bank-Commonwealth Secretariat Conference on Small States, St. Lucia

regaining the fiscal stability of previous years, all pre-requisites to achieving a stable macro-economic environment.

Strategic Trade Policy Consideration for OECS within CARIFORUM Participation in EPA

30 CARICOM is the oldest, and in terms of number of member countries the largest integration group in the Western Hemisphere. With a combined population of about 13.3 million and GDP of $28.198 billion, it also represents the smallest integration group in the hemisphere in economic terms. Beyond smallness, member countries of CARICOM are unique among others in the Western Hemisphere in terms of their strong historical ties to the United Kingdom, and their relative youth as independent nations.

31 These characteristics make the current trade policy environment in the Western Hemisphere especially challenging for CARICOM countries. As small trade dependent countries, the movement towards more liberalised trade as envisioned by the proposed FTAA represents potential opportunities for improved economic efficiencies and growth consistent with development paradigms based on market openness. However, as the U.S. continues to pursue regional free trade agreements with other countries (e.g. Australia) and country groupings (e.g. Central America) CARICOM countries are faced with an erosion of longstanding preference margins.

32 CARICOM also faces challenges in terms of the global trading environment as the longstanding preferences in the European market afforded under the various Lome' accords are being replaced by regional economic partnership agreements (REPA) which engender increased reciprocity. Indeed, the early effects of changes in the historical relationship between the CARICOM and the EU have already been observed in terms of the recently settled WTO banana trade dispute.

33 Because of the smallness of CARICOM, many studies that investigate issues associated with trade liberalisation either ignore the region or subsume all or part of it in larger aggregates such as "Latin America and the Caribbean." Recent examples based on CGE models include (Burfisher, 2001; Diao and Somwaru, 2001; Diao, Somwaru and Roe, 2001; Rutherford and Martinez, 2000; Valdes and Tsigas, 2001). While such aggregation is understandable on a number of counts, it nonetheless leaves an information gap as to factors impacting CARICOM trade as well the implications of trade policy liberalisation.

34 An alternative to CGE models for analyzing the trade flows and the potential impacts of trade liberalisation and regional integration are gravity models, which have more modest data requirements. Endoh (1999), Frankel, Stein, and Wei (1995), Garman and Gilliard (1998), and Soloaga and Winters (2001), among others, have successfully used gravity models to assess the impact of regional trading agreements in the Americas, but did not include the CARICOM.

35 Thoumi (1989a, 1989b), applied the gravity model to the Caribbean and Latin American economies using data for the 1970s. In a more recent effort, Egoume-Bossogo and Mendis (2002) fitted a gravity model to data from the 1980s and 1990s. However, their study did not consider historical influences.

36 In a paper by Sandberg, Mikael, H, Seale, J.L, Taylor, T.G., and Antoine, P.A (2005) "The Impact of History and Regionalism on CARICOM Trade Patterns, the determinants of CARICOM bilateral trading patterns with the UK" were examined, as well as the impact of CARICOM integration agreement, using a gravity model.

37 Given the strong ties between the U.K. and CARICOM in terms of history and trade preferences, insight into the extent to which neo-colonial ties influence trade patterns is critical.

38 Intra-CARICOM trade flows and CARICOM bilateral trade with North America and the countries of the European Union is the focus of this analysis. To isolate potential colonial influences, the EU is divided into two units, the UK and the *rest* of the EU. Accordingly, the rest of the EU is treated as one aggregate unit and in the forgoing analysis is hence forth referred to as the EU.

- In all years, the parameter estimates suggest that exporter's population exerts a greater influence than the importer's population.

- The positive point estimates for the importer's population suggest that a physically larger country would engage in trade to a greater extent even after controlling for income. This is somewhat surprising since a larger economy also tends to trade less in relative terms due to a larger degree of self-sufficiency. It can be argued that for the countries in the sample the effect of a larger consumer base outweighs the effect of self-sufficiency on bilateral trade levels. It seems that small-island economies face physical constraints that larger economies do not. Thus, there is a natural limit to the degree of self-sufficiency that can be achieved.

- The bilateral distance has a negative effect on bilateral trade levels. Its average estimated value was –2.3 with a range between –2.9 and –1.3. These findings are consistent with previous research, although the coefficient estimates are larger than those obtained by Breuss and Egger (1997, 1999), Frankel, Stein, and Wei (1995), Soloaga and Winters (2001), and Thoumi (1989a, 1989b). This result provide some indication that transaction (transportation) costs have an especially great importance for small-island economies.

- Membership in CARICOM had a greater influence on trade patterns for the CARICOM-10, than being a former colony of the UK or from sharing a common language throughout the sample period. In particular, there is a sharp increase in the magnitude of the estimated parameter after 1992. The average estimated value of the CARICOM binary parameter was 4.9 with a range of 3.2 to 6.5. These estimates are of the same magnitude as found for the CARICOM by Thoumi (1989a, 1989b) and somewhat larger than the average of 3.7 found by Soloaga and Winters (2001) for the Central American Common Market (CACM).

- The estimated parameters for the CARICOM binary variable suggest that intra-CARICOM trade is on average 134.3 times larger (exp(4.9)) than would be the case if there was no CARICOM Integration Grouping. At first blush, this seems somewhat surprising. While as an integration agreement, the

CARICOM is the oldest in the hemisphere, Nogueira (1997) noted that the impetus for the integration agreement was more based on development thinking at the time than economic factors. Indeed, until the early 1990s, relatively few economic or policy actions designed to foster integration occurred. Rather, most of the activities of CARICOM were associated with attempts at policy harmonization and regional coordination. Especially important in this regard may have been regional initiatives to develop inter-island transportation systems and related infrastructure.

- Interestingly, the parameters estimates for the early 1990s exhibited a noticeable upward trend. This period coincided with a number of member countries reducing numerous non- tariff barriers and well as implementing and then reducing the Common External Tariff. Thus it appears that internal trade liberalization has positively impacted intra-CARICOM trade as well.

- The estimated parameters for the colonial linkages averaged 2.92 over the sample period and ranged between 2.55 and 3.66. The magnitude of these estimates, which are substantially larger than was found by Eichengreen and Irwin (1998), Linnemann (1966), Frankel, Stein, and Wei (1995), Sandberg and Martin (2001),[i] is not surprising. At the mean estimate of this parameter, the results suggest the colonial effect results in CARICOM trade with the UK 18.5 times (exp(2.92)) greater than the benchmark case of no colonial ties. While this may at first seem surprising, it should be remembered that the dominant CARICOM exports to the UK are sugar, bananas and rice. All of these commodities have been directly influenced by UK preferences under the various Lome' conventions as well as colonial history.

- The parameter estimates for the common language binary ranged from 1.04 to 2.69 with an average of 1.99. At the mean value, these results suggest that linguistic influences result in CARICOM members trading bilaterally 7 times (exp(1.99)) more with the US, Canada, or Mexico or the EU holding the other variables constant. This finding reinforces the fact that the US is a major trading partner of the Caribbean economies and that they do not trade that much, for various reason, with non-English speaking entities.

- The results of the gravity model suggest that exporters with larger populations, the CARICOM MDC's, have a larger productive base and more opportunities for scale economies and thus have a greater ability to export goods on the world market than do the smaller countries, particularly those of the OECS. This is consistent with the pattern of CARICOM exports, which have been dominated by the MDC's.

- The positive result on effect of the importing country's population, while being harder to generalize suggest that the MDC's have a larger consumer base demanding imports, but that these countries also tend to be more self-sufficient. This suggests that the first effect (benefit of a larger consumer base) dominates over the latter (.large domestic production)

- The CARICOM agreement was revealed to have had a remarkably strong effect on intra-CARICOM trade.

- The empirical results also revealed evidence of strong neo-colonial trade linkages established between the UK and the Caribbean economies. The implications of these results are mixed. On the positive side, colonial linkages with the UK have served to enhance CARICOM trade significantly. However, of concern is that much of this trade has occurred through significant unilateral preferences afforded to CARICOM Members under the various Lome' Conventions. While these preferences have stimulated CARICOM exports to the UK, they have also served to dampen incentives for CARICOM countries to undertake economic reforms needed to lessen their dependence on traditional exports and unilateral preferences.

- As such, these results suggest that loss of such preferences as envisioned under the Contonou Agreement could have significant implications for CARICOM exports to the UK and the EU.

- In general, the results of the gravity model confirms the relevance of deepening the regional integration process, through the CSME process, which aims to create a single economic space among the countries of the CARICOM countries, for goods, services, capital and labour.

- OECS Governments have ratified the Revised Treaty of Chaguaramas and all have enacted or are in the process of enacting domestic legislation, in order to give effect to the provision of these provisions. This notwithstanding, several of the OECS Governments have expressed some measure of concern over the manner in which the provisions of Chapter 7 on Disadvantaged Countries, Regions and Sectors, have sought to accord Special and Differential Treatment (SDT), to Member States of the OECS. A recent study by UNECLAC, establishes that the OECS countries have not benefited to the same extent from the operation of the CARICOM Integration arrangements.

- This finding variously interpreted, is in consonance with Customs Union theory, which admits to what might be termed "***agglomoration effects***" in the early phases of the integration process.

- The implication of the body of empirical work suggests that among CARICOM countries pursuing integration with the EU within the rubric of an EPA, OECS countries will confront more difficult challenges than their counterparts in the MDCs. However, this finding is not particularly revealing since it was the recognition of this, which led to the incorporation of Chapter 7 of the Revised Treaty of Chaguaramas. While questions could reasonably arise over the sufficiency of the measures/provisions, including the absence of measures for services, which mirror those on trade in goods, there exist a clear recognition to the fact that differences in the size and levels of development in the CSME. If the "integration outcome" for CARICOM Members justifies a Special regime for countries which exhibit far less standard deviation in their income, growth and development is sufficiently important to include in the CSME, it follows axiomatically that far greater justification exist for such measures in relation to the EU. Thus, it is necessary for OECS counties to clarify the integration model confronting them as a consequence of the EPA. The regional dimension, which relates to their inter-phase with the MDCs is already

enshrined within the CSME, but several other dimensions which emerge from their commitment to reciprocity within the framework of the Cotonou.

- Outside of the CSME integration space which there are a number of other integration dimensions, with impact on or are impacted by the EPA, and which urgently require clarification by the OECS countries. These include:

- The Relationship with the Dominican Republic within the framework of the CARICOM-Dominican Republic Agreement, which builds in a review mechanism, ostensibly to assess the extent to which OECS countries can assume reciprocal commitments;

- The Relationship with the Bahamas and Haiti which are not CSME participants, but with whom OECS countries would need agree and operate joint institutions such as in competition policy, investment, etc.

- The relationship to other Developing Countries with which CARICOM maintains bilateral agreements, such as Cuba, Costa Rica, Venezuela etc;

- The relationship with other developed countries which offer non-reciprocal market access to their markets to exports from the OECS and with which CARICOM will need to engage for roll-over or for the negotiation of a new arrangement; and,

- The relationship with other WTO Members.

EPA with EU

39 Within the trading arena, these countries maintain obligations at the multilateral and bilateral, which while holding the potential to deepen their trade integration raise concrete, and in some instances immediate challenges.

40 Multilaterally, OECS Countries acceded to the WTO at the conclusion of the Uruguay Round of talks in 1994. By so doing the OECS countries, signaled an acceptance of an emerging global perspective, supported by a wealth of empirical evidence accumulated since the 1970s, that multinational trade liberalization would favor the interest of Developing countries.

41 Following the Uruguay Round, the discussions among the EC and Developing countries, underwent a change from non-reciprocity which was a foundation principle of the successive Lome' Conventions to reciprocity, framed in terms of the difference in adjustment costs between Developing and Developed countries.

42 According to authors such as Michalopulos (2000), the most fundamental change of the Uruguay Round, was to replace the exceptions to reciprocity granted to Developing Countries with the recognition that there are adjustment costs for these economies, but that these must be addressed within the framework of reciprocity. The accession by the OECS to the WTO coincided with a growing consensus among many development thinkers in the European Commission, articulated in the EC Green Paper (1986) that the regime of preferences embodied in

the various Lome' Conventions (1980, 1984 and 1989, respectively) did not improve the development of recipient ACP countries.

43 The Green Paper states, inter alia, that:

"Even though a great number of projects financed by the Union have proved positive and effective …they have not automatically led to improvements in the country's development indicators. Without incentive policies, dynamic sectoral institutions and sufficient funding to cover operating and maintenance costs, the viability of aid remains precarious". (See Green Paper, Chapter II, pp.12).

44 The Green Paper also indicates that the poor export performance was due to the absence of 'sound' domestic policies, including among others macro-economic stability, stable exchange rates, sound institutions and governance structures, a stable credit, import and tax regime, reduced trade protection, among other factors.

45 It is therefore important to interpret the Cotonou Agreement (2000), which replaced the Lome' Agreement, within the context of the undertaking of multilateral disciplines. The Cotonou Agreement embodied the switch in thinking regarding reciprocity for Developing Countries, which formed a fundamental tenet of the multilateral trading system and with which the ACP-EU trading relationship is to be compatible (so-called "WTO compatibility"). The approach of the predecessor Lome' Agreements (1975, 1980, 1984 and 1989) of non-differentiation among ACP countries, was modified in favor of a region-specific approach, which focused on strengthening the regional economic integration process within and across regional integration groupings.

46 Satisfying the condition of full reciprocity requires that the Economic Partnership Agreement (EPA), replace the sleuth of existing arrangements and product specific conventions, which are non-reciprocal with reciprocal trade rules which could be based on the progressive elimination of barriers to trade, and enhanced cooperation in trade related disciplines.

47 The Agreement recognizes differences in the level of development, through the recognition accorded to the principle of "differentiation" in the levels of development and the different needs of countries, which are also taken into account. Specifically, Part 5 of the Cotonou Agreement contains specific provisions and measures to be established to assist countries overcome "***natural and geographic difficulties and other obstacles to their development***" (See Article 89).

48 The trade cooperation component of Cotonou, promotes the gradual integration of the ACP States in the world economy. In this context, there is an emphasis on building a competitive private sector, attracting foreign investment and improving the diversification of production.

CARICOM Integration Process

49 The Grand Anse Accord of 1989 embodies the aspirations of the CARICOM countries to move towards a Single Market and Economy (CSME), as a logical progression of the integration Grouping, formed in 1973 with the signature of the Treaty of Chaguaramas.

50 CARICOM Heads of Government convened at Montego Bay, Jamaica in 2001, agreed to move towards the Single market and Economy by the 31st December 2006. Three countries, Jamaica, Barbados and Trinidad and Tobago agreed to early implementation of the Caribbean Single Market and Economy (CSME), and by the 1st June 2005 has in fact done so. Hence, the CSME was operative in three CARICOM countries by the second half of 2005, with the remaining countries to commence the CSME obligations for commencement by 31st December 2005. At the time of preparation of this document, an official launch of the CSME is being planned for the first quarter 2006.

51 The CSME represents the integration of the economic space of the individual CARICOM countries into a single economic unit though the elimination of all barriers to trade and investment within the region. The CSME was through necessary to address the challenge posed by a globalized economy, and is expected to stimulate growth and competitiveness of CARICOM firms and companies internationally.

52 The main objectives of the CSME include:

- Free Movement of Capital;
- Free Movement of Goods, services and people within the CSME;
- Maintenance of a common external tariff and economic policy in relation to non-CSME member States;
- Synchonization of economic, fiscal and monetary policies;
- Ultimate movement towards a single currency.

53 The benefits of the CSME include:

- A market of approximately 14 million people, with the inclusion of Haiti;
- Regional coordination of institutions aimed at improving the delivery of services
- Opportunity to establish business in any Member State of the CSME;
- Opportunity for CARICOM national to and travel throughout the CSME;
- to work and travel to

54 The Revised Treaty of Chaguaramas (2001), the legal instrument containing the provisions of the CSME, gives recognition to differences in size and development contained in the original Treaty establishing the Caribbean Community (Treaty of Chaguaramas, 1973). The Revised makes a distinction between the less developed countries (LDCs) and more developed countries (MDCs) (Barbados, Guyana, Jamaica and Trinidad and Tobago) among CARICOM members.

55 The Revised Treaty of Chaguaramas, in Chapter 7, includes a series of special provisions for Disadvantaged Countries, Regions and Sectors, specifically

aimed at the Lesser Developed Countries[6/]. This includes the establishment of a development fund "for the purpose of providing financial or technical assistance to disadvantaged countries, regions and sectors[7/]. These provisions are meant to assist these disadvantaged segments within the CSME as they move "towards becoming economically viable and competitive by appropriate interventions of a transitional or temporary nature" and to "redress to the extent of the possible any negative impact of the establishment of the CSME" [8/].

56 Among CARICOM countries, the regional integration process will require OECS countries to eliminate al the remaining restriction between themselves and the MDCs of Jamaica, Barbados, Guyana and Trinidad and Tobago.[9] The elimination of these restrictions on MDCs trade will have an impact on the domestic sector within OECS countries and fiscal and tax revenues. Moving to the fourth and final stage of the common external tariff, eliminating the remaining restrictions and duties on imports will also have similar production, revenue and trade effects.

OECS and Bilateral Negotiations

57 CARICOM's integration efforts have been aimed at both deepening (CSME) and widening the interaction with neighboring countries (widening) within the framework of bilateral trade agreements. CARICOM maintains the following pluri-lateral and bi-lateral Agreements (refer to table xx on the Status of these negotiations):

- Free Trade Area of the Americas (FTAA)
- CARICOM/Dominican Republic Free Trade Agreement;
- CARICOM/Venezuela Trade and Investment Agreement
- CARICOM/Cuba Trade and Economic Cooperation Agreement
- CARICOM/Costa Rica Free Trade Agreement
- CARICOM/Columbia Trade, Economic and Technical Cooperation Agreement.

58 These Agreements are in various phases of implementation.

59 The maintained position of the OECS countries in the bilateral negotiations has been that of non-reciprocity. A couple of observations are pertinent regarding the

6/ The Revised Treaty of Chaguaramas (Articles 142 to167).

7/ Ibid (Article 158).

8/ Ibid (Articles 142 and 143).

9/ Dominica tarrified its quantitative restriction on trade in several goos items with the MDCS and received the authorization of the COTED to apply duties for a period of four years, ending in December 2005. These duties still remin in force on MDCs trade. St. Kitts and Nevis also received a derogation from the CARICOM rules to apply duties on four specific items, for a period of four years. Besides this, OECS countries have been applying a regime of licences and quantitative restriction on goods emanating from the MDCs, within the provision of Article 56 of the original Treaty of Chaguaramas.

application of the bilateral agreements to the economies of the OECS. First, these bilateral agreements have been largely based on liberalization of goods trade. Even in instance, where the scope of coverage extended beyond the goods sector, the focus has been on implementation of the preferential tariffs among the Parties. Areas such as services, agriculture, and cooperation in tourism services, trade promotion and transportation among others remain unimplemented in virtually all these agreements. The CARICOM/Cuba Trade and Economic Cooperation Agreement, CARICOM/Venezuela Trade and Investment Agreement and the CARICOM/Columbia Trade, Economic and Technical Cooperation Agreement are examples of this.

60 Second, OECS countries are exempt from undertaking reciprocal commitments within the bilateral agreements. In fact, the Heads of Government of the Caribbean Community endorsed that as a negotiating stance that “the Less Developed Countries (LDC’s) of CARICOM” would not be required to grant reciprocity[10/] [11/]. Accordingly, while the MDCs of CARICOM have undertake reciprocal commitments, the OECS countries and Belize (LDCs), were exempt from reduction commitments. Only the CARICOM-Dominican Republic Agreements, provides an opening when it refers to a “built-in” review process that would ostensibly determine, whether access would be allowed to the markets of the LDCs (i.e. to determine whether the OECS would be required to undertake reciprocal commitments).

61 The non-reciprocity of the OECS within the context or the CARICOM-Dominican Republic Agreement is somewhat contradictory to the commitment to negotiate an Economic Partnership Agreement with the EU, based on reciprocity. Surely, both commitments could not co-exist, as it would be unacceptable to the Dominica Republic to be satisfied with an agreement that provides access to the OECS by the EU – a Developed Country, on terms greater than are accorded to them, as a Developing country.

62 The Plan and Schedule for the EPA negotiations would have required this critical issue of definition of the regional integration space between the OECS and the DR to have been determined during Phase II of the negotiations which ended in September 2005 (Refer to the Plan and Schedule for EPA Negotiations). However, even while proclaiming Phase II a “qualified success” limited progress have been registered in clarifying the integration space between the OECS and the DR[12/] This notwithstanding CARIFORUM countries have embarked on Phase III of the negotiations which will focus on market access, services, investment, trade related issues, legal and institutional issues among others.

63 Phase II also suffered from other drawbacks. The inability to define the regional integration space, which bedeviled integration of goods markets also exist in relation to services and investment sectors. The negotiations between CARICOM

10/ Report of the Seventh Inter-Sessional Meeting of the Conference of Heads of Government of the Caribbean Community, Georgetown, Guyana, 29 February 1 March, 1996.

11/ See also Summary Report of the Fifth Meeting of the Prime Ministerial Sub-Committee on External Negotiations, Georgetown Guyana, 1996.

12/ See CRNM, News release, September 28, 2005.

and the DR in services and investment under the FTA, are yet to be completed and hence, it would be premature to engage in the negotiation of these subjects with the EU. Importantly, according to the Plan and Schedule for the negotiations, these issues are to be negotiated in Phase III, which is under the way and which is to be completed in December 2006. At least two actions appear critical for CARICOM and the OECS as a precursor to engaging in negotiation with the EU. First, the approach to the negotiations must be quickly established (i.e, positive list or negative list), bearing in mind that difficulties with statistical data on services prescribes that a positive list approach may be the only practical means of proceeding for the OECS. Second, it would be critical for CARICOM countries to establish the nature and the depth of services and investment liberalization to be extended to the DR. The spectrum extends from GATS-plus to CSME equivalence.

64 Difference in the perception by the EU and CARIFORUM in key areas of the negotiations forms another dimension, which should have been resolved in Phase II of the process. The European Commission appears at times to hold two positions on the question of CARIFORUM differentiation. DG Development emphasize the commitment for the EPA to reinforce and strengthen the regional integration process, while DG Trade emphasize the virtue of viewing CARIFORUM as one integrated space, defined by a single set of commitments. On the CARIFORUM side, the Revised Treaty of Chaguaramas gives explicit recognition to the principle of regional differentiation through its recognition of the MDCs and the LDCs. On the goods side the several agreements of the DR, and more particularly the recently signed Central American Free Trade Agreement (CAFTA), further compounds the difficulty of concluding an EPA between CARIFORUM and the EU based on single schedule.

65 There is no Agreement on a timeframe for the negotiation of investment within the context of the CARICOM/DR Free Trade Agreement.

66 Undertaking reciprocal commitments with the EU will necessitate OECS countries undertaking reciprocal commitments with the DR as well, particularly since the EPA is intended to be WTO compatible, requiring the inclusion of between 75 percent and 90 percent of trade among the countries. In this context CARICOM other bilateral agreements, would need to be revisited, particularly as they relate to the OECS. In short, consummating the EPA with Europe, of necessity, will require the negotiation of similar commitments with neighboring countries, such as Venezuela, Columbia, Costa Rica among other. Clearly there is a difference between an undertaking to negotiate and consummating an agreement.

67 OECS countries are also engaged in the negotiation of an FTAA with the other countries of the Hemisphere. The FTAA covers 34 democracies of the Western Hemisphere, (it excluded Cuba), constituting over 800 million people and over US$ 13.5 trillion in good and services. The FTAA is fairly broad in scope covering, market access, investment, services, government procurement, dispute settlement, agriculture, intellectual property rights, subsidies, anti-dumping and countervailing duties, and competition policy.

68 As originally conceived, the FTAA was to be concluded by December 2004, and to enter into force in 2005. The negotiations encountered difficulties over the inability of negotiators to make progress on the negotiating guidelines agreed to at the Miami Ministerial in 2003, and the intractable political difficulties at resolving the

same. The extent to which there is still political appetite for the FTAA is unknown, however, if the recent spate of bi-lateral agreements being negotiated by FTAA Members serves as an indicator, this could be construed as somewhat of a retreat from the Summit commitment of 2004

69 If the FTAA is revived, it will include some level of differentiation for "small economies" of which the OECS are text book examples, and will provide for longer time frame for implementation of provisions, limited exemptions from reduction commitments and technical and financial assistance facilities. Should the FTAA materialize, the OECS could be in more direct competition with the rest of the Hemisphere and could evidence greater opening of its sectors to hemispheric competition from more competitive firms and industries in countries which are wealthier. While access to an expanded market is touted as a major advantage of the FTAA, OECS countries maintain liberal access to the markets of the United States, Canada and to the markets of neighboring countries with the bilateral framework. Accordingly, for these countries the FTAA, will be most significant in lowering the cost of imports, advancing the services sectors and stimulating foreign direct investment, particularly from the countries of the South.

70 Should the FTAA negotiations resume, it could well provide a framework for the resolution of the conflicts, which would emerge from OECS countries undertaking reciprocity with the EU as far as the other bi-lateral agreements are concerned. Absent, such an arrangement, the OECS and CARICOM would need to undertake a close evaluation of the implications of EU reciprocity for CARICOM's bilateral agreements. Such an evaluation forms a part of the unfinished agenda in Phase II of the of the negotiations. Accordingly, OECS countries should insist on the clarification of these issues ahead of entering into negotiations in Phase III.

71 CARICOM countries are contemplating negotiations with Mercosur, Central America, Canada and the United States. With the expiation of the WTO waiver for Caribcan in December 2006, CARICOM will be required to "fast track" negotiations with Canada, aimed at the conclusion of an FTA.[13] There is some divergence of views between the CARICOM side and Canada on:

- the type of Agreement;
- the approach to negotiating services;
- the scope of the negotiation in government procurement and competition policy.

72 There exist agreement hat the negotiations will focus on market access for agricultural and industrial goods, investment, services, institutional arrangements, services and dispute settlement. It was also accepted that side agreements on labor and environment would be negotiated.

13/ CARICOM Heads of Government, at the Twennty-Fifth Meeting of the Conference of Heads of Government of Community, Grenada July 2004, had previously agreed to the negotiation of an enhanced bilateral arrangement with Canada.

73 Importantly, when the initiative for a CARICOM/Canada Enhanced agreement was mooted, Canada maintained no strong resistance to accommodating the principle of non-reciprocity for the CARICOM LDCs, particularly the OECS. With the commitment by the OECS countries of reciprocity with the EU, within the context of the EPA and the imperative now for CARICOM and Canada to move hastily towards a full-fledged FTA, it is uncertain whether the Canadian commitment of non-reciprocity for LCDs continues to hold.

74 With the stalemate which has evolved in relation to the FTAA process and the proliferation of bilateral arrangements being consummate by the US and several FTAA countries, CARICOM countries have recognized the need to embark on an CARICOM/US FTA. The expiration of the Caribbean Basin Trade Partnership Act by September 30th 2008, or sooner, has also been a catalyst for CARICOM countries to consummate a more permanent arrangement with the US[14/]. Several observers believe that the model, though not necessarily the details, of the US/CAFTA Agreement would most closely approximate what such an agreement between the CARICOM and the US would approximate. Accordingly, it appears unlikely that any agreement with the US would be based on “non-reciprocity” for the LDCs.

75 Prior to the stalemate at the FTAA in 2003, there was agreement in principle to treat with levels of development among FTAA Members by providing for longer timeframes for adjustment based on a number of “liberalization baskets”. Additional flexibility was negotiated for the agricultural sector, which amounted to an even slower pace of liberalization. While all this was contingent on adherence to the principle of a “Single Undertaking” in which nothing is agreed until all is agreed, it does provide a perspective on the manner in which any agreement with the US and Canada are likely to be couched.

EPA Development Dimension within The Framework of the Plan and Schedule for the Negotiations.

76 Up to the conclusion of the Principal Negotiators meeting on 28 September 2005 in St Lucia , CARIFORUM has and continues to struggle with the development dimension of the EPA. There are two distinctly different positions between the EC and CARIFORUM sides on this issue.

77 The EU’s position is that:

- the EPA is designed to conclude the trade liberalization agenda started under the COTONOU. The implication is that development has no place in the substantive negotiations in Phase III. It therefore does not mean any substantive negotiations on reforms of an economic and social nature that impact on CARIFORUM;s real sectors , employment and economic growth. Philosophically the EU ‘s idea of the scope of development considerations in the EPA is that, development will be stimulated by trade/market liberalization making reasonable provision for adjustment of external and domestic sectors of CARIFORUM States on the basis of the DOHA Development Agenda

14/ The Twenty-Fifth Meeting of the CARICOM heads of Government mandated the caribbean regional Negotiating Machniery (CRNM) to undertake and indepth examination of the merits of the region engaing with the US in the negotiation of an FTA.

model . The latter limits development considerations to adjustment to free market conditions for Developing Countries supported by time for adjustment and technical assistance. Differentiation is not really accepted in the market oriented philosophy which underpin the DOHA approach .

- any consideration of the development dimension in the EPA negotiations must therefore be limited to the EDF , RPTF and other existing COTONOU mechanisms . Therefore no discussion of additional resources beyond or outside of these could be entertained.

The CARIFORUM outlook on the Place of Development in the EPA

- development is at the heart of an EPA whose purpose **is in part to** , reform the trade relationship between CARIFORUM and the EU to be compliant with the WTO. One major economic blow to result from this is the removal of the preferential regimes that support CARIFORUM's export sector and by extension its major source of income , employment , economic growth .source of financing its human resource capacity improvement programmes , its economic infrastructure improvement and its social programmes. The extent of the impact of this process is clearly demonstrated by the lessons of Dominica and St Kitts in bananas and sugar respectively. A second may well be substantial loss of Government revenues from further cuts in the CET.

- even if the premise of (a) is only partially accepted it must follow that in the EPA context:

    - the existence the link between trade liberalization and development is not only true but more importantly consequential for economies of CARIFORUM states in respect of both domestic and external sectors The principle of the link must therefore find expression in concrete terms in the substantive negotiations of an EPA

    - neither the act or subsequent effects of liberalization nor the peripheral mechanisms of the EDF and RPTF process are adequate to enable CARIFORUM make the transition from the pre-EPA to a post WTO compliant CARIFORUM-EU EPA.

Approach to the Trade Development Dimension of CARIFORUM-EPA

78 A bilateral agreement between two regions such as the EU and CARIFORUM purporting to promote development must take into consideration the position of the economically weaker, less developed and export capable partner which happens in the case of an EU-CARIFORUM EPA to be CARIFORUM. In circumstances where CARIFORUM is obviously not capable of benefiting substantially from free trade it must find ways to extract benefits from the agreement by exploring combinations of the following :

- export trade creation (e.g increased market access in lieu of price cuts or reduction in the historical levels of protection via other instruments is a trade

based not aid based solution), the task is to compare number of export tariff lines of CARIFORUM exporters to that of EU exporters to demonstrate how the development issue arises. The EU argues that the adjustment was not only in response to EPA developments. St Kitts decided to go out of sugar five years ago because of unsustainable debt and the uncompetitive nature of the company;

- Macroeconomic and sectoral reform;
- investment diversion possibilities;
- technical cooperation;
- resource transfers peculiar to the CARIFORUM since the division of the ACP into separate EPA negotiating groups cannot mean the continuation of the COTONOU structures responsible for financing;
- cooperation with the EU in dealing with third parties in respect of both multilateral institutions and countries and other regions to protect and advance its trading and economic interests particularly in the WTO.

79 With Respect to the specific subject of resource transfers it is unacceptable that the EU SHOULD BE ABLE TO divided up the ACP into EPA regions but will attempt not to negotiate unique mechanisms to meet the peculiar development needs of CARIFORUM which are quite different from the concerns of say African States. Task: study the legal and institutional dimensions of COTONOU to determine whether unique financing arrangements can be culled which meet the financing needs of the CARIFORUM-EPA.

80 The Development Dimension of a CARIFORUM –EC EPA would have to be expressed and negotiated in a manner which will address the following to bring a balanced , lasting and positive outcome for CARIFORUM countries ;

- It must recognize and express both the principle and substance of ,not only the link but the interrelationship between the dimension development and the trade and trade related disciplines as a single undertaking in the evolution and conclusion of an EPA Agreement.
- The development dimension must therefore constitute , at the start of Phase III a chapter with the same status as those already considered namely , Market Access , Investment and Services , Trade Related Areas and Legal and Institutional Development. This position was advocated by Amb Clarence Henry at the Caucus of the Fourth Meeting of CARIFORUM Ministers at the Coco Palm Resort on 29 September 2005. Amb Richard Bernal argued that this is risky since it carried the disadvantage of subscribing to an approach preferred by the EC. The advantages of this approach are many including that ; one could include any development related contribution required to be made in any of the negotiated areas and clarify them in the development chapter as the negotiations proceed; schedule them ahead of the commencement of the market access

commitments ; and package them with the mix of other development related issues in a coherent development regime.

- alternatively the development dimension might be approached by way of pervasive referencing to development in both modality and substance to each aspect of the areas to be negotiated .This is the approach advocated by Ambassador Bernal at the Caucus of the Fourth Meeting of CARIFORUM Ministers at the Coco Palm Resort on 29 September 2005. The view was that a separate chapter on development would confine development issues without making the linkages to all aspects of the disciplines to be negotiated . This is not sound, since the linkage can be stated in the first Chapter as being indispensable, integral and inseparable from the other Chapters and aspects of the negotiations. This is the so-called "fifth limb of the strategy". Such a Development Chapter will need a Development Negotiating Group, which will include representations from all Members of the OECS (Negotiations Group on Development Issues). This is a very complicated and challenging undertaking since the content of the development issue must be defined with respect to each area to be negotiated. Secondly while the development problem could be defined uniquely in respect of some negotiated areas the interventions aimed at sustaining development threatened by trade liberalization will in the main involve horizontally applied macro , sectoral and business environment reforms., The problem with this approach is that thus far neither the modality nor the substance of what will be the subject of the negotiations have been determined. The risk is that if these are not determined before the launch of Phase III negotiations then, in the rush to complete that phase , development will slowly but surely drift to the backburner as happened in the DOHA .The further risk is that once Phase III is completed there will be no way to address the development dimension which must bear fruit almost immediately considering what purpose it must serve. (Refer to Attachment 4).

- There was the minor concession by Amb Bernal that one could have an approach that combines (ii) and (2.1).

- It must build on the correct vision of COTONOU and proceed to address:

  - structural reforms and reorganization at both macro and sectoral levels e.g (Balance of Payment Adjustment , revenue collection capacity development including from mode four providers, sectoral restructuring):structural funds for industries in decline;

  - modernization of the infrastructure that supports either efficient export sectors which survive removal of preferences or more importantly that supports new economic activate promotes competitiveness;

  - capacity building in the CARIFORUM labour sector to fit new sectors, jobs and occupations;

- modernization of business environment programmes to build private sector capacity;
- measures and programmed for technical development;
- social impact amelioration interventions;
- regional integration as a key mechanism of CARIFORUM development and recognize that it is an unfinished product which will affect both the negotiations at the start of and in the continuing process of Phase III and cooperation between CARIFORUM – EU on the one hand and CARIFORUM-EU and other parties on the other. It must therefore negotiate and address the:
  - the geometry of the CARIFORUM Space and;
  - the programme through which the CARIFORUM economic space will be adjusted to a structure mutually acceptable to both CARIFORUM-EU.
- in respect of (a) to(g) above the negotiations will be about;
  - the nature and substance of the responsibilities of CARIFORUM States and the EU and when those responsibilities will be discharged under the EPA AGREEMENT
  - the means by which the development problem specified will be addressed ie technical support, resource transfers, cooperation, investment etc.

81 Specifically concerning **regional integration** a CARIFORUM-EU EPA must contribute to :

- consolidation of the existing integration structures which have emerged in the CARIFORUM region;
- the evolution of a deeper and broader pattern of integration within the CARIFORUM economic space; and
- the strengthening of mutually beneficial trade , economic and functional cooperation relations between the CARIFORUM region and the European Union.

82 To achieve these objectives hase III must not only address regional integration as a front loaded area for negotiations. It must also ensure that there is a early harvest of interventions which completes implementation of the priorities of both CSME internal market arrangements as well as the CARICOM-DR FTA to enable the latter's trade liberalization and accompanying structures and measures to deliver the benefits of cooperation to the peoples of CARICOM and the Dominican Republic. It must as well, facilitate effective participation of Haiti , the Bahamas , Montserrat and the DOMS.

83 These negotiations must provide the means for the effective pursuit , fulfillment of and indeed building on the COTONOU vision for regional integration as an important vehicle supporting development in the CARIFORUM region. In this regard the EPA must include among its instrumentalities those for continuing cooperation and concrete support programmes for the CARIFORUM integration project. Key among its instruments must be those that stimulate modernization of infrastructure that supports viable new economic production and trade and which sustains the flow of inward investment , economic growth , employment and progressive rise in the standards of living of its peoples.

84 Finally, in addition to the foregoing the closer cooperation between the EU and CARIFORUM must also find expression in collaboration for the promotion and defense of the interests of both integration areas in the WTO.

85 There are clear indicators that the region needs to be cautious, as it enters Phase III, which is an extremely demanding phase of the negotiations.

- **Deliverables of phase 2** – The CARIFORUM region does not appear to have sufficiently defined these. If it has, this does do not appear in the joint report on the conclusion of Phase II. If it has not, then it is very essential that these *offensive interests be well defined* taking into account the regional characteristics (region's LDCs and others).

- The EC must as at a minimum, express commitment on these deliverables. If it fails to do so, it is inconceivable that the Regional Preparatory Task Force (RPTF) will have the needed guidance to proceed with its audacious task of translating the region's offensive interests into programmable resources under the ACP-EC financial cooperation programme.

- Even with the EC's expressed commitment on the region's deliverables (phase 2), there is still the quagmire of internalising deliverables into the national and regional development envelopes. Presently, both the national and regional indicative programmes (and strategies) have been adjusted through the mid-term reviews. In most cases, the review results have reconfirmed the initial development and support strategies - mainly concentrating on 2 or (at most) 3 priority sectors. Signatures of these support strategy papers and National Indicative Programmes or regional Indicative programmes imply that the EC's financial commitments over the specified period (up to 2007) will be limited to those areas. This complicates, or worse yet renders useless the work of the RPTF, as far as strengthening the region's competitiveness capacity is concerned. The next window is the post 9th EDF envelope - that will be available for programming after the signature of the EPA's in 2008.

- Further, the CARIFORUM argued very convincingly during phase I for an all-ACP approach to the negotiations. CARIFORUM position was based on the recognition that tying of EC aid budget to priority sectors most of which may have little bearing/relationship to the EPA process, that there was a compelling need for considering the EPA-related investments and adjustment-related expenditures within the framework of "**additional resources**", the principle of "**additionality**". The argument went on to state

that the current priorities for EC support were jointly established between the recipients and donors. Consequently, the Region argues that it would be inappropriate for the EPA process to superimpose its priorities on the current ones. While this position appear to have been abandoned OECS countries should aim to avoid the situation of creating competing demands for the same volume of resources.

- It is evident from earlier discussions that the EC does not want to open discussions for additional resources. Mainly because this would entail the EC going back to its Member States to ask for more financial resources and a new mandate.

- To date the EC negotiators are avoiding making commitments on the offensive interests of the ACP regions. This is evident from the clearly noncommittal language in the Joint Reports. These Reports will unavoidably, constitute reference points when negotiating the final texts and attempts to include CARIFORUM concerns emerging "after the event" will no doubt be construed as an attempt at restarting the negotiations.

- Phase III would seem to focus on the defensive interests of the regions and on the offensive interests of the EC (see the UK position paper).

- Virtually all the studies on the Sustainability Impact Assessments of the EPAs point to numerous defensive interests of the ACP states. Negotiators will therefore have to face up to the fiscal and balance of payments implications of market access trade-offs, issues of sensitive products, and the like.

- It is unclear that with the decision to commence stage III negotiations, how trade offs between the EU and the CARIFORUM will occur. A major question to be resolved is whether the EC will thereafter, provide the CARIFORUM Region a second chance or will it press for conclusion of the negotiations according to the existing Joint Roadmap and the Plan and Schedule for the Negotiations?

- One may even go a bit further and reflect on the value of the emerging international commitments in the context of achieving the MDGs as was reaffirmed at the September UN Summit. Here there was a clear recognition of the importance of adjustment costs (interpreted variously to mean offensive and defensive interests). Though such global commitments reflect political orientations, one cannot dismiss the fact that even EPAs are themselves partly political projects (driven and sustained by political economy considerations).

- Entering into Phase 3 but not starting negotiations, as is proposed by the CARIFORUM, may be a "third best" strategy if it is understood that Phase 2 is not concluded/closed. However, the CARIFORUM acquiesced in the decision to declare Phase II closed, declaring it to be a qualified success. With the closure of Phase 2, there now exist no fundamental rationale for the avoidance for commencing Phase III negotiations.

86 Appendix xx indicate a strong trend in Foreign Direct Investment among OECS countries over the past decade and a half. CARICOM Secretariat data indicates that for the CARICOM region as a whole between 1990 and 2003, foreign direct investment as a percentage of GDP moved from 8 percent approximately 8 percent to 10.25 percent of GDP (see Table 6 and Appendix xx). While investments flows into the OECS, represented a larger percentage of GDP throughout, the change in percentage points were quite similar. Inflows into the tourism sector dominated FDI flows into the OECS, followed by some investment in light manufacturing. Mostly, these investment flows were from North America, only in two countries (St. Vincent and the Grenadines and Antigua) does investment flows from the EU represent a significant stream of FDI.

87

88 Data from ECLAC and CARICOM indicate that, as a percentage of GDP, OECS countries performed better in attracting FDI than did the larger CARICOM countries. The World Bank (2005), indicate that the OECS have not been able to maintain thir ranking among Caribbean countries, in relation to attracting FDI inflows.[15]

[15] See Organization of Eastern Caribbean States: Towards a New Agenda for Growth, World Bank (Aril, 2005).

Table 1.8
Foreign Direct Investment (as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Anguilla	19.7	11.3	25.6	10.1	15.0	23.7	42.1	23.8	29.8	36.3	36.4	24.9	13.7
Antigua and Barbuda	15.5	13.3	4.6	3.3	5.0	6.4	3.6	4.0	4.4	5.6	5.0	7.8	50.5
Barbados	1.2	2.0	1.7	0.1	2.3	-0.3	1.2	1.4	0.7	2.2	6.0	3.6	6.8
Belize					3.3	3.1	1.8	1.3	7.5	7.2	2.5	5.0	2.7
Dominica	7.7	8.4	10.7	6.6	10.5	24.7	7.6	10.3	3.0	8.0	4.7	6.4	4.3
Grenada	5.8	6.3	9.0	8.1	7.3	7.2	6.6	10.6	13.9	11.0	8.8	8.6	19.8
Guyana	4.1	8.0	36.9	13.6	8.8	8.6	8.4	7.0	6.7	6.7	9.5	7.9	…
Jamaica		1.4	9.8	7.3	10.2	5.5	8.1	-0.1	2.0	-0.1	6.0	12.1	5.4
Montserrat	14.3	14.4	7.9	7.8	11.3	5.0	-0.7	6.3	6.8	23.4	9.9	10.2	0.6
St. Kitts and Nevis	6.0	4.9	2.5	6.9	6.9	8.9	14.3	7.2	11.1	19.0	29.2	24.1	22.8
St. Lucia	10.8	1.8	0.9	6.9	6.3	5.9	3.2	8.3	13.3	12.4	7.1	7.7	7.2
St. Vincent and the Grenadines	3.9	4.2	6.4	13.2	19.4	11.6	15.3	31.5	28.0	16.9	8.4	10.2	9.2
Trinidad and Tobago	2.2	2.5	3.1	8.8	10.5	5.5	6.2	17.2	11.6	5.5	8.1	6.2	7.1
Average all	8.3	6.5	9.9	7.7	9.0	8.9	9.1	9.9	10.7	11.9	10.9	10.4	12.5
Standard deviation	6.0	4.6	10.7	3.7	4.7	7.4	11.0	9.2	9.1	9.9	10.0	6.7	13.1
Average OECS	10.5	8.1	8.5	7.9	10.2	11.7	11.5	12.7	13.8	16.6	13.7	12.5	16.0

Source: ECLAC on the basis of official data.

89 The dearth of FDI inflows into sectors deemed as priorities in the OECS Development Charter, particularly agriculture, education, manufacturing and financial services is evident from Table 1.9.

Table yy
OECS Share Foreign direct investment per economic sector, 1997-2004
In percentage of the total

Sector	1997	1998	1999	2000	2001	2002	2003	2004	Average
Tourism	60.12	74.83	81.56	63.86	47.04	56.67	35.43	60.99	60.06
Manufacturing	1.53	0.16	0.40	1.20	1.90	0.24	0.52	0.74	0.84
Transportation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Construction	2.89	0.92	0.00	0.00	0.00	0.00	5.56	11.48	2.61
Sporting	2.06	6.24	1.14	0.00	0.00	0.00	0.00	0.00	1.18
Medical	0.00	0.00	0.00	0.00	0.24	0.34	0.00	0.00	0.07
Financial	0.00	0.00	0.00	0.00	0.24	1.20	0.00	0.00	0.18
Banking and Insurance	1.42	0.00	0.74	0.30	0.00	0.00	0.00	0.00	0.31
Commercial	2.11	0.08	0.00	4.84	0.84	0.00	0.00	0.00	0.98
Petroleum	1.50	0.72	0.25	0.00	0.00	0.00	0.00	0.00	0.31
Education	0.00	3.12	1.88	0.00	0.00	0.00	1.47	0.00	0.81
Agriculture	0.00	0.00	2.04	0.62	0.25	0.67	0.28	0.01	0.48
Other	28.36	13.94	11.99	29.18	49.48	40.87	56.73	26.79	32.17
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

90 The OECS countries have relied on a range of fiscal incentives to attract FDI inflows. Antoine, and Pemberton (1996), found that these incentives did not result in strong growth performance; that the regime exhibited significant country-to-country variability; were often not subject to any performance monitoring; and were generally quite costly for OECS Governments in terms of forgone revenues. A recent study by the World Bank (2005), confirms these findings.

91 Antoine and Pemberton (1996) also found that there was a weak statistical relationship between the incentives and growth performance among the OECS countries. Significant evidence existed in a number of OECS countries that government investment "crowded out" rather than acted as a catalyst for private investment[16/].

92 At the global level as the level of international barriers to cross-border investment have declined the level of FDI flows have increased. In what might be referred to as more advanced trading agreements, FDI flows have been stimulated by the negotiation of dedicated Investment Chapters in these bilateral agreements and treaties. Table ii, indicates that the OECS have signed a number of bilateral investment Treaties. The More Developed Countries of CARICOM have undertaken far more commitments and a greater number of bilateral investment treaties than the OECS. Among OECS countries, these bilateral Treaties appear to have been "Event specific" aimed at creating the conditions for a specific investment projects.

16/ Antoine, P.A., and Pemberton, C., "Economic Incentives and the Agri-Food Sector of OECS Countries: A quantitative Assessment"; Commissioned by the OECS/ADCU, IICA Barbados, ISSN-0253-4746. A2/TT-96-01 (1996).

93 The high Debt to GDPratio of virtually all six OECS countries, constraints them form rapidly increasing the level of external debt. The burgeoning of public investment projects over the decade of the 1990s, also served to contribute to a fall away in the attention previously accorded to creating an enabling environment for FDI inflows.

Institutional***

94 OECS countries have also reduced their institutional capacity in key areas of "image building." The closure of ECIPS (East Caribbean Investment Promotion Service), a sub-regional investment promotion authority and the inability of national Government to prioritize this function measured by the limited budgets provided by their respective investment promotion authorities is evidence of this. The importance for the OECS to resume the joint approach to investment promotion continues as a priority - perhaps more so today than ever before.

95 The World Bank (2005) Report offers a number of sound recommendations aimed at enhancing the climate for FDI among OECS countries. The World Bank recommendations include:

- Coordination and Joint Investment promotion;
- Improving the regulatory framework and administrative efficiency;
- Reforming the Customs Service; and,
- Introduction of e-government and greater diffusion of ICT.

96 Making the transition in the areas identified by the World Bank study, will require significant expenditures by the OECS Governments, at a time when the level of international trade taxes are declining, the level of debt servicing diverts a sizable portion of the GDP, and the perception of domestic investors is far more cautious. Substantial assistance, sub-regional coordination, and the formulation of common regulations and similar institutional structures could assist with the urgent execution of this investment reform programme. Initiatives in this area clearly admit to early intervention from the EU within the context of the preparatory process.

97 This is especially true since the variability in the investment regime of OECS countries, would make negotiations from the present starting point, a rather undesirable situation. However, given the need for higher levels of gross domestic investment partly through greater inward FDI flows inclusion of development friendly special and differential treatment provisions is desirable.

98 Having acceded to the Agreement establishment of the World Trade Organization (WTO), OECS countries are a party to various agreements which impact on trade-related aspects of the investment framework.

99 The provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) on minimum standards for the protection of intellectual property, domestic enforcement procedures and international dispute settlement are relevant to the legal environment affecting investment.

100 The Agreement on Subsidies and Countervailing Measures (SCM) restrains the right of governments to grant subsidies that have significant trade-distorting effects. Prohibited subsidies include export subsidies.

101 The Agreement on Trade-Related Investment Measures (TRIMS) requires the phasing out of TRIMS which are inconsistent with the rules of the General Agreements on Tariffs and Trade (GATT).

102 OECS countries are also Parties to the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) which provides a multilateral investment insurance mechanism as a complement to national, regional, and private insurance schemes. They are also Parties to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States which establishes facilities for the resolution of disputes between investors and states through conciliation and arbitration in the International Centre for Settlement of Investment Disputes (ICSID).

Regional Agreements

103 Various protocols to the Treaty establishing the Caribbean Community (CARICOM) impact on the investment framework of OECS countries. Protocol II on the Right of Establishment, Provision of Services and Movement of Capital is intended inter alia to facilitate the free movement of capital within the region. Protocol III on Industrial Policy, which includes provisions on harmonization of investment incentives, macro-economic policies, industrial relations, financial infrastructure, legal infrastructure, double taxation agreements and development of social infrastructure will also facilitate investment[17/].

104 The Agreement Establishing the Free Trade Area between the Caribbean Community and the Dominican Republic when complete will include an Agreement on Reciprocal Promotion and Protection of Investment. The outline for the investment agreement has provisions with respect to the definition of investment, admission and promotion, fair and equitable treatment, compliance with obligations, entry and stay of foreigners, performance requirements, compensation for losses, conditions for expropriation, free convertibility and free transfer, settlement of disputes and subrogation.

105 The Trade and Economic Cooperation Agreement between the Caribbean Community and the Government of the Republic of Cuba is also intended to include an Agreement on Reciprocal Promotion and Protection of Investments patterned on the CARICOM- Dominican Republic Agreement.

106 The Free Trade Area of the Americas (FTAA) before reaching stalemate, in the Negotiating Group on Investment has identified twelve areas for negotiation: basic definitions, scope of application, national treatment, most-favoured nation treatment, fair and equitable treatment, expropriation and compensation, compensation for losses, key personnel, transfers, performance requirements, general exceptions and reservations and dispute settlement.

17 Refer to Garcia, Aubrey “Investment Frameworks in the Caribbean Community: Towards a Regionally Harmonized Best Practice Regime: Diagnostic Reports” prepared for the CARICOM Secretariat, (October, 2002).

CSME, FTAA, EPA and Bilaterals

107 The CARICOM community's commitment to establish a Community Investment Policy is contained in Article 68 and 69 of Revised Treaty of Chaguaramas. The Decision by CARICOM Heads of Government to postpone the establishment of the "single economy" component of the CSME to 2008 means that the Community Investment Policy too will also be delayed to at least 2008. In the meantime, the CARICOM Secretariat is in the process of completing a CARICOM Investment Code, which will define investment policy among CSME Members vis'- a –vis' third countries. The CARICOM investment Code will deliver on the commitment of creating a single investment jurisdiction of CSME Members. The CARICOM Investment Code will remove the remaining "sectoral exceptions", for such services clusters as small hotels and tour operators, car rental operators; restaurant etc. that constraint investment by small and medium sized firms in the services market of CARICOM Countries. The particular relevance of the Investment Code to the OECS is underscored by the observation that FDI inflows from the Caribbean constitute the second largest source country after North America, eclipsing inflows from the EU in most instances.

108 Regarding third countries, the approach being adopted by CARICOM is to base the liberalization regarding third countries on the commitment already entered into within the Bilateral Investment Treaties (BITS). Given the differential level of commitment in many of the BITS which exist between the MDCs and third countries, OECS countries will need to be caution in ensuring that any higher level of commitment in these MDC-"third country" BITS meet with the overarching imperatives of transforming and reforming their own investment regimes.

109 Special provisions for LDCs, which includes the OECS are included in Articles 147 and article 148 of Chapter seven of the Revised Treaty and is limited to Investment Promotion and the derogations from national treatment commitments. No conditionalities are included in the undertakings by OECS countries, including those related to the right of these countries as WTO members to establish the domestic regulatory framework as a precondition to liberalization.

110 The implication of this is that it may be entirely possible for CARICOM (CARIFORUM minus, Dominican Republic and Haiti), to negotiate a set of single regime of commitments in the investment area/chapter with the EU and ultimately, with third parties (US, Canada etc).

111 OECS Governments rejected the inclusion of Investment in the Doha Development Agenda (DDA), accordingly many remain skeptical about its inclusion in the EPA. The response from the Directorate of Trade at the European Commission, is that there is no a priori determination on their part on the depth or scope of commitments in this area. Quite apart from this, OECS countries, can benefit from the inclusion of investment in the EPA, provided a development friendly approach, which aims at strengthening the domestic capacity of OECS countries, within a national and sub-regional development framework to achieve the goals of trade and investment integration. OECS countries could benefit significantly from adjustment resources to develop their domestic regulatory environment, reform administrative and regulatory systems, rationalize development concessions and incentives within the framework of an overall OECS and CARICOM commitment (see

for instance Article 69 of the Revised Treaty), reform the tax system and support the development of small and medium sized service suppliers.

112 There is an emerging consensus that Least developed and Developing countries, would encounter difficulty making this transition, including undertaking further commitment without the adjustment assistance, which will need to be marshaled from diverse sources to support the transition (see for instance Prose (2005)[18/].

113 As mentioned earlier, there is no definitive date for completing negotiations with the DR on the investment aspects of the CARICOM-DR Agreement, the CARICOM Single market agenda would seem to indicate that this would need to be undertaken simultaneous with the consolidation of the CARICOM investment space, or soon thereafter. As a general position, OECS countries should maintain a strong interest in deepening their investment integration with the DR.

114 Since OECS countries stand to benefit from the inclusion of development and adjustment friendly areas of investment in EPA upon entry into force of the Agreement, the present time-line for completion of the CSME presents a concern. In the event that the CSME investment agenda cannot be accelerated, the next best option would be to focus negotiations on the elements of an EPA Investment Chapterwhich in the first instance advances the areas which will create a sound regulatory framework, efficient functioning institutions, and adequate physical and social infrastructure[19/].

Bilateral Investment Treaties between the Caribbean and Europe (Concluded Up To July 1995)[20/]

Caribbean Country	European Country	Date of Signature	Date of Entry into force
Antigua and Barbuda	United Kingdom	12 June 1987	12 June 1987
Barbados	United Kingdom Germany Switzerland	7 April 1993 2 December 1994 29 March 1995	7 April 1993 2 December 1994 --
Belize	United Kingdom	30 April 1982	30 April 1982
Dominica	Germany United Kingdom	1 October 1994 23 January 1987	11 May 1986 23 January 1987
Grenada	United Kingdom	25 February 1988	25 February 1988
Guyana	Germany United Kingdom	6 December 1989 27 October 1989	8 March 1994 11 April 1990
Haiti	Germany France United Kingdom	14 August 1973 23 May 1984 18 March 1985	1 December 1975 25 March 1985 --
Jamaica	United Kingdom	20 January 1987	14 May 1987

18/ Prose., Susan., “Aid for Trade” Increasing Support for Trade adjustment and Integration – A Proposal” (Special and Differential Treatment: Thinking Outside the Box- The Proceedings (2005).

19/ An adequate physical and social infrastructure refers to the quantity and quality of power, transport, and communications systems, access to finance, a qualified labor force, and the provision of social services.

20/ Evidently, once OECS countries acceded to the WTO, there was a diminishing appetite for bilateral investment treaties.

	Switzerland Netherlands Germany France Italy	11 December 1990 18 April 1991 24 September 1992 25 January 1993 29 September 1993	21 November 1991 1 August 1992 -- 15 September 1994 --
Saint Lucia	United Kingdom Germany	18 January 1983 16 March 1985	18 January 1983 22 July 1987
St Vincent and the Grenadines	Germany	25 March 1086	8 January 1989
Trinidad and Tobago	United Kingdom France	23 July 1993 28 October 1993	8 October 1993 --

Elements for inclusion in an Investment Chapter with the EU

115 The provisions of investment to be included in the agreement with the EU should focus on investment promotion and protection. The elements of such an Investment Chapter should aim at::

- mechanisms for investment information sharing (including exchnges on investment rules, opportunities etc);
- development of a legal framework which encourages investment, through inter alia the negotiation of agreements which promote and protect investment, avoids double taxation;
- progess towards a harmonized regime, with simplified procedures and administrative practices;
- technical assistance to OECS countries for training of personnel of the investment authorities as a means of facilitating FDI flows and administering the agreement;
- mechanisms to “crowd-in” EIB’s Investment facility for the benefit of the region;
- establishment of appropriate investment instruments which will encourage private investment in OECS markets by supporting the EU private sector in managing risks associated with FDI;
- provisions which aim to reduce the cost of financing, including lowering transaction costs in OECS markets;
- modalities which support and encourage strategic alliances among investment partners.

2 Establishing the Counterfactual

2 Establishing the Counterfactual

The Structure of OECS Trade

Introduction

115 A key element to understanding the possible impacts of an EPA on the OECS economies is a detailed knowledge of the structure of trade. This is especially important given that comprehensive quantitative analysis of such impact is limited by the availability of historical data.

116 This section provides an overview the OECS countries' current product structure and geographic distribution of trade with major partners. The analysis will include estimates of export similarity indices to ascertain the degree to which the trade patterns of the OECS's various trading regions overlap. Such information will provide some insight into the possible scope of trade diversion from the Most Developed Countries (MDCs) to the EU that may result from the elimination of tariffs on EU imports. This section also provides a discussion of those products most likely to be affected by the instantaneous removal of tariffs on products imported by the OECS countries from the EU and MDCs. This analysis is based on the results of simulations presented elsewhere in this study. This section concludes with discussion of estimated effective rates of protection (ERP) developed for selected products in each OECS country.

Major Import Sources and Export Destinations

117 A snapshot of the major source countries of OECS imports is presented in Table 5.1. In all cases the US is the primary source country for OECS imports. In 2003, the US accounted for at least 40 percent of all OECS imports, ranging a low of about 41 percent of all imports into Dominica to a high of almost 63 percent of total imports into St. Kitts and Nevis. Trinidad and Tobago is the next largest source of OECS imports for all countries except Antigua and Barbuda, for which the Netherlands Antilles is the second leading source country.

118 In terms of regional groupings, the results on leading sources of imports indicate that:

- NAFTA is the largest supplier to all OECS countries;
- Non-OECS CARICOM countries are the second leading sources of imports for all OECS countries except Antigua; and
- the EU (including the UK) is the third leading source of imports.

119 Table 2.1 also makes clear that imports from other OECS are generally very small portion of the total ranging from almost 4 percent of total imports into Dominica to 1.4 percent of total imports into Grenada.

120 Table 2.2 illustrates the major export destinations for OECS exports. In contrast to source countries for imports, which were generally consistent across all OECS countries, export destinations vary considerably. The results indicate that:

- the US is the major export market for Antigua and Barbuda, St. Lucia and St. Vincent and the Grenadines.
- the US is the major export market for St. Kitts and Nevis and Grenada. In 2003, over 78 percent of all exports from St. Kitts and Nevis went to the US market. In contrast, the US accounted for only 29 percent of Grenada's exports.
- Jamaica, was the major export market for Dominica.

121 In terms of regional export destinations, OECS countries vary significantly. The largest regional market for exports from:

- Antigua and Barbuda is other OECS countries (28.7 percent) followed by NAFTA (21 percent) and the UK (20 percent);
- Dominica are non-OECS CARICOM countries (45.6 percent) followed by 'other' OECS countries (19 percent) and the UK (16 percent);
- Grenada is the EU excluding the UK, (33 percent), NAFTA countries (31 percent) and other OECS countries (18 percent);
- St Kitts and Nevis is overwhelmingly NAFTA countries (78 percent), with the US a distant second (17 percent);
- St. Lucia is the UK (38 percent), followed by non-OECS CARICOM countries (23 percent) and NAFTA countries (21 percent); and
- St. Vincent and the Grenadines is the UK (29 percent), closely followed by other OECS countries (27 percent) and non-OECS CARICOM (25 percent).

Table 2.1 Major Import Sources for OECS Countries, 2003

	Antigua (2000)			Dominica			Grenada	
Country	Share	Cumulative	Country	Share	Cumulative	Country	Share	Cumulative
USA	49.28	49.28	USA	37.08	37.08	USA	42.15	42.15
Neth. Antilles	11.95	61.23	Trinidad/ Tobago	18.23	55.31	Trinidad and Tobago	18.37	60.52
United Kingdom	7.39	68.62	United Kingdom	7.58	62.90	United Kingdom	5.97	66.50
Trinidad and Tobago	6.40	75.01	Barbados	4.31	67.21	Japan	4.36	70.85
Canada	3.70	78.72	Japan	3.91	71.12	Germany	3.16	74.01
Venezuela	3.35	82.06	Canada	3.45	74.57	Canada	2.31	76.32
Japan	3.11	85.17	Saint Lucia	2.74	77.32	Sweden	2.05	78.37
Barbados	1.62	86.79	France	2.37	79.68	Barbados	2.05	80.42
Saint Vincent	0.95	87.74	Netherlands	1.63	81.31	France	1.85	82.27
France	0.94	88.68	Venezuela	1.36	82.67	Netherlands	1.79	84.06
Dominica	0.89	89.57	Jamaica	1.25	83.92	Brazil	1.41	85.47
Germany	0.83	90.40	Guyana	1.20	85.12	China	1.25	86.72
Jamaica	0.79	91.19	Saint Vincent	1.19	86.32	Honduras	1.17	87.89
Rep. of Korea	0.70	91.89	Brazil	1.13	87.45	Denmark	0.92	88.81
Saint Lucia	0.67	92.56	Colombia	1.06	88.51	Venezuela	0.89	89.70
Liberia	0.59	93.15	China	0.94	89.45	Guyana	0.87	90.56
Italy	0.55	93.69	Guatemala	0.88	90.33	Saint Lucia	0.78	91.35
Netherlands	0.52	94.22	Panama	0.78	91.11	Australia	0.78	92.12
Guyana	0.48	94.70	Neth. Antilles	0.71	91.82	New Zealand	0.64	92.76
Mexico	0.43	95.13	Areas, nes	0.69	92.52	Jamaica	0.60	93.36
Grenada	0.41	95.54	Other Asia, nes	0.69	93.20	Mexico	0.55	93.91
Dem. People's Rep. of Korea	0.40	95.94	Germany	0.64	93.84	Areas, nes	0.55	94.46
NAFTA	53.41			40.94			45.01	
Non OECS Caricom	9.29			25.00			21.88	
Other Oecs	2.92			3.72			1.36	
Other EU	14.09			5.86			10.28	
United Kingdom	7.39			7.58			5.97	

Source: Comtrade 4-digit HS data

Table 2.1 (continued) Major Import Sources for OECS Countries, 2003

	St. Kitts				St. Lucia				St.Vincent	
Country	Share	Cumulative		Country	Share	Cumulative		Country	Share	Cumulative
USA	53.35	53.35		USA	42.75	42.75		USA	41.18	41.18
Trinidad and Tobago	12.95	66.31		Trinidad and Tobago	15.14	57.88		Trinidad and Tobago	20.66	61.84
Canada	9.18	75.49		United Kingdom	8.72	66.60		United Kingdom	7.19	69.03
United Kingdom	9.12	84.62		Japan	3.36	69.96		Barbados	3.78	72.81
Japan	3.17	87.79		Canada	2.85	72.81		Japan	3.27	76.08
Barbados	2.32	90.11		Barbados	2.55	75.36		Canada	2.93	79.01
Neth. Antilles	0.92	91.03		France	2.45	77.81		Sweden	1.74	80.74
Grenada	0.85	91.88		China	2.40	80.21		Colombia	1.44	82.18
Jamaica	0.75	92.63		Sweden	1.68	81.89		Australia	1.14	83.32
France	0.61	93.24		Germany	1.21	83.09		Saint Lucia	1.13	84.45
Italy	0.51	93.75		Netherlands	1.15	84.24		Brazil	1.07	85.52
China	0.47	94.22		Jamaica	1.05	85.30		Jamaica	0.92	86.43
Saint Lucia	0.44	94.66		Guyana	0.95	86.25		Venezuela	0.88	87.31
Dominica	0.43	95.09		Venezuela	0.92	87.17		China	0.86	88.18
Brazil	0.38	95.47		Grenada	0.80	87.97		Guyana	0.82	89.00
Germany	0.37	95.84		Brazil	0.77	88.74		Netherlands	0.78	89.78
Areas, nes	0.32	96.16		Honduras	0.75	89.49		Other Asia, nes	0.76	90.54
Denmark	0.31	96.47		Italy	0.74	90.23		France	0.66	91.20
Netherlands	0.28	96.75		Saint Vincent	0.72	90.95		Ireland	0.61	91.81
Antigua and Barbuda	0.28	97.03		Mexico	0.68	91.63		Germany	0.60	92.41
NAFTA	62.74				46.28				44.61	
Non OECS Caricom	16.24				19.69				26.17	
Other OECS	2.25				1.89				1.73	
Other EU	3.34				6.80				5.16	
United Kingdom	9.12				8.72				7.19	

Source: Comtrade 4-digit HS data

Table 2.2 Major OECS Export Destinations, 2003

	Antigua (2000)				Dominica				Grenada	
Country	Share	Cumulative		Country	Share	Cumulative		Country	Share	Cumulative
United Kingdom	19.68	19.68		Jamaica	22.83	22.83		USA	29.00	29.00
USA	19.03	38.71		United Kingdom	15.83	38.66		Netherlands	10.02	39.02
Saint Vincent	13.91	52.62		Antigua and Barbuda	10.19	48.85		Sweden	9.29	48.31
Neth. Antilles	7.62	60.23		France	9.08	57.93		Saint Lucia	7.54	55.85
Saint Kitts and Nevis	7.00	67.23		Guyana	8.35	66.29		Germany	6.35	62.19
Montserrat	6.71	73.95		Trinidad and Tobago	6.52	72.81		Belgium	5.35	67.54
Barbados	4.99	78.94		USA	6.32	79.12		Saint Kitts and Nevis	5.05	72.59
Saint Lucia	3.49	82.42		Barbados	5.20	84.32		Trinidad and Tobago	4.07	76.66
Dominica	2.91	85.33		Saint Kitts and Nevis	3.41	87.73		Barbados	3.87	80.53
France	2.83	88.16		Saint Lucia	3.38	91.11		Antigua and Barbuda	2.82	83.35
Canada	1.97	90.13		Neth. Antilles	1.99	93.10		Saint Vincent and the Grenadines	2.45	85.80
Trinidad and Tobago	1.82	91.95		Suriname	1.64	94.74		France	2.10	87.90
Grenada	1.42	93.37		Saint Vincent	1.22	95.95		Dominican Rep.	1.78	89.68
Areas, nes	1.30	94.67		Belize	1.04	96.99		Canada	1.61	91.29
Anguilla	0.96	95.63		Grenada	0.68	97.67		Jamaica	1.50	92.79
Aruba	0.64	96.28		Montserrat	0.65	98.33		Dominica	1.49	94.27
Malta	0.45	96.73		Br. Virgin Isds	0.61	98.94		Argentina	1.37	95.65
El Salvador	0.44	97.17		Canada	0.21	99.15		Guyana	1.17	96.82
Br. Virgin Isds	0.42	97.59		Anguilla	0.20	99.35		United Kingdom	0.97	97.79
Italy	0.37	97.96		Bahamas	0.17	99.52		Areas, nes	0.90	98.69
Germany	0.35	98.31		Areas, nes	0.15	99.67		Japan	0.58	99.27
Jamaica	0.28	98.60		Dominican Rep.	0.13	99.80		Denmark	0.19	99.46
NAFTA	21.07				6.52				30.61	
Non OECS Caricom	7.48				45.58				10.84	
Other Oecs	28.72				18.88				17.86	
Other EU	11.35				9.10				33.19	
United Kingdom	19.68				15.83				0.97	

Source: Comtrade 4-digit HS data

Table 2. 2 (continued) Major OECS Export Destinations, 2003

	St. Kitts				St. Lucia				St.Vincent	
Country	Share	Cumulative		Country	Share	Cumulative		Country	Share	Cumulative
USA	78.48	78.48		United Kingdom	37.58	37.58		United Kingdom	29.27	29.27
United Kingdom	17.04	95.52		USA	20.31	57.89		USA	13.23	42.50
Neth. Antilles	1.22	96.74		Trinidad and Tobago	11.69	69.58		Barbados	11.17	53.67
Canada	0.76	97.50		Barbados	9.62	79.20		Trinidad and Tobago	11.04	64.71
Dominica	0.63	98.14		Dominica	5.27	84.47		Saint Lucia	10.30	75.01
Montserrat	0.31	98.45		Grenada	3.02	87.49		Antigua and Barbuda	7.14	82.15
Antigua and Barbuda	0.27	98.72		Saint Vincent	2.78	90.27		Dominica	3.61	85.76
Br. Virgin Isds	0.24	98.96		France	1.99	92.26		Grenada	3.40	89.16
Barbados	0.18	99.14		Antigua and Barbuda	1.73	93.99		Saint Kitts and Nevis	2.72	91.88
Anguilla	0.16	99.30		Saint Kitts and Nevis	1.23	95.22		Jamaica	2.53	94.41
France	0.13	99.43		Guyana	0.76	95.98		Br. Virgin Isds	1.06	95.47
Areas, nes	0.12	99.55		Areas, nes	0.70	96.68		Neth. Antilles	0.94	96.41
Saint Lucia	0.10	99.64		Japan	0.66	97.34		France	0.87	97.28
Trinidad and Tobago	0.09	99.73		Jamaica	0.47	97.81		Canada	0.61	97.89
Japan	0.06	99.79		Canada	0.33	98.14		Montserrat	0.44	98.34
Special Categories	0.04	99.83		Germany	0.29	98.43		Anguilla	0.44	98.78
Germany	0.04	99.87		Anguilla	0.19	98.63		Guyana	0.36	99.14
NAFTA	78.49				20.64				13.84	
Non OECS Caricom	0.31				22.72				25.11	
Other Oecs	1.04				14.03				27.17	
Other EU	2.16				2.50				0.96	
United Kingdom	17.04				37.58				29.27	

Source: Comtrade 4-digit HS data

Commodity Structure of Trade

122 Tables 2.3 through 2.14 present information on the commodity structure of trade to major markets based on 4-digit HS data obtained from the United Nations Comtrade data base for 2003. The data suggest that the product structure of trade differs considerably among OECS member countries.

- Antigua and Barbuda: Exports are dominated by a wide range of manufactured products, while imports are dominated by petroleum products from the Netherlands Antilles and a range of manufactured and consumer goods (Tables 2.3 and 2.4). The leading agricultural import is poultry meat (HS-0207).

- Dominica: The structure of exports is reflective of the significance of agriculture and agro-processing activities. While bananas remain the single leading export from Dominica, the value of soaps and other oral hygiene products produced in conjunction with Colgate-Palmolive account for the largest share of export earnings. Table 2.5 also illustrates that Dominica exports a wide range of agricultural products. Major imports into Dominica include oil, and wide range of manufactured food products. The leading agricultural import is poultry meat (Table 2.6).

- Grenada: The export structure differs from its OECS counterparts. Consistent with it moniker as the Spice Island, nutmeg, mace and Cardamom comprise major exports to Grenada's top two export markets, the US and Netherlands Antilles. Grenada's top exports to the US are, surprisingly, frozen whole fish (HA-0303) and self propelled earth moving and road working machinery (HS-8429) (Table 2.7). Major imports into Grenada from its top source countries include a range of manufactured goods, construction materials and equipment and motor vehicles. Major agricultural imports include edible offals of poultry (HS-0207), baked breads (HS-1905) and food preparations (HS-2106) (Table 2.8)

- St. Kitts and Nevis: The US is by far the largest export market for the Federation, and exports to this market are dominated by electrical switches and connectors (HS-8536) and electrical capacitors (HS-8532) (Table 2.9) In 2003 exports to St. Kitts and Nevis's second leading market, the UK, were dominated by sugar. The US is by far St. Kitts and Nevis's largest source of imports. The import structure to some degree reflects the presence of US-owned electronic assembly companies with electrical switches (HS-8536) and electric capacitors being the leading imports product groups. Major agricultural imports include poultry meat (HS-0207), sweetened waters (HS-3402) and cane sugar (HS-1701) (Table 2.10).

- St. Lucia: Bananas shipped to the UK are by far the largest export products from St. Lucia (Table 2.11). Surprisingly, the next most significant export product in 2003 was oils and petroleum products (HS-2710) exported to Trinidad and Tobago. Other significant exports include beer (HS- 2203), and a variety of garments. Major imports into St. Lucia include televisions and radios (HS-8525) petroleum oils (HS-2710) and motor vehicles (HS-8703).

Major agricultural imports included poultry meats (HS-0207), Baked breads (HS-1905), and non-alcoholic sweetened waters (HS-2202). (Table 2.12)

- St. Vincent and the Grenadines: Examination of the top exports products underscores the importance of agricultural exports (Table 2.13). Bananas shipped to the UK and Barbados are by far the most import export product. Mannioc, arrowroot... (HS-0714), non-alcoholic sweetened waters (HS-2202) and dates, figs pineapples…(HS- 0804). As seen in Table 2.14, the leading import into St. Vincent and the Grenadines is petroleum shipped from Trinidad and Tobago. Major agricultural imports include, wheat and meslin flour (HS-1001), poultry meat (hs-0207) and baked breads and pastry (HS-1905).

Table 2.3 Antigua and Barbuda: Top Exports Products and Export Markets

	United Kingdom	US $ Value	Share	Cumulative Share
H0-8529	Parts for radio, tv transmission, receive equipment	2,786,504	62.88	62.88
H0-8409	Parts for internal combustion spark ignition engines	309,265	6.98	69.86
H0-8473	Parts, accessories, except covers, for office machine	233,810	5.28	75.14
H0-8407	Spark-ignition internal combustion engines	232,329	5.24	80.38
H0-9030	Instruments to check or measure electricity, radiation	209,528	4.73	85.11
H0-6306	Textile tarpaulin, sail, awning, tent, camping goods	152,900	3.45	88.56
H0-8903	Yachts, pleasure, sports vessels, rowing boats, canoe	89,954	2.03	90.59
H0-8803	Parts of aircraft, spacecraft, etc	68,020	1.53	92.12
H0-8703	Motor vehicles for transport of persons (except buses	39,999	0.90	93.03
H0-9207	Musical instruments electrical, requiring amplifier	32,039	0.72	93.75
	Total	4,431,357		
	USA	US $ Value	Share	Cumulative Share
H0-6306	Textile tarpaulin, sail, awning, tent, camping goods	565,319	13.19	13.19
H0-9405	Lamps and lighting fittings, illuminated signs, etc	444,081	10.36	23.55
H0-8521	Video recording and reproducing apparatus	412,988	9.64	33.19
H0-8471	Automatic data processing machines (computers)	405,253	9.46	42.64
H0-8803	Parts of aircraft, spacecraft, etc	181,257	4.23	46.87
H0-8518	Audio-electronic equipment, except recording devices	145,683	3.40	50.27
H0-8517	Electric apparatus for line telephony, telegraphy	135,045	3.15	53.42
H0-8525	Radio and TV transmitters, television cameras	109,775	2.56	55.98
H0-8903	Yachts, pleasure, sports vessels, rowing boats, canoe	102,724	2.40	58.38
H0-8429	Self-propelled earth moving, road making, etc machine	100,625	2.35	60.73
	Total	4,285,835		
	Saint Vincent and the Grenadines	US $ Value	Share	Cumulative Share
H0-8529	Parts for radio, tv transmission, receive equipment	2,786,504	88.99	88.99
H0-3208	Polymer based paints, varnishes in non-aqueous medium	124,982	3.99	92.98
H0-8517	Electric apparatus for line telephony, telegraphy	57,999	1.85	94.83
H0-8703	Motor vehicles for transport of persons (except buses	32,962	1.05	95.88
H0-8501	Electric motors and generators, except generating set	22,102	0.71	96.59
H0-8705	Special purpose motor vehicles	14,814	0.47	97.06
H0-2902	Cyclic hydrocarbons	13,517	0.43	97.50
H0-7113	Jewellry and parts, containing precious metal	11,428	0.36	97.86
H0-2208	Liqueur, spirits and undenatured ethyl alcohol <80%	10,514	0.34	98.20
H0-3207	Ceramic, glass pigments, opacifiers, colors, enamels	8,835	0.28	98.48

	Total	3,131,305		

Table 2.4 Antigua and Barbuda: Top Import Products and Source Countries

	USA	US $ Value	Share	Cumulative Share
H0-8471	Automatic data processing machines (computers)	6,074,587	3.65	3.65
H0-0207	Meat, edible offal of domestic poultry	5,192,505	3.12	6.76
H0-8525	Radio and TV transmitters, television cameras	3,999,118	2.40	9.16
H0-2106	Food preparations, nes	3,837,739	2.30	11.46
H0-9403	Other furniture and parts thereof	3,774,978	2.27	13.73
H0-4407	Wood sawn, chipped lengthwise, sliced or peeled	3,690,973	2.21	15.94
H0-4412	Plywood, veneered panels and similar laminated wood	2,970,213	1.78	17.73
H0-8473	Parts, accessories, except covers, for office machine	2,843,103	1.71	19.43
H0-8517	Electric apparatus for line telephony, telegraphy	2,752,914	1.65	21.08
H0-8803	Parts of aircraft, spacecraft, etc	2,538,263	1.52	22.61
	Total	166,642,723		
	Neth. Antilles	US$ Value	Share	Cumulative Share
H0-2710	Oils petroleum, bituminous, distillates, except crude	38,036,606	94.13	94.13
H0-8518	Audio-electronic equipment, except recording devices	385,178	0.95	95.08
H0-2208	Liqueur, spirits and undenatured ethyl alcohol <80%	274,366	0.68	95.76
H0-3808	Insecticides, fungicides, herbicides etc (retail)	193,669	0.48	96.24
H0-2714	Bitumen, asphalt, oil shale, tar sands, asphaltites	162,120	0.40	96.64
H0-7113	Jewelry and parts, containing precious metal	139,194	0.34	96.98
H0-2204	Grape wines(including fortified), alcoholic grape mus	111,542	0.28	97.26
H0-8415	Air conditioning equipment, machinery	83,549	0.21	97.47
H0-6204	Women, girls suits, jacket, dress, skirt, etc, wove	79,971	0.20	97.66
H0-4418	Builders joinery and carpentry, of wood	54,804	0.14	97.80
	Total	40,410,306		
	UK	US $ Value	Share	Cumulative Share
H0-8527	Radio, radio-telephony receivers	5,575,767	22.30	22.30
H0-8471	Automatic data processing machines (computers)	1,428,665	5.71	28.01
H0-8412	Engines and motors, nes	1,017,820	4.07	32.08
H0-4901	Printed reading books, brochures, leaflets etc	1,005,243	4.02	36.11
H0-3004	Medicaments, therapeutic, prophylactic use, in dosage	715,869	2.86	38.97
H0-2202	Waters, non-alcoholic sweetened or flavoured beverage	614,534	2.46	41.43
H0-8409	Parts for internal combustion spark ignition engines	613,627	2.45	43.88
H0-8473	Parts, accessories, except covers, for office machine	599,179	2.40	46.28
H0-1701	Solid cane or beet sugar and chemically pure sucrose	535,548	2.14	48.42
H0-2402	Cigars, cigarettes etc, tobacco or tobacco substitute	526,955	2.11	50.53
	Total	25,003,251		

Table 2.5 Dominica: Top Export Partners and Products, 2003

	Jamaica	US $ Value	Share	Cumulative Share
H0-3401	Soaps	5,056,093	478796.69	478796.69
H0-3306	Oral and dental hygiene preparations	2,561,856	242600.00	721396.69
H0-3402	Organic surface active agent, preparation, except soa	699,063	66199.15	787595.83
H0-3808	Insecticides, fungicides, herbicides etc (retail)	467,382	44259.66	831855.49
H0-3405	Polishes, creams, scouring pastes, etc	175,417	16611.46	848466.95
H0-2204	Grape wines(including fortified), alcoholic grape mus	13,636	1291.29	849758.24
H0-4602	Basketwork, wickerwork and similar articles	1,056	100.00	849858.24
	Total	8,974,503		
	United Kingdom	US $ Value	Share	Cumulative Share
H0-0803	Bananas, including plantains, fresh or dried	5,151,418	82.81	82.81
H0-2103	Sauce, condiments, mixed seasoning and mustard	816,071	13.12	95.92
H0-3301	Essential oils, resinoids and terpenic by-products	128,681	2.07	97.99
H0-0714	Manioc, arrowroot, salep etc, fresh, dried, sago pith	51,713	0.83	98.82
H0-3401	Soaps	32,342	0.52	99.34
H0-8703	Motor vehicles for transport of persons (except buses	16,488	0.27	99.61
H0-3212	Pigments for paint, stamping foils, dyes, retail	4,276	0.07	99.68
H0-0801	Coconuts, Brazil nuts and cashew nuts, fresh or dried	3,812	0.06	99.74
H0-3926	Plastic articles nes	3,567	0.06	99.80
H0-0804	Dates, figs, pineapple, avocado, guava, fresh or drie	2,575	0.04	99.84
	Total	6,221,014		
	Antigua and Barbuda	US $ Value	Share	Cumulative Share
H0-0803	Bananas, including plantains, fresh or dried	871,031	21.74	21.74
H0-0805	Citrus fruit, fresh or dried	503,256	12.56	34.30
H0-3210	Paints and varnishes nes, water pigments for leather	482,038	12.03	46.34
H0-0804	Dates, figs, pineapple, avocado, guava, fresh or dried	384,922	9.61	55.94
H0-0714	Manioc, arrowroot, salep etc, fresh, dried, sago pith	358,797	8.96	64.90
H0-3401	Soaps	274,627	6.85	71.75
H0-0709	Vegetables nes, fresh or chilled	177,381	4.43	76.18
H0-3306	Oral and dental hygiene preparations	145,666	3.64	79.82
H0-0810	Fruits nes, fresh	123,992	3.09	82.91
H0-0801	Coconuts, Brazil nuts and cashew nuts, fresh or dried	115,041	2.87	85.78
	Total	4,006,256		
	France	US $ Value	Share	Cumulative Share
H0-2505	Natural sand except sand for mineral extraction	875,224	24.52	24.52
H0-0714	Manioc, arrowroot, salep etc, fresh, dried, sago pith	526,176	14.74	39.26
H0-2517	Pebbles, gravels, aggregates and macadam	525,971	14.73	53.99
H0-0805	Citrus fruit, fresh or dried	370,781	10.39	64.38
H0-0803	Bananas, including plantains, fresh or dried	327,573	9.18	73.55
H0-0804	Dates, figs, pineapple, avocado, guava, fresh or dried	273,704	7.67	81.22
H0-2202	Waters, non-alcoholic sweetened or flavored beverage	245,867	6.89	88.11
H0-2204	Grape wines(including fortified), alcoholic grape mus	89,577	2.51	90.62
H0-3401	Soaps	65,587	1.84	92.45
H0-2103	Sauce, condiments, mixed seasoning and mustard	48,847	1.37	93.82
	Total	3,569,890		

Table 2.6 Dominica: Top Import Sources and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-1502	Bovine, sheep and goat fats, raw or rendered	2,816,520	5.98	5.98
H0-8525	Radio and TV transmitters, television cameras	2,796,824	5.94	11.92
H0-0207	Meat, edible offal of domestic poultry	2,332,491	4.95	16.87
H0-8517	Electric apparatus for line telephony, telegraphy	1,809,557	3.84	20.71
H0-8471	Automatic data processing machines (computers)	1,715,334	3.64	24.36
H0-4901	Printed reading books, brochures, leaflets etc	906,951	1.93	26.28
H0-4407	Wood sawn, chipped lengthwise, sliced or peeled	832,620	1.77	28.05
H0-3302	Mixed odoriferous substances for industrial use	731,706	1.55	29.60
H0-2106	Food preparations, nes	639,910	1.36	30.96
H0-8536	Electrical switches, connectors, etc, for < 1kV	588,214	1.25	32.21
	Total	47,096,729		
	Trinidad and Tobago	US $ Value	Share	Cumulative Share
H0-2710	Oils petroleum, bituminous, distillates, except crude	12,118,927	52.33	52.33
H0-7214	Iron/steel bar, only forged hot-rolled drawn, extrude	888,558	3.84	56.16
H0-2711	Petroleum gases and other gaseous hydrocarbons	875,110	3.78	59.94
H0-1905	Baked bread, pastry, wafers, rice paper, biscuits, et	601,319	2.60	62.54
H0-4818	Household, sanitary, hospital paper articles, clothing	514,103	2.22	64.76
H0-3402	Organic surface active agent, preparation, except soap	435,741	1.88	66.64
H0-2309	Animal feed preparations, nes	431,367	1.86	68.50
H0-3923	Containers, bobbins and packages, of plastics	421,064	1.82	70.32
H0-1507	Soya-bean oil, fractions, not chemically modified	338,467	1.46	71.78
H0-4819	Paper, board containers, packing items, box files, et	269,253	1.16	72.94
H0-1904	Cereal food (roasted, swelled), cooked grain not maiz	255,599	1.10	74.05
	Total	23,159,900		
	United Kingdom	US $ Value	Share	Cumulative Share
H0-2835	Phosphatic compounds	658,549	6.84	6.84
H0-1701	Solid cane or beet sugar and chemically pure sucrose	618,565	6.42	13.26
H0-0207	Meat, edible offal of domestic poultry	590,124	6.13	19.39
H0-4901	Printed reading books, brochures, leaflets etc	505,643	5.25	24.64
H0-8705	Special purpose motor vehicles	489,605	5.09	29.73
H0-8703	Motor vehicles for transport of persons (except buses	468,343	4.86	34.59
H0-8517	Electric apparatus for line telephony, telegraphy	449,490	4.67	39.26
H0-3004	Medicaments, therapeutic, prophylactic use, in dosage	360,991	3.75	43.01
H0-0406	Cheese and curd	332,218	3.45	46.46
H0-0402	Milk and cream, concentrated or sweetened	276,835	2.88	49.34
	Total	9,628,297		
	Barbados	US $ Value	Share	Cumulative Share
H0-1101	Wheat or meslin flour	1,235,453	22.56	22.56
H0-2523	Cement (ortland, aluminous, slag or hydraulic)	866,129	15.81	38.37
H0-9406	Prefabricated buildings	507,521	9.27	47.63
H0-1517	Margarine, edible animal or veg oil preparations nes	276,609	5.05	52.68
H0-1507	Soya-bean oil, fractions, not chemically modified	234,404	4.28	56.96
H0-3004	Medicaments, therapeutic, prophylactic use, in dosage	205,864	3.76	60.72
H0-4821	Paper or paperboard labels including printed labels	199,570	3.64	64.37
H0-7610	Aluminum structures, parts nes, for construction	190,403	3.48	67.84
H0-3808	Insecticides, fungicides, herbicides etc (retail)	138,530	2.53	70.37
H0-2105	Ice cream and other edible ice	125,186	2.29	72.66
	Total	5,477,298		

Table 2.7 Grenada: Top Export Partners and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-0303	Fish, frozen, whole	2,072,434	18.82	18.82
H0-8429	Self-propelled earth moving, road making, etc machine	2,015,809	18.31	37.13
H0-0908	Nutmeg, mace and cardamoms	1,738,698	15.79	52.92
H0-8502	Electric generating sets and rotary converters	1,476,802	13.41	66.33
H0-8705	Special purpose motor vehicles	772,967	7.02	73.35

H0-0302	Fish, fresh or chilled, whole	668,990	6.08	79.42
H0-8518	Audio-electronic equipment, except recording devices	388,019	3.52	82.94
H0-8430	Earth or snow moving, boring or pile driving machines	258,185	2.34	85.29
H0-8479	Machines nes having individual functions	224,047	2.03	87.32
H0-8709	Work truck, self-propelled, except lift trucks etc	186,157	1.69	89.01
	Total	11,011,854		
	Netherlands	US $ Value	Share	Cumulative Share
H0-0908	Nutmeg, mace and cardamoms	3,043,793	80.03	80.03
H0-1801	Cocoa beans, whole or broken, raw or roasted	722,198	18.99	99.01
H0-8471	Automatic data processing machines (computers)	34,874	0.92	99.93
H0-9015	Survey, oceanographic, meteorological instruments etc	1,851	0.05	99.98
H0-8431	Parts for use with lifting, moving machinery	740	0.02	100.00
	Total	3,803,456		
	Sweden	US $ Value	Share	Cumulative Share
H0-8905	Special purpose ships, vessels, nes	3,521,903	99.86	99.86
H0-8530	Electrical signaling and traffic control equipment	4,992	0.14	100.00
	Total	3,526,895		
	Saint Lucia	US $ Value	Share	Cumulative Share
H0-1101	Wheat or meslin flour	1,405,035	49.06	49.06
H0-2309	Animal feed preparations, nes	612,864	21.40	70.47
H0-4818	Household, sanitary, hospital paper articles, clothing	231,320	8.08	78.54
H0-3210	Paints and varnishes nes, water pigments for leather	193,512	6.76	85.30
H0-7010	Glass bottles, flasks, jars, phials, stoppers, etc	139,813	4.88	90.18
H0-8429	Self-propelled earth moving, road making, etc machine	130,345	4.55	94.74
H0-2202	Waters, non-alcoholic sweetened or flavored beverage	96,605	3.37	98.11
H0-3603	Safety or detonating fuses, detonators, igniters	17,322	0.60	98.71
H0-2208	Liqueur, spirits and undenatured ethyl alcohol <80%	9,043	0.32	99.03
H0-7326	Articles of iron or steel nes	7,822	0.27	99.30
	Total	2,863,635		

Table 2.8 Grenada: Top Import Sources and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-4901	Printed reading books, brochures, leaflets etc	10,554,171	9.89	9.89
H0-8525	Radio and TV transmitters, television cameras	7,840,887	7.35	17.23
H0-8471	Automatic data processing machines (computers)	3,891,664	3.65	20.88
H0-3926	Plastic articles nes	3,802,317	3.56	24.44
H0-0207	Meat, edible offal of domestic poultry	3,099,811	2.90	27.35
H0-8502	Electric generating sets and rotary converters	2,582,863	2.42	29.77
H0-8517	Electric apparatus for line telephony, telegraphy	2,312,016	2.17	31.93
H0-4412	Plywood, veneered panels and similar laminated wood	2,064,360	1.93	33.87
H0-2106	Food preparations, nes	1,402,767	1.31	35.18
H0-7308	Structures, parts of structures of iron or steel, nes	1,334,435	1.25	36.43
	Total	106,741,399		
	Trinidad and Tobago	US $ Value	Share	Cumulative Share
H0-2710	Oils petroleum, bituminous, distillates, except crude	13,182,353	28.34	28.34
H0-2523	Cement (portland, aluminous, slag or hydraulic)	3,085,992	6.63	34.97
H0-2711	Petroleum gases and other gaseous hydrocarbons	1,875,016	4.03	39.00
H0-8426	Derricks, cranes, straddle carriers, crane trucks	1,590,706	3.42	42.42

Table 2.8 Grenada: Top Import Sources and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-7214	Iron/steel bar, only forged hot-rolled drawn, extrude	1,548,815	3.33	45.75
H0-3923	Containers, bobbins and packages, of plastics	1,491,539	3.21	48.95
H0-1905	Baked bread, pastry, wafers, rice paper, biscuits, et	1,296,880	2.79	51.74
H0-3402	Organic surface active agent, preparation, except soap	1,285,021	2.76	54.50
H0-7610	Aluminum structures, parts nes, for construction	1,269,007	2.73	57.23
H0-4418	Builders joinery and carpentry, of wood	929,981	2.00	59.23
	Total	46,521,654		
	United Kingdom	US $ Value	Share	Cumulative Share
H0-4901	Printed reading books, brochures, leaflets etc	1,347,366	8.91	8.91
H0-1701	Solid cane or beet sugar and chemically pure sucrose	1,242,468	8.21	17.12
H0-8703	Motor vehicles for transport of persons (except buses	624,541	4.13	21.25
H0-3004	Medicaments, therapeutic, prophylactic use, in dosage	610,467	4.04	25.28
H0-8536	Electrical switches, connectors, etc, for < 1kV	498,047	3.29	28.58
H0-0402	Milk and cream, concentrated or sweetened	417,570	2.76	31.34
H0-0207	Meat, edible offal of domestic poultry	399,570	2.64	33.98
H0-1107	Malt	336,675	2.23	36.20
H0-9405	Lamps and lighting fittings, illuminated signs, etc	321,237	2.12	38.33
H0-8429	Self-propelled earth moving, road making, etc machine	319,155	2.11	40.44
	Total	15,127,237		
	Japan	US $ Value	Share	Cumulative Share
H0-8703	Motor vehicles for transport of persons (except buses	6,031,791	54.65	54.65
H0-8704	Motor vehicles for the transport of goods	1,665,712	15.09	69.74
H0-8702	Public-transport type passenger motor vehicles	959,229	8.69	78.43
H0-8708	Parts and accessories for motor vehicles	586,614	5.31	83.74
H0-8418	Refrigerators, freezers and heat pumps nes	278,393	2.52	86.26
H0-7308	Structures, parts of structures of iron or steel, nes	188,620	1.71	87.97
H0-8407	Spark-ignition internal combustion engines	178,873	1.62	89.59
H0-1604	Prepared or preserved fish, fish eggs, caviar	152,815	1.38	90.98
H0-8508	Hand tools incorporating electric motors	63,349	0.57	91.55
H0-8409	Parts for internal combustion spark ignition engines	40,883	0.37	91.92
	Total	11,037,793		

Table 2.9 St. Kitts and Nevis: Top Export Partners and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-8536	Electrical switches, connectors, etc, for < 1kV	18,402,325	48.53	48.53
H0-8532	Electrical capacitors, fixed, variable or adjustable	16,750,419	44.17	92.70
H0-8429	Self-propelled earth moving, road making, etc machine	587,367	1.55	94.25
H0-5202	Cotton waste, including yarn waste and garnetted stock	276,030	0.73	94.98
H0-8502	Electric generating sets and rotary converters	259,998	0.69	95.66
H0-4007	Vulcanized rubber thread and cord	233,757	0.62	96.28
H0-9603	Brooms, brushes, mops, feather dusters, paint pads et	192,531	0.51	96.79
H0-3002	Blood, antiserum, vaccines, toxins and cultures	171,151	0.45	97.24
H0-4907	Documents of title (bonds etc), unused stamps etc	126,725	0.33	97.57
H0-6211	Track suits, ski suits and swimwear, other garments	77,936	0.21	97.78
	Total	37,920,508		
	United Kingdom	US $ Value	Share	Cumulative Share

H0-1701	Solid cane or beet sugar and chemically pure sucrose	7,200,465	87.46	87.46
H0-4907	Documents of title (bonds etc), unused stamps etc	533,862	6.48	93.94
H0-8426	Derricks, cranes, straddle carriers, crane trucks	314,814	3.82	97.77
H0-8503	Parts for electric motors and generators	131,112	1.59	99.36
H0-8205	Hand tools nes, anvils, clamps, vices, blow lamps etc	16,795	0.20	99.56
H0-4901	Printed reading books, brochures, leaflets etc	11,852	0.14	99.71
H0-2106	Food preparations, nes	5,800	0.07	99.78
H0-9403	Other furniture and parts thereof	3,703	0.04	99.82
H0-9506	Equipment for gymnastics, sports, outdoor games nes	3,703	0.04	99.87
H0-1107	Malt	2,592	0.03	99.90
	Total	8,233,033		

Table 2.10 St. Kitts and Nevis: Top Import Sources and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-7326	Articles of iron or steel nes	2,929,571	2.68	2.68
H0-8536	Electrical switches, connectors, etc, for < 1kV	2,680,703	2.45	5.14
H0-8532	Electrical capacitors, fixed, variable or adjustable	2,523,927	2.31	7.45
H0-8547	Insulating fittings for electrical equipment	2,396,023	2.19	9.64
H0-8541	Diodes, transistors, semi-conductors, etc	2,187,463	2.00	11.64
H0-0207	Meat, edible offal of domestic poultry	2,183,024	2.00	13.64
H0-8544	Insulated wire and cable, optical fibre cable	2,160,211	1.98	15.62
H0-8517	Electric apparatus for line telephony, telegraphy	2,133,641	1.95	17.57
H0-9403	Other furniture and parts thereof	2,123,994	1.94	19.51
H0-3926	Plastic articles nes	1,969,536	1.80	21.32
	Total	109,242,297		
	Trinidad and Tobago	US $ Value	Share	Cumulative Share
H0-2710	Oils petroleum, bituminous, distillates, except crude	16,214,049	61.13	61.13
H0-2523	Cement (portland, aluminous, slag or hydraulic)	1,224,061	4.62	65.75
H0-2711	Petroleum gases and other gaseous hydrocarbons	1,115,376	4.21	69.96
H0-7214	Iron/steel bar, only forged hot-rolled drawn, extrude	960,819	3.62	73.58
H0-2202	Waters, non-alcoholic sweetened or flavored beverage	505,813	1.91	75.49
H0-3402	Organic surface active agent, preparation, except soa	502,927	1.90	77.38
H0-4818	Household, sanitary, hospital paper articles, clothing	366,878	1.38	78.76
H0-9403	Other furniture and parts thereof	282,879	1.07	79.83
H0-9404	Mattress supports, mattresses, bedding	263,176	0.99	80.82
H0-2103	Sauce, condiments, mixed seasoning and mustard	234,691	0.88	81.71
	Total	26,521,912		
	Canada	US $ Value	Share	Cumulative Share
H0-9403	Other furniture and parts thereof	1,876,685	9.98	9.98
H0-9405	Lamps and lighting fittings, illuminated signs, etc	1,135,204	6.04	16.02
H0-0402	Milk and cream, concentrated or sweetened	894,639	4.76	20.77
H0-9014	Navigational instruments, direction finding compasses	764,128	4.06	24.84
H0-9401	Seats (except dentist, barber, etc chairs)	662,227	3.52	28.36
H0-4409	Wood continuously shaped along any edges	579,877	3.08	31.44
H0-8473	Parts, accessories, except covers, for office machine	561,927	2.99	34.43
H0-8516	Electric equipment with heating element, domestic etc	552,751	2.94	37.37
H0-6908	Glazed ceramic flags and paving, hearth, wall tiles	542,571	2.89	40.26
H0-8481	Taps, cocks, valves for pipes, tanks, boilers, etc	528,861	2.81	43.07

Table 2.10 St. Kitts and Nevis: Top Import Sources and Products, 2003

	USA	US $ Value	Share	Cumulative Share
	Total	18,805,068		
	United Kingdom	US $ Value	Share	Cumulative Share
H0-7303	Tubes, pipes and hollow profiles, of cast iron	6,005,523	32.15	32.15
H0-8544	Insulated wire and cable, optical fibre cable	1,420,963	7.61	39.75
H0-4907	Documents of title (bonds etc), unused stamps etc	1,099,127	5.88	45.63
H0-0207	Meat, edible offal of domestic poultry	847,350	4.54	50.17
H0-8705	Special purpose motor vehicles	829,967	4.44	54.61
H0-8703	Motor vehicles for transport of persons (except buses	787,838	4.22	58.83
H0-8536	Electrical switches, connectors, etc, for < 1kV	510,956	2.73	61.56
H0-1701	Solid cane or beet sugar and chemically pure sucrose	448,227	2.40	63.96
H0-3004	Medicaments, therapeutic, prophylactic use, in dosage	441,832	2.36	66.33
H0-4901	Printed reading books, brochures, leaflets etc	364,417	1.95	68.28
	Total	18,682,597		

Table 2.11 St. Lucia: Top Export Partners and Products, 2003

	United Kingdom	US $ Value	Share	Cumulative Share
H0-0803	Bananas, including plantains, fresh or dried	15,876,494	84.29	84.29
H0-8521	Video recording and reproducing apparatus	653,160	3.47	87.76
H0-2208	Liqueur, spirits and undenatured ethyl alcohol <80%	384,774	2.04	89.80
H0-8429	Self-propelled earth moving, road making, etc machine	325,925	1.73	91.53
H0-8525	Radio and TV transmitters, television cameras	243,223	1.29	92.82
H0-9030	Instruments to check or measure electricity, radiation	154,366	0.82	93.64
H0-9999	Commodities not specified according to kind	146,136	0.78	94.42
H0-9006	Photographic cameras (except cine), accessories	89,943	0.48	94.89
H0-0810	Fruits nes, fresh	76,522	0.41	95.30
	Total	18,835,973		
	USA	US $ Value	Share	Cumulative Share
H0-8525	Radio and TV transmitters, television cameras	1,830,205	15.04	15.04
H0-6104	Womens, girls suit, dress, skirt, etc, knit or crochet	1,486,162	12.22	27.26
H0-8533	Electrical resistors and rheostats except for heating	1,099,883	9.04	36.30
H0-5607	Twine, cordage, rope and cable	663,089	5.45	41.75
H0-8504	Electric transformers, static converters and rectifier	505,058	4.15	45.90
H0-8422	Machinery for dish washing, bottle washing, filling	462,024	3.80	49.70
H0-9207	Musical instruments electrical, requiring amplifier	439,596	3.61	53.31
H0-8541	Diodes, transistors, semi-conductors, etc	414,603	3.41	56.72
H0-8429	Self-propelled earth moving, road making, etc machine	405,731	3.33	60.05
H0-7113	Jewellery and parts, containing precious metal	353,167	2.90	62.96
	Total	12,166,292		
	Trinidad and Tobago	US $ Value	Share	Cumulative Share
H0-2710	Oils petroleum, bituminous, distillates, except crude	5,232,097	51.78	51.78
H0-2203	Beer made from malt	2,819,989	27.91	79.69
H0-4819	Paper, board containers, packing items, box files, et	1,040,901	10.30	89.99
H0-2208	Liqueur, spirits and undenatured ethyl alcohol <80%	213,709	2.11	92.10
H0-7308	Structures, parts of structures of iron or steel, nes	129,303	1.28	93.38
H0-7010	Glass bottles, flasks, jars, phials, stoppers, etc	106,190	1.05	94.43
H0-3506	Glues and adhesives nes, pack <1kg	87,340	0.86	95.30

H0-2517	Pebbles, gravels, aggregates and macadam	78,263	0.77	96.07
H0-9999	Commodities not specified according to kind	77,386	0.77	96.84
H0-9207	Musical instruments electrical, requiring amplifier	26,666	0.26	97.10
	Total	10,104,770		
	Barbados	US $ Value	Share	Cumulative Share
H0-2203	Beer made from malt	2,679,021	51.25	51.25
H0-0803	Bananas, including plantains, fresh or dried	452,503	8.66	59.91
H0-2710	Oils petroleum, bituminous, distillates, except crude	441,134	8.44	68.35
H0-4819	Paper, board containers, packing items, box files, et	367,456	7.03	75.38
H0-2208	Liqueur, spirits and undenatured ethyl alcohol <80%	220,549	4.22	79.60
H0-3210	Paints and varnishes nes, water pigments for leather	188,941	3.61	83.21
H0-6109	T-shirts, singlets and other vests, knit or crochet	148,489	2.84	86.05
H0-8703	Motor vehicles for transport of persons (except buses	109,368	2.09	88.14
H0-1902	Pasta, couscous, etc.	108,571	2.08	90.22
H0-9999	Commodities not specified according to kind	59,663	1.14	91.36
	Total	5,227,290		

Table 2.12 St. Lucia: Top Import Sources and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-8525	Radio and TV transmitters, television cameras	19,666,462	10.81	10.81
H0-2710	Oils petroleum, bituminous, distillates, except crude	19,445,056	10.69	21.51
H0-7113	Jewelry and parts, containing precious metal	8,834,832	4.86	26.36
H0-0207	Meat, edible offal of domestic poultry	5,555,412	3.05	29.42
H0-8471	Automatic data processing machines (computers)	5,297,967	2.91	32.33
H0-8517	Electric apparatus for line telephony, telegraphy	5,116,820	2.81	35.15
H0-4901	Printed reading books, brochures, leaflets etc	3,252,365	1.79	36.93
H0-4412	Plywood, veneered panels and similar laminated wood	2,242,574	1.23	38.17
H0-4407	Wood sawn, chipped lengthwise, sliced or peeled	2,179,181	1.20	39.37
H0-5513	Woven fabric >85% synth + cotton, <170g/m2 unbl/blchd	2,069,345	1.14	40.50
	Total	181,861,517		
	Trinidad and Tobago	US $ Value	Share	Cumulative Share
H0-2710	Oils petroleum, bituminous, distillates, except crude	17,932,454	34.90	34.90
H0-2711	Petroleum gases and other gaseous hydrocarbons	3,635,300	7.08	41.98
H0-2523	Cement (portland, aluminous, slag or hydraulic)	3,199,601	6.23	48.20
H0-1905	Baked bread, pastry, wafers, rice paper, biscuits, et	2,459,312	4.79	52.99
H0-2202	Waters, non-alcoholic sweetened or flavored beverage	1,552,378	3.02	56.01
H0-2402	Cigars, cigarettes etc, tobacco or tobacco substitute	1,470,834	2.86	58.87
H0-7214	Iron/steel bar, only forged hot-rolled drawn, extrude	1,323,625	2.58	61.45
H0-2009	Fruit and vegetable juices, not fermented or spirited	973,110	1.89	63.34
H0-1904	Cereal food (roasted, swelled), cooked grain not maize	958,293	1.87	65.21
H0-4818	Household, sanitary, hospital paper articles, clothing	905,618	1.76	66.97
	Total	51,380,004		
	United Kingdom	US $ Value	Share	Cumulative Share
H0-8479	Machines nes having individual functions	2,346,216	7.45	7.45
H0-0207	Meat, edible offal of domestic poultry	1,620,159	5.14	12.60
H0-3923	Containers, bobbins and packages, of plastics	1,572,252	4.99	17.59
H0-0406	Cheese and curd	1,243,982	3.95	21.54
H0-8474	Machinery to sort, screen, wash, etc mineral products	1,155,204	3.67	25.21
H0-8703	Motor vehicles for transport of persons (except buses	1,097,372	3.48	28.69
H0-4901	Printed reading books, brochures, leaflets etc	1,084,548	3.44	32.14
H0-2208	Liqueur, spirits and undenatured ethyl alcohol <80%	1,040,748	3.30	35.44
H0-1701	Solid cane or beet sugar and chemically pure sucrose	1,027,279	3.26	38.70
H0-8429	Self-propelled earth moving, road making, etc machine	955,841	3.04	41.74
	Total	31,490,578		
	Japan	US $ Value	Share	Cumulative Share
H0-8703	Motor vehicles for transport of persons (except buses	5,110,122	43.32	43.32
H0-8704	Motor vehicles for the transport of goods	2,801,921	23.75	67.07
H0-8702	Public-transport type passenger motor vehicles	956,653	8.11	75.18
H0-8708	Parts and accessories for motor vehicles	489,128	4.15	79.33
H0-8902	Fishing vessels and factory ships	437,036	3.70	83.03
H0-4011	New pneumatic tires, of rubber	286,508	2.43	85.46
H0-8407	Spark-ignition internal combustion engines	247,380	2.10	87.56
H0-9101	Watches with case of, or clad with, precious metal	203,586	1.73	89.28
H0-8429	Self-propelled earth moving, road making, etc machine	122,168	1.04	90.32

H0-8511	Ignition/starter equipment, internal combustion engines	70,030	0.59	90.91
	Total	11,796,310		

Table 2.13 St. Vincent and the Grenadines: Top Export Partners and Products, 2003

	UK	US $ Value	Share	Cumulative Share
H0-0803	Bananas, including plantains, fresh or dried	10,713,919	96.10	96.10
H0-0714	Manioc, arrowroot, salep etc, fresh, dried, sago pith	220,747	1.98	98.08
H0-8437	Machines to clean, sort, mill seed, grain, dry legume	46,296	0.42	98.49
H0-9403	Other furniture and parts thereof	41,775	0.37	98.87
H0-0908	Nutmeg, mace and cardamoms	24,465	0.22	99.09
H0-8517	Electric apparatus for line telephony, telegraphy	13,336	0.12	99.20
H0-0809	Stone fruit, fresh (apricot, cherry, plum, peach, etc	10,967	0.10	99.30
H0-8409	Parts for internal combustion spark ignition engines	8,240	0.07	99.38
H0-3304	Beauty, make-up and skin care preparations	7,537	0.07	99.44
H0-0804	Dates, figs, pineapple, avocado, guava, fresh or drie	7,339	0.07	99.51
	Total	11,149,193		
	US	US $ Value	Share	Cumulative Share
H0-8716	Trailers and non-mechanically propelled vehicle nes	659,004	13.08	13.08
H0-8544	Insulated wire and cable, optical fiber cable	474,046	9.41	22.48
H0-8705	Special purpose motor vehicles	422,960	8.39	30.88
H0-6211	Track suits, ski suits and swimwear, other garments	354,438	7.03	37.91
H0-8704	Motor vehicles for the transport of goods	313,230	6.22	44.13
H0-8429	Self-propelled earth moving, road making, etc machine	270,610	5.37	49.50
H0-8903	Yachts, pleasure, sports vessels, rowing boats, canoe	165,011	3.27	52.77
H0-4416	Wooden casks, barrels, vats, tubs, etc	148,430	2.95	55.72
H0-4418	Builders joinery and carpentry, of wood	142,436	2.83	58.54
H0-8501	Electric motors and generators, except generating set	131,953	2.62	61.16
	Total	5,039,391		
	Barbados	US $ Value	Share	Cumulative Share
H0-2202	Waters, non-alcoholic sweetened or flavored beverage	1,224,228	28.77	28.77
H0-0803	Bananas, including plantains, fresh or dried	1,069,164	25.13	53.90
H0-0804	Dates, figs, pineapple, avocado, guava, fresh or drie	259,592	6.10	60.00
H0-8426	Derricks, cranes, straddle carriers, crane trucks	203,739	4.79	64.79
H0-0306	Crustaceans	182,727	4.29	69.08
H0-1101	Wheat or meslin flour	168,207	3.95	73.04
H0-0714	Manioc, arrowroot, salep etc, fresh, dried, sago pith	147,573	3.47	76.50
H0-1006	Rice	137,999	3.24	79.75
H0-4819	Paper, board containers, packing items, box files, et	129,622	3.05	82.79
H0-4418	Builders joinery and carpentry, of wood	112,475	2.64	85.44
	Total	4,254,935		
	Trinidad	US $ Value	Share	Cumulative Share
H0-0714	Manioc, arrowroot, salep etc, fresh, dried, sago pith	1,710,594	40.68	40.68
H0-0803	Bananas, including plantains, fresh or dried	658,231	15.65	56.34
H0-8501	Electric motors and generators, except generating set	343,367	8.17	64.50
H0-8705	Special purpose motor vehicles	275,048	6.54	71.04
H0-0910	Other spices	196,454	4.67	75.72
H0-3923	Containers, bobbins and packages, of plastics	153,085	3.64	79.36
H0-2302	Bran, sharps etc, from working of cereals or legumes	123,563	2.94	82.30
H0-1006	Rice	101,418	2.41	84.71
H0-4819	Paper, board containers, packing items, box files, et	90,462	2.15	86.86
H0-8703	Motor vehicles for transport of persons (except buses	66,617	1.58	88.44
	Total	4,204,735		

Table 2.14 St. Vincent: Top Import Sources and Products, 2003

	USA	US $ Value	Share	Cumulative Share
H0-8525	Radio and TV transmitters, television cameras	6,788,708	8.20	8.20

H0-1001	Wheat and meslin	4,212,210	5.09	13.29
H0-8517	Electric apparatus for line telephony, telegraphy	3,703,387	4.47	17.76
H0-0207	Meat, edible offal of domestic poultry	3,614,355	4.36	22.12
H0-8471	Automatic data processing machines (computers)	3,343,036	4.04	26.16
H0-1006	Rice	1,561,991	1.89	28.05
H0-2106	Food preparations, nes	1,554,373	1.88	29.92
H0-4409	Wood continuously shaped along any edges	1,321,465	1.60	31.52
H0-4412	Plywood, veneered panels and similar laminated wood	1,217,886	1.47	32.99
H0-4804	Uncoated kraft paper and paperboard	1,192,358	1.44	34.43
	Total	$82,806,840		
	Trinidad	US $ Value	Share	Cumulative Share
H0-2710	Oils petroleum, bituminous, distillates, except crude	16,999,578	40.91	40.91
H0-2523	Cement (portland, aluminous, slag or hydraulic)	2,335,272	5.62	46.53
H0-2711	Petroleum gases and other gaseous hydrocarbons	2,110,417	5.08	51.61
H0-1905	Baked bread, pastry, wafers, rice paper, biscuits, et	1,329,826	3.20	54.81
H0-7214	Iron/steel bar, only forged hot-rolled drawn, extrude	1,099,944	2.65	57.46
H0-4818	Household, sanitary, hospital paper articles, clothing	930,077	2.24	59.70
H0-3402	Organic surface active agent, preparation, except soap	702,014	1.69	61.39
H0-2402	Cigars, cigarettes etc, tobacco or tobacco substitute	688,366	1.66	63.04
H0-2009	Fruit and vegetable juices, not fermented or spirited	640,347	1.54	64.58
H0-7610	Aluminum structures, parts nes, for construction	624,226	1.50	66.09
	Total	$41,551,712		
	UK	US $ Value	Share	Cumulative Share
H0-0207	Meat, edible offal of domestic poultry	1,876,647	12.97	12.97
H0-4901	Printed reading books, brochures, leaflets etc	972,905	6.73	19.70
H0-1701	Solid cane or beet sugar and chemically pure sucrose	806,068	5.57	25.27
H0-3004	Medicaments, therapeutic, prophylactic use, in dosage	573,992	3.97	29.24
H0-8536	Electrical switches, connectors, etc, for < 1kV	449,568	3.11	32.35
H0-0402	Milk and cream, concentrated or sweetened	410,238	2.84	35.19
H0-0406	Cheese and curd	408,812	2.83	38.01
H0-3923	Containers, bobbins and packages, of plastics	408,680	2.83	40.84
H0-8703	Motor vehicles for transport of persons (except buses	363,576	2.51	43.35
H0-8544	Insulated wire and cable, optical fibre cable	308,466	2.13	45.49
	Total	$14,463,645		
	Barbados	US $ Value	Share	Cumulative Share
H0-2523	Cement (portland, aluminous, slag or hydraulic)	1,260,207	16.59	16.59
H0-1517	Margarine, edible animal or veg oil preparations nes	928,031	12.21	28.80
H0-3210	Paints and varnishes nes, water pigments for leather	645,329	8.49	37.29
H0-3808	Insecticides, fungicides, herbicides etc (retail)	360,143	4.74	42.03
H0-4902	Newspapers, journals and periodicals	256,850	3.38	45.41
H0-1507	Soya-bean oil, fractions, not chemically modified	246,582	3.25	48.66
H0-7610	Aluminum structures, parts nes, for construction	236,179	3.11	51.77
H0-4418	Builders joinery and carpentry, of wood	233,981	3.08	54.85
H0-3004	Medicaments, therapeutic, prophylactic use, in dosage	207,285	2.73	57.57
H0-1905	Baked bread, pastry, wafers, rice paper, biscuits, et	195,225	2.57	60.14
	Total	$ 7,598,078		

Trade Openness, Trade Balance, Trade dependency, Extent and Effects of Trade Preferences

Competitiveness of Domestic Production

Introduction

123 EPAs provide ACP countries with an opportunity to expand exports to the EU, but also allow EU firms to export goods and services to ACP countries. This

reciprocity in trading relations means that firms in the ACP countries would have to restructure their operations not only to compete in EU markets but also to survive in their own domestic markets. The development assistance offered through the EPAs can assist in this restructuring exercise; but the challenges can be significant for enterprises in the ACP countries.

124 In the OECS, domestic markets are very small, production for export is very specialised with one or two major commodities, there is a shortage of skilled personnel, the economic infrastructure is inadequate in several areas and supply capacity constraints exist in a range of areas. The OECS would therefore need a substantial amount of assistance to fully benefit from the trade aspect of an EPA with the EU.

125 This section examines the issues of productivity and competitiveness of production in the OECS. First, an analysis of the production structure in the region is undertaken. Secondly, the trend in and factors influencing productivity in the countries are analysed. Thirdly, the degree to which exports from the OECS are competitive in the international market is examined. Finally, measures which can enhance productivity and competitiveness are specified. These measures can be used as a basis for negotiations of an EPA.

Productivity Growth in the OECS

126 Increasing the productivity of the factors of production is vital to increasing the competitiveness of OECS exports. In addition, productivity enhancement is also critical to the competitiveness of domestic producers that are increasingly faced with competition in the domestic markets. With the general reduction in tariffs and the limited ability to use the exchange rate as a competitiveness instrument, greater reliance would have to be placed on enhancing productivity, which lowers unit costs and hence unit prices.

127 Little data exists on productivity in the OECS. Crude estimates on total factor productivity growth in the OECS over the 1980 to 2000 period shows a significant decline in total factor productivity over the periods 1981-1990 and 1991 to 2000 (except for St Kitts and Nevis). For example, during the 1981-1990 and 1991 period, total productivity growth ranged from 0.43 (St Kitts and Nevis) to 5.01 (St Lucia, while the range was -0.26 (St Lucia) to 2.65 (St Kitts and Nevis) over the 1991 – 2000 period (Table 2.15). With the exception of St Lucia, capital growth contributed more to output growth than the growth of labour.

128 The slowdown of total factor productivity growth (Solow residuals) points to a number of factors influencing productivity in the OECS. The World Bank (2005) has pointed to the following factors:

- the shift from less to more productive sectors (i.e., from agriculture to services);
- the shift in the composition and financing of investment over the decades could have resulted in lower capital productivity;
- the increasing volatility of growth or income could have lowered capital productivity; and

- the increased incidence of natural disasters could have lowered productivity.

Table 2.15 Total Factor Productivity Growth (Solow Residuals, 1980-2000)

Country		1981-2000	1981-1990	1991-2000
Antigua and Barbuda	GDP	4.73	6.14	3.32
	Labour	0.42	0.32	0.51
	Capital	1.20	1.23	1.18
	TFP	3.11	4.59	1.63
Dominica	GDP	3.53	5.38	1.68
	Labour	-0.11	-0.10	-0.12
	Capital	0.84	0.98	0.70
	TFP	2.80	4.50	1.10
Grenada	GDP	4.62	5.57	3.68
	Labour	0.32	0.26	0.38
	Capital	1.23	1.13	1.34
	TFP	3.07	4.18	1.96
St Kitts and Nevis	GDP	4.86	5.47	4.24
	Labour	-0.02	-0.33	0.29
	Capital	1.38	2.04	1.31
	TFP	2.45	0.43	2.65
St Lucia	GDP	5.12	7.62	2.61
	Labour	1.84	1.82	1.86
	Capital	0.90	0.79	1.01
	TFP	2.37	5.01	-0.26
St Vincent And the Grenadines	GDP	4.13	6.07	2.19
	Labour	0.56	0.64	0.49
	Capital	1.12	1.02	1.22
	TFP	2.44	4.41	0.47
Source: Kida (2004) in World Bank (2005)				

129 Research on productivity growth in other Caribbean countries, notably Jamaica and Barbados, indicates that labour productivity growth depends on investment in human and physical capital, the adoption of new technology, plant organization, management systems, incentive payment schemes and good labour-management relations [see Downes, 2004]. Available data for aggregate labour productivity in St Lucia indicate a general decline over the period 1998-2003 (Table 2.16). Sectoral estimates of labour productivity in St Lucia indicate significant increases in the financial and the electricity/gas sectors, but declines in the agricultural and distribution sectors.

Table 2.16 Labour Productivity in St Lucia, 1995-2003

Year	Constant Price GDP- EC$m (1990 base)	Employed Persons (000)	Labour Productivity ($m) (Index)
1995	1075.77	55.9	19,244.54 (100.0)-
1996	1087.72	56.7	19,183.77 (99.7)
1997	1094.43	55.9	19,578.35 (101.7)
1998	1132.03	56.4	20,071.45 (104.3)
1999	1175.25	59.8	19,653.01 (102.1)
2000	1169.36	63.2	18,502.53 (96.2)
2001	1118.72	n.a.	n.a.
2002	1123.50	58.5	19,205.13 (99.8)
2003	1165.17	63.9	18,234.27) (94.8)

130 The general results on productivity in the OECS therefore indicate that significant effort is needed to boost labour, capital and total productivity in all the sectors of the economies, especially in those sectors geared towards the export market. At the:

- macro level, attention has to be paid to human resource development, social infrastructure, the regulatory environment, the sectoral allocation of resources and the trade orientation of the sectors;

- micro level, the main elements to consider are supervisory practices, the choice of incentives, training systems, the use of modern technology, plant and service organisation and general working conditions and relationships.

131 Several of the countries, notably Dominica, St Lucia and St Vincent and the Grenadines have been considering the establishment of National Productivity Centres to promote productivity growth in these countries. Part of the negotiations of an EPA should include technical and financial assistance to establish these centres in the OECS since they provide the institutional mechanism for productivity enhancement.

Competitiveness in the OECS

132 Enhancing productivity growth in the OECS is vital to boosting competitiveness in both domestic and export markets. There are several levels at which competitiveness can be examined: enterprise, sectoral and national. At the:

- enterprise level, it reflects the ability to design, produce and/or market products of superior quality and lower costs than those offered by domestic and international competitors and hence secure long-run profitability.

- sectoral or industry level, it relates to the extent to which the sector/industry offers the potential for growth and to attract a good return on investment.

- national level, the concept refers to the extent to which the business environment is conducive to growth and development.

133 Competitiveness therefore takes into consideration both price and non-price elements. In short, competitiveness refers to the ability of the enterprise/sector/country to produce and sell goods and services in the domestic and foreign market at prices and quality that ensure long-run viability and sustainability.

134 The commonly used measures of competitiveness are the real unit labour cost (RULC), which is the ratio of the real wage to labour productivity; and the real effective exchange rate (REER) which is the trade weighted product of the nominal exchange rates of trading partners times the ratio of their prices to a country's domestic prices. Given the absence of adequate labour market data in the OECS, reliance is placed on the REER as a measure of the overall (price) competitiveness of exports from the OECS.

135 The real effective exchange rate for six OECS countries indicate an appreciation of the rate between 1998 and 2001 (that is, a loss of overall competitiveness), but some degree of depreciation since 2001 (Table 2.17). The

OECS has a fixed exchange regime with the US dollar, hence depreciation in the REER can be attributed to movement of the US dollar with other currencies such as the pound sterling and the euro. Between 2001 and 2004, the US dollar (and hence the EC dollar) increased its value against the pound and the euro, thus making exports from the OECS relatively more competitive. In effect, the improved price competitiveness of OECS exports was externally determined rather than being achieved through productivity growth and other related factors.

Table 2.17 Real Effective Exchange Rate in the OECS1998-2004 (100=2000)

Country	1998	1999	2000	2001	2002	2003	2004
Antigua and Barbuda	97.6	98.0	100.0	103.6	103.0	96.9	92.5
Dominica	98.7	97.7	100.0	103.3	100.7	94.0	89.3
Grenada	95.8	96.4	100.0	103.9	102.2	94.8	90.2
St Kitts and Nevis	95.6	97.8	100.0	101.1	100.6	94.8	88.9
St Lucia	91.3	94.2	100.0	100.8	98.9	89.3	87.0
St Vincent and the Grenadines	97.8	97.9	100.0	102.4	99.1	90.4	86.2
Source: IMF: *International Financial Statistics*, August 2005							

136 One study on the factors which affect the competitiveness of firms in Grenada identified skills and education of available workers, the cost of financing, tax rates, access to finance and electricity as the five top obstacles (Box one). In spite of these obstacles, firms in Grenada still sought to enhance their competitiveness through a series of innovative measures such as upgrading and existing product line, introducing new technology, developing a new product line and discontinuing a product line (Box 2).

Box 1:
Major Obstacles to Firm Competitiveness in Grenada (by rank order)
Percent of Respondents

1 Skills and education of available workers
2 Cost of financing
3 Tax rates
4 Access to financing
5 Electricity
6 Crime, theft and disorder
7 Economic and reg policy uncertainty
8 Transportation: international
9 Anti-competitive policies
10 Macroeconomic instability
11 Corruption
12 Legal system/conflict resolution
13 Water
14 Transportation: CARICOM
15 Labour relations
16 Telecommunications
17 Access to land
18 Transportation: local
19 Health of workers (AIDS/HIV)

Source: World Bank (2004

Box 2:
Types of Innovative Activity Undertaken by Firms in Grenada (by Rank Order)

1	Upgrading an existing product line
2	Introduced new technology
3	Developed new product line
4	Discontinued a product line
5	Opened a new plant
6	Agreed a new joint venture with foreign partner
7	Obtained a new licensing agreement
8	Outsourced a major production activity
9	Brought in-house a major production activity
10	Closed an existing plant or outlet

Source: World Bank (2004)

137 An examination of manufactured export competitiveness from small states indicates that the OECS ranks relatively low [Wignaraja and Joiner, 2004]. Using a Small States Manufactured Export Competitiveness Index (SSMECI) consisting of three variables: manufactured export value per capita in 2001; average manufactured export growth per annum 1990-2001 and manufactured value added as a percent of GDP in 1999, Wignaraja and Joiner (2004) ranked 40 small states. The OECS ranked between 15 and 33 among the 40 small states (Table 2.18).

Table 2.18 Ranking of Caribbean Countries by MECI and SSMECI Indices

Country	MECI [(a)]		SSMECI [(b)]	
	Index	Rank	Index	Rank
Trinidad/Tobago	0.52	15	0.59	5
Dominica	0.38	38	0.45	24
Jamaica	0.35	45	0.48	18
St Kitts/Nevis	0.33	50	0.48	17
Grenada	0.31	55	0.49	15
Belize	0.29	58	0.46	21
Guyana	0.27	61	0.49	14
Haiti	0.21	71	-	-
Bahamas	-	-	0.47	19
Barbados	-	-	0.46	20
Suriname	-	-	0.43	25
St Vincent	-	-	0.41	26
St Lucia	-	-	0.31	33
Antigua	-	-	0.27	35
Singapore	0.93	1	-	-
Malta	-	-	0.72	1
Yemen	0.00	0.00	-	-
Kiribati	-	-	0.00	40

Notes:
a. MECI – manufactured export competitiveness index consisting of manufactured exports per capita (1999); manufactured export growth (1980-1999) and technology intensive exports as a percentage of total merchandise exports (1998) for 80 countries.
b. SSMECI – small states MECI made up of manufactured exports per capita (2001); average manufactured export growth (1990-2001) and manufactured value added as a percent of GDP (1999) for 40 countries.
Sources
Wignaraja and Taylor (2003), pp 71-72
Wignaraja and Joiner (2004)

138 Antoine and Taylor (1995) completed a study in the mid 1990s on the competitiveness of OECS non-traditional agricultural commodities in the US market using an index of domestic resource cost (DRC). They found that tropical fruits (avocadoes, papaws, etc) offered the greatest potential for export to the US market, but this potential was “tempered by existing market infrastructures and the operating

characteristics of the market" (p. 240). It seems that these constraints on the agricultural sector have not eased, and indeed the conditions governing the export of non-traditional products have changed significantly in the new trading environment. Entry into extra-regional markets requires conformity with ISO and HACCP regulatory requirements which mean that OECS producers have to significantly improve their quality processes and infrastructural and operational systems.

139 The growth of the services sector (tourism, financial, data processing) has brought new challenges to OECS producers. Since a number of small countries are seeking to diversify their production structures by expanding their services sector, the OECS producers will find that they will have to engage in continuous improvements in order to sustain any competitive advantage.

140 A recent study of tourism in the OECS indicates that countries have been losing market share relative to other Caribbean destinations [see IMF, 2004, Chapter IV]. The loss in market share can be attributed to a decline in price and non-price competitiveness. Using a competitor-based REER index, the study showed that there has been a pronounced appreciation of the rate since mid-2002, The depreciation of the EC dollar vis-à-vis its competitors "did not translate into a decline in key factors such as cost of vacation packages, car rental prices and long-distance telecommunication charges" (IMF, 2004, p. 80). The tourism sector in the OECS also suffers from other structural and institutional constraints:

- limited air access to several of the destinations;
- high operating costs associated with the small size of many of the hotels;
- product quality shortfalls – attractions, services;
- inadequate advertising/marketing;
- insufficient upgrading of plant and infrastructure (accommodation facilities, airports, roads, water systems); and
- limited human resource development.

141 While the tourism sector provides an opportunity for the OECS to engage in economic diversification, attention has to be paid to the factors which affect both price and non-price competitiveness. Greater physical and human capital investment would be needed along with a strengthening of the institutions charged with managing the tourism product.

142 The financial services sector in the OECS is largely embryonic. Several competitiveness issues have been identified:

- "plant modernisation;
- cost of loan financing, insurance and taxation
- government legislation and policy modernisation, especially for off-shore companies, credit unions and small businesses

- increased vigilance and skill by the regulatory authorities to execute quality supervision;
- deposit guarantees and stabilisation programs to increase customer and shareholder confidence;
- research and development in order to improve market responsiveness in products and services, as well as to monitor government and private sector trends and policies;
- training and development of management and technical staff, including auditors, internal supervisors, regulators, IT support, customer service and administration" [www.cpechrd.org/OECSfinserv.htm].

Overview of CARIFORUM-OECS EPA with the EU

Introduction

143 June 2000 marked the signing of the Cotonou Agreement between the European Union and the African, Caribbean and Pacific Group, also known as the ACP countries. This 20 year Economic Partnership Agreement (EPA), subject to revision every five years, outlines the parameters for the conduct of trade and development relations between the 77 member countries of the ACP group and the European Union. The Cotonou Agreement aims at reducing and eliminating poverty by contributing to sustainable development and gradual integration of the ACP economies into the global trade community.

History and Process of EU Enlargement

144 From an original EC membership of six in 1958, the EU has gradually expanded and as of 1 May 2004, ten (10) Central and Eastern European Countries (CEECs) joined the existing fifteen Member States of the European Union. These ten countries are Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. With the May 2004 enlargement, the EU has grown to 25, expanding its population base from 200 million to 376 million[1/].

145 This enlargement round occurred after roughly a decade of negotiations. The first stage of negotiations took place among the then current fifteen member states when they agreed upon a common negotiating position regarding the terms of accession with which to approach the candidates. The second stage of negotiations occurred between the EU and the candidate states, when these terms were discussed and revised.

146 While the EU has enlarged several times in the past, never before had an enlargement round included so many countries and with such strikingly different levels of economic and domestic political development, not to mention different

1/ The 25 current Member States of the EU are Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany Greece, Hungary, Republic of Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

historical and cultural backgrounds. Many of the candidates have only just begun building democracies and have not finalized their transition to a market economy. Culturally and linguistically, this enlargement not only greatly increased the number of languages spoken within the EU but also increased the number of languages spoken within the EU, reflecting the increased cultural heterogeneity and level of diversity in the EU. Although several of the previous enlargement rounds in EU history have included the accession of countries whose average GDP per capita was lower than that of the EU's, never had the difference been this great nor had the enlargement included so many countries. Hence, the number of countries joining and the magnitude of the disparity in the level of development between the EU and the candidate states made this most recent enlargement round unique in EU's history up to now.

147 The EU will have 27 member states when further enlargement takes place in 2007, with the addition of Romania and Bulgaria. Negotiations are also underway with other states.

Why Enlarge the EU?

148 ***Political and Cultural reasons*** for the EU enlargement fulfils the hope that the successful model of the EU with its values of democracy, the rule of law, the protection of human rights and minorities can be transferred to the countries of Central and Eastern Europe, thus ensuring lasting peace, freedom, security and political stability. Enlargement will end the artificial division of Europe. Located at the heart of historical Europe, the countries of Central and Eastern Europe will have the opportunity of sharing in European integration.

149 ***Economic reasons*** centre on consolidating peace and mutual security as a means to allow trade and investment to be further developed. With the accession of the ten new member states, the population of the European Union will grow by approximately 75 and will thus become the world's largest single market. The economic potential of the new member states is considerable. The EU will thus integrate valuable growth markets with these countries. It will also be easier for small and medium-sized companies to conduct business under the common rules of the enlarged economic area.

The Caribbean’s Relations with Europe

150 Along with other African, Caribbean and Pacific (ACP) countries, CARIFORUM (Caricom and Dominican Republic) is currently engaged in negotiations with the EU that will fundamentally alter the current provisions governing EU-ACP trade. The ACP-EU Partnership, signed in Cotonou in June 2000, foresees the entry into force of Economic Partnership Agreements (EPAs) between the EU and ACP countries by 1 January 2008 at the latest. These will include the progressive, two-way elimination of tariff and non-tariff barriers to trade, leading to the full implementation of reciprocal free trade by 2020.

Objective and Principles of the Economic Partnership Agreement Objectives

151 The EPA's key objectives are for the sustainable development of the ACP States, increased production and supply capacities of the ACP countries, economic diversification of the ACP states. EPA is based upon the following principles:

- ***Instruments of development*****:** The EPAs are meant to serve as instruments of sustainable development that contribute to the gradual and smooth integration of the ACP states in world economy while respecting their political options and development priorities. In this context, the European and ACP parties agreed that the EPAs should contribute directly to the development of the ACP states while helping them to expand their markets and improve the predictability and transparency of the legal framework governing trade. To this end, the EPAs should take account of the economic, social, environmental and structural constraints specific to each ACP state and region concerned, as well as their capacity to adapt their economies to the EPA process.

- ***Regional integration:*** The EPAs should support the existing regional integration initiatives in the ACP states and not compromise them. They should therefore be based on the integration objectives of the ACP regions concerned. They should also contribute to the reinforcement of regional integration while promoting, among other things, the harmonization of the regulations at regional level. In this perspective, the EPAs should first of all help to consolidate the ACP markets before promoting commercial integration with the European Union.

- ***Maintenance of the acquis*****:** The EPA is meant to maintain and improve upon the current level of preferential access of ACP exports to the European market. As regards the commodity protocols, the ACP-EU negotiating groups agreed to re-examine them in the context of their compatibility with the WTO rules, in order to safeguard the advantages accruing thereto. As regards the non-LDC ACP states which will not be in a position to conclude EPAs, both sides have agreed to assess the situation of such countries and explore all the possible avenues in order to provide them with a new framework equal to their existing situation and compatible with the WTO rules.

- ***Compatibility with WTO rules*****:** The EPAs must be compatible with the rules of the WTO. Current WTO rules are inherently imbalanced against the development needs of ACP states. The ACP will keep in view what is being done in the WTO in the context of the Doha Work Programme with a view to: (a) clarifying and improving WTO rules covering regional trading agreements between developed and developing countries; (b) taking adequately into account the development dimension in the WTO rules; and (c) operationalising and making legally binding in the WTO existing and new provisions on special and differential treatment. This will then enable ACP states to be in a position to agree to EPAs that are compatible with WTO rules.

- ***Special and differential treatment***: The two sides agreed that special and differential treatment be accorded all-ACP States, especially the vulnerable LDCs and the small landlocked and island countries.

- ***ACP Unity and Solidarity:*** The ACP should be guided by the overriding principle of unity and solidarity in their approach to EPA negotiations. Accordingly, with respect to issues of common interest to all ACP countries, it will be easier for the ACP to secure a more accommodating negotiating package from the EU if they negotiated collectively than if they negotiated at an individual, regional or sub-regional level.

152 EPAs are composed of several elements. The primary building block of the EPAs is the establishment of a free trade area which progressively abolishes substantially all tariffs between the Parties as well as non-tariff measures, such as quotas and other measures having equivalent effect. In this context, and in order to increase economic efficiency, EPAs will also aim at simplifying all requirements and procedures related to imports and exports. Free trade under the EPAs should not only extend to trade in goods, but also trade in services. Indeed, the importance of trade in services in world trade is increasing and there are many examples of sectors where ACP countries have a comparative advantage.

An Enlarged EPA and the CARIFORUM Region

153 Since the commencement of Cariforum's discussions with the European Union, the Region has recognised the value of the strategic partnership between the European Union. In terms of the enlargement of the European Union on May 1 2004, this was welcomed as an opportunity to expand and deepen economic, political, social and cultural relations between the regions.

154 In terms of its economic prospects, the enlargement of the EU could be viewed as a welcomed development for the Region and the OECS sub-region in particular. This is based on the historical reliance of the OECS on the market of the European Union market. As part of the CARIFORUM Grouping, the OECS has placed a heavy reliance on preferential treatment for their exports in the markets of the European Union under the Lomé Agreement and its successive arrangement – the Cotonou Agreement.

155 On the occasion of the launch of CARIFORUM-EU negotiations for an EPA, the European Commission noted that EU enlargement is nothing but good news for CARIFORUM in the context that the EU enlargement from fifteen to an additional ten Member States implies that the Region's access to the EU market has also enlarged. Further, with EU enlargement, the ten new Member States will, as part of the European Union, will serve as donor nations in that they will immediately enter into the obligation of contributing to the Union's budget.

156 Existing studies have lent some empirical support to the stated advantages of an enlarged European Union to the Region. These are examined in turn.

157 ***Trade Diversion:*** Since most trade between the EU and the new members is already liberalized, and because there is little overlap in CARICOM and East European exports to the EU, enlargement will probably not lead to significant trade diversion away from Caribbean countries, or erosion of CARICOM's existing trade

preferences in the EU market. Upon EU accession, the new members assumed all EU commitments included in the Cotonou Agreement; consequently, they must now offer CARICOM the same preferences already enjoyed in the EU of 15. Along with the acceleration of economic growth expected in the new member countries as a result of their accession, this translates into new export opportunities for CARICOM, not only in the goods sector, but also, and perhaps most of all, in services for example, tourism.

158 ***Preference Erosion and CARICOM Exports:*** The threat of erosion of preferences is only an issue for CARICOM exports to the extent that the terms of access of CARICOM exports to the EU will be less favourable than they previously were relative to exports from the Central and East European Countries after enlargement. Where industrial products are concerned, this is not a serious issue given their relative unimportance to CARICOM at this stage. The main concern is on agricultural products. Although the extent to which the Common Agricultural Policy will be extended to the new EU entrants is unclear, the accession of the Eastern countries will improve their terms of access to the EU in tariff terms relative to CARICOM exports to the EU.

159 The critical issues to assess in the specific case of CARICOM agricultural exports is the degree of export overlap between the CARICOM and Central and Eastern European countries (CEECs) exports. In broad terms, there is a low degree of overall overlap between CARICOM and CEEC exports to the EU.

Table 2.19
Broad Export Composition of Selected CEEC Exports to the EU - 1999

	Percentage Shares		
	Poland	*Hungary*	*Czech Republic*
Food & Livestock	7.2	12.0	2.5
Beverages & Tobacco	0.02	0.9	0.06
Crude materials	3.7	5.0	6.7
Mineral fuels, lubricants	6.2	4.2	4.2
Animal & vegetable oils	0.09	0.2	0.08
Chemicals & related	5.2	7.6	7.1
Manufactured goods	27.0	19.0	28.0
Machinery & Transport Equipment	25.0	27.0	34.0

Source: CRNM: Implications of European Union Enlargement for CARICOM Countries

160 Calculations reveal that the extent of export overlap is very limited. Table 1.8 indicates relatively small share of CEEC exports to the EU. This contrasts to CARICOM exports which account for about 80 percent to EU markets. This suggests limited scope for CARICOM export losses from preference erosion. This point is further emphasized by looking at the export structure of the CARICOM and EU countries. Table 2.20 looks at the similarity indices between CARICOM countries' exports and EU exports; 100 percent indicating identical export structures and 0 percent wholly dissimilar export structures. Even aggregating the CARICOM countries as a single trading entity, there is less than a 22 percent matching with the EU's export structure. For the individual CARICOM countries, the matching is generally much lower, generally less than 20 percent and in some cases less than 10 percent. In general therefore, one can conclude that there is limited actual trade overlap between the CEEC countries and CARICOM and limited general scope for export losses from preference erosion.

Table 2.20 Similarity Indices between CARICOM Countries' Exports and EU Exports	
CARICOM	(%) 21.6
Bahamas	11.7
Barbados	26.5
Belize	11.0
Guyana	7.9
Haiti	10.0
Jamaica	10.8
St. Kitts and Nevis	16.0
Suriname	4.1
Trinidad and Tobago	15.7
Source: CRNM: Implications of European Union Enlargement for CARICOM Countries	

161 ***Increased Imports:*** CEEC imports from CARICOM are presently at modest levels, typically less than 0.5 percent of their total imports in any given broad product category. Moreover, it is also the case that when one narrows the country and product focus, imports are concentrated in a relatively few product lines and countries. The potential exists therefore for increased import penetration in the CEEC market, as CARICOM suppliers displace either CEEC or extra-regional producers.

162 ***Export Opportunities:*** There are good reasons for expecting the CEEC countries not to be significant natural trading partners with CARICOM. This expectation is confirmed if we examine the current levels and share of CEEC imports from CARICOM. Table 1.10 shows that total value of imports of goods from CARICOM ranged from US$2.3 million by the Czech Republic to US$3.6 million by Hungary. What is of considerable interest is how unimportant relative to these CEEC's total imports this trade with CARICOM is. In no section are imports from CARICOM more than 0.5 percent total imports. Preferential access to these markets post-enlargement may therefore possibly offer some prospects for new export opportunities.

Table 1.10 Imports of Selected CEEC Countries from CARICOM *(in thousand US$ and percentage of total imports)*			
Sections	Poland	Hungary	Czech Republic
Food & Livestock	2020 (0.06)	322 (0.05)	1798 (0.1)
Beverages & Tobacco	-	16 (0.02)	31 (0.01)
Crude Materials	61 (0.0)	2822 (0.5)	22 (0.0)
Mineral fuels, lubricants	-	-	-
Animal & vegetable oils	-	-	-
Chemicals & related	52 (0.0)	6 (0.0)	55 (0.0)
Manufactured goods	117 (0.0)	385 (0.1)	29 (0.0)
Machinery & Transport Equipment	590 (0.0)	26 (0.0)	299 (0.0)
Miscellaneous manufactures		40 (0.0)	46 (0.0)
Other		-	-
Source: CRNM: Implications of European Union Enlargement for CARICOM Countries			

163 ***Services Exports:*** The impact of longer term income effects on export opportunities is likely to be particularly important in the case of services exports. The relatively high income elasticity of demand for many services, including tourism, means that the indirect effects of EU enlargement are likely to increase tourism demand in the CARICOM from the new members of the EU. This can be illustrated with information on existing arrivals of tourists to Barbados (Table 1.11). If one

examines the arrivals from the EU excluding the UK (which accounts for 226,000 of the 256,000 EU total), the arrivals total from the remaining EU countries is currently about 30 times greater than that from all the applicant countries (1012 in the year 2000).

164 Clearly, there will be different responses to EU membership and resulting income growth on the different applicant countries (depending on taste, cultural, climate and tourist resource differences), but one might consider the following: If incomes and tastes in the applicant countries converged toward those in the current EU member states such that the enlarged EU was like the current EU but with a larger population, what approximately might happen to arrivals, expenditure and GDP in Barbados - Relative to the current EU (without the UK), a total enlargement by all applicants is equivalent to about 40 percent increase in population. Pro-rating this increase against the EU(14) arrivals total of 29,852 this could increase arrivals by 11,941. At current average levels of tourism expenditure in Barbados, this is calculated to increase expenditure by about BDS$31 million.

Table 1.11
Number of Tourist Arrivals in Barbados (2000)

Country	Arrival (2000)	Country	Arrival (2000)
EU		EU Applicant	
Austria	671	Bulgaria	18
Belgium/Luxembourg	932	Cyprus	38
Denmark	628	Czech Rep	129
France	3071	Estonia	41
Finland	619	Hungary	87
Germany	7850	Latvia	47
Greece	137	Lithuania	11
Holland	2213	Malta	54
Ireland	4087	Poland	265
Italy	4612	Romania	30
Netherlands	193	Slovak Rep	41
Portugal	174	Slovenia	65
186Spain	599	Turkey	186
Sweden	4066	Total	1012
UK	226,406		
EU 15	256,258		
EU 14 exc UK	29,852		

Concluding Remarks

165 Enlargement would also have indirect implications for CARICOM imports within the EU EPA. The introduction of reciprocity requirements into post-Cotonou trade relations would mean that EU imports into the CARICOM would be duty-free and this preferential access to the CARICOM market would also be extended to new members of the EU. Greenaway and Milner (2000), argue that reciprocity would two effects, source substitution effects, and consumption effects. In the former case (source substitution effects), the elimination of tariffs on imports from the EU would make imports from other CARICOM suppliers in the rest of the world relatively more expensive. The magnitude of the shift from other CARICOM to the EU is not affected by enlargement. The volume of existing imports to each CARICOM member from other CARICOM countries and the relative price effect is the same with and without enlargement. However, the magnitude of the imports shifted from the rest of the world to the EU will be reduced. Pre-enlargement any imports by CARICOM

countries from the CEEC countries would be liable to be shifted to the EU because of the tariff preference enjoyed by EU trade over CEEC trade. Post-enlargement the (non-preference receiving) rest of the world is reduced in size and the scope for source substitution is reduced.

166 The consumption effect is also affected by enlargement, since the size of the preference receiving region (i.e. enlarged EU) is increased. Imports from the CEEC countries will expand with the reduction or elimination of import duties facing their exports to the CARICOM region.

167 Since the architecture of the CARIFORUM-EU EPA is not yet designed it is premature to state with certainty the manner in which Caribbean-EU trading relations would progress after enlargement. One perspective from the Caribbean is that a strategy to deal with the newly acceded countries must be devised urgently find a strategy to deal with an enlarged EU, since many of the new members have no history of relations with the Caribbean and the Caribbean may fall off the priority agenda of the EU.

168 The picture that emerges of potential trade impacts on CARICOM of EU enlargement is of:

- limited scope for erosion of CARICOM trade preferences in the existing EU market;
- larger, but more uncertain opportunities for merchandise exports expansion in the new member states of an enlarged EU market; and
- substantial potential for increases in services exports, in particular tourism.

Sector and Products Analysis

Agriculture

169 As discussed in the introductory Section, the structure of the agricultural sector in the OECS has historically been a mix of a few export crops whose production systems have evolved under regimes of preferential access to the UK and a non-traditional crops sector. Some livestock, poultry production exists as well and the fisheries industry is developing. Bananas continue to dominate the agricultural sectors in Dominica, St. Lucia and St. Vincent and the Grenadines. The sugar industry in St. Kitts and Nevis, which has historically been the dominant agricultural activity, was recently closed. The predominant agricultural crops in Grenada are cocoa and nutmeg, neither of which rely preferential trading regimes.

170 Agriculture has long been considered a critical activity in terms of food security, contribution to export earnings and its role in securing social stability in the OECS. Despite public rhetoric and the expenditure of considerable sums of money over the past thirty years, the commercial viability of agriculture in the face of a liberalized trading environment remains very much in doubt.

- Bananas: As is well known the banana industry has long been dependent on unilateral preferences under the various Lome´ conventions. However, with the resolution of the EU-US/Latin America banana dispute and the Economic

Partnership Agreements (EPA) to be negotiated under the Contonou Agreement it is clear that the end of unilateral preferences is at hand. It is possible a tariff regime will be developed that will afford the requisite protection to ensure the viability of the OECS banana industry, however early indications from the EU cast some doubt on this. The OECS has and continues to develop policies and programs designed to “revitalize” “restructure” or “rationalize” the banana industry in order to improve economic performance and ideally achieve international competitiveness. While these efforts have met with a modicum of success from time to time, by and large the competitive position of the banana industry has remained largely unchanged. The industry continues to be dependent on protection from dollar banana producers in Central and South America.

- Non-traditional Agricultural Products: The production of non-traditional agricultural products in the OECS is generally characterized by very small farms and informal market organization. There have been some successes (most notably in St. Kitts and Nevis and St. Lucia) in supplying non-traditional products to various segments of the tourism sector, but by and large these linkages remain sporadic throughout the OECS.

171 Considerable effort and resources have been expended on agricultural diversification in the OECS over that past 15 years. While there have been some apparent “successes,” these have generally been tied specific projects. Few non-traditional products have developed into self-sustaining exports and none have become economically significant to the point of representing a viable alternative to banana exports.

172 Based on history, the ability of the agricultural sector in the OECS to survive in the absence of some form of protection from international competition or domestic support would appear rather bleak. The aging of the agricultural and rural populations present an additional threat to the future viability agricultural sector. Given the historical importance of agriculture, concerns over food security, and the sector’s capacity to impact meaningfully on securing the region’s social fabric, it is clear that the OECS governments will continue to enact measures designed to endure its continued viability. In doing so however, it is important that that lessons be learned from past efforts and that novel alternatives be explored.

Manufacturing

173 The manufacturing sector in the region is relatively young, having only taken root in the early seventies. The sector primarily consists of light manufacturing and food-processing establishments characterized by many small- to medium-sized firms with relatively high turnover and failure rates due to financial constraints and poor management. The sector can be broadly divided into three sub-sectors: enclave, traditional import substitution activities and agro-processing. These sub-sectors vary in their potential to be internationally competitive and contribute to real output of the local economy. Their main features are highlighted below.

- *Enclave sub-sector.* This sub-sector is dependent on special trading regimes like the Caribbean Basin Initiative and the 807 regime. The sub-sector is dominated by foreign garment manufacturing and highly specialized

electronics firms that export mainly to the United States through marketing arrangements either with their head offices or other US firms. They generally operate at a higher level of efficiency than the locally owned firms. Its net contribution to the local economy is small, effected largely through employment generation and the development of a skilled and disciplined labour force. Their value-added to real output is also quite low since most of their inputs are imported. Additionally, their contribution to government revenue is small because of the number of concessions they receive. They could be a source of uncertainty to the orderly development of the industrial sector since they are usually geographically mobile, catering to very volatile export markets where recession and technological changes can decimate the sector in a short space of time.

- *Import substitution sub-sector*. This sub-sector produces assembly-type products and does not have much potential to be internationally competitive. Its net contribution to the local economy is also small. The IS-manufacturing sub-sector is characterized by high import content in the production processes as the industrial deepening process has not progressed very far in the OECS region. Not only are capital goods imported, but in some cases up to 100 percent of raw materials are imported from extra-regional sources. Production is geared mainly to the local and regional markets, and very little is exported extra-regionally. This is compounded by industrial incentives, such as the granting of blanket duty-free import of inputs that have a high anti-export bias and hence encourages inefficient production for the local market. The duplication of productive capacity also adds to the inefficiencies in the sector.

- *Agro-processing sector.* This sub-sector has strong linkages with the domestic agricultural sector and has the potential to be competitive in selected niche markets. It is characterized by four types of production structures: (i) home based family production; (ii) small processing employing 5 to 20 employees; (iii) agro-laboratory experimental processing, and (iv) large processors. The technology is characterized by varying degrees of sophistication, but in general there is little modernization of equipment and facilities. The local raw material content ranges from 80 to 100 percent. Surplus agricultural output is the main component of local raw materials. The size of the market, uncertainty of supply and variability in the quality of the inputs create excess capacity in the sector which can be as high as 80 percent in some cases. Agro-processing in the OECS region suffers from excess production capacity, primitive technology and deficient technical skills, all of which constrain development.

174 The manufacturing sector in the OECS operates under several constraints. These include:

- *Limited Finance and Investments:* Although large firms have access to foreign finance or can attract local financing quite easily, indigenous firms face great difficulties in accessing finance. Commercial banks have a penchant for less risky short-term lending and hence lend more for mercantile activities, rather than for manufacturing and agriculture. Indigenous firms do not have the requisite expertise in the conceptualization of projects and

presenting them to commercial banks as projects for financing. Neither do the commercial banks have the expertise to assist in this type of activity. In addition, the lending policies of the development finance institutions are also not sufficiently supportive of investment in the sector.

- Most firms are under capitalized and highly leveraged and businesses are reluctant to develop corporate structures that would encourage equity investment. In addition, the high cost of finance in the face severe competition in the regional market, excess production capacity, primitive technology, deficient technical skills, unreliable transport and quality of raw materials all constrain the development of the sector.

- *Technology and Technical Skills:* The rapid pace of technological development worldwide hastens the obsolescence of capital and erodes the competitiveness of less technologically dynamic countries. The high cost of upgrading capital and the inadequacy of technical capability to speed up the transfer and diffusion of technology retards the export competitiveness of the firms and leads to their inability to penetrate extra-regional markets and even its ability to hold on to domestic markets. The paucity of technical training results in wasted of raw materials and inadequate maintenance leading to loss of production during down times, and the need for foreign technical assistance to diagnose and solve some very simple problems.

- *High Labor Costs:* The boom in prices of traditional agricultural exports during the 1980s pushed up agricultural wages rates and had a demonstration effect on the other sectors. Higher remuneration in the tourism sector has tended top draw workers away from manufacturing. Although the differential between wages in the two sectors is not very large, in tourism, tips and other gratuities increase the earnings of workers in tourism.

- *Inadequate Transportation Links:* Sea transport is not only scarce but sometimes unreliable. In addition, the cost of sea transport is not significantly lower than air transport which is usually more reliable. Due to the relatively high value to volume of the products it produces, the enclave sector depends heavily on air transport to get raw materials in and the final product out. Even countries like St. Lucia and Grenada with superior air access, still suffer from a shortage dedicated cargo space resulting in delays and additional cost due to roundabout routing of final products.

- *The Size of Firms and Local Market:* Most of the manufacturing firms in the country employ less than 20 employees. This limits the ability of the firms to reap economies of scale and spread overhead. Moreover the majority of indigenous firms are contented to produce for protected local markets which are extremely small. The markets are protected by the CARICOM CET and in some cases by Article 56 of the CARICOM treaty.

- *The Regulatory Framework for Businesses:* The regulatory and legal framework in which businesses operate impedes the development of the manufacturing sector. The process by which projects are approved is long and circuitous. In addition, there is the perception that the process favours

foreign investment over local investment. Some regulations and legal requirement tend to impede the flexibility of the firms.

- *The Effects of Protection:* The protection accorded by the CET along with an incentive regime, which treats production for the local market and production for export in the same way, create an anti-export bias. There is no incentive to produce for the more competitive, more risky export market, while production for the protected local market is quite profitable. The reduction in the CET would tend to redress this bias to some extent but specific incentives have to be put in place to encourage production for export. The incentive regime reflects the earlier inward looking policy of industrialization.

- *Fiscal Charges:* It is essential that no inordinate charges are imposed to prevent the firms from sourcing their inputs international prices. Additional charges like high port charges impose restrictions the ability of the firms to compete internationally. The consumption tax on inputs which is not rebated on export goods creates a disadvantage for OECS firms vis-à-vis their CARICOM counterparts whose exports are zero-rated under the VAT.

- *Non-Tariff Barriers in Export Markets:* The existence of non-tariff barriers in the export markets especially the US has tended to impede the growth of manufacturing exports. OECS exports face a myriad of regulations which only experience in the markets can help to get around. Many firms are seeking ISO and HACCP certification to facilitate entry into international markets. Although the greater transparency under the new WTO rules may have reduced the uncertainty of entry, many indigenous firms may be unable to finance the cost of the barrage of legal challenges that they face in these markets.

- *Knowledge of Export Markets:* Basic information regarding the structure of markets, changes in taste, import regulations in the foreign country, appropriate technology, new processes, new products and potential competitors has to be assembled. Market intelligence is a costly undertaking for the individual producers and there are also externalities associated with this activity.

- *Inadequate Infrastructure:* The inadequacy of economic and social infrastructure of some of the countries is a significant constraint on the development not only of manufacturing but all of the productive sectors. The inadequacy of the infrastructure translates into higher cost of utilities and in the case of electricity into downtime losses due to frequent interruption of power supply. It remains necessary to upgrade to a varying extent, the roads, electricity, water and waste disposal.

Services

175 Because of the importance of the service sector in terms of its contribution to GDP and employment, OECS economies are more likely to benefit from trade in services than from free trade in goods. This sector that needs to be modernized and liberalized as quickly as possible in order to compete with well-developed service sectors in a number of other countries. Full involvement of the private sector is a

precondition for effectively improving costs and competitiveness, along with significant efforts to develop the human resource capability required.

176 The development of a service sector in the OECS region with the capacity to compete internationally depends on joint production and other forms of complementary production activities. This requires the creation of an adequate infrastructure, particularly in telecommunications, and its integration into the global network; the development of producer services and the tightening of links with the manufacturing and other sectors; and the improvement of the trade balance in services by expanding exports of services.

177 The development of a viable regional service sector through integration would require the free movement of skilled labour, even more so than production integration in respect of goods. The implementation of Protocol II amending the CARICOM treaty would go a long way toward encouraging the development of a competitive services capability in the area. Development of the service sector also requires changes in the region's incentive regime to take account of the special characteristics of the service sector. It is important that these incentives be regional in scope, rather than national, in order to encourage the development of strong regional enterprises.

178 OECS countries should try to develop and/or enhance capability in the following services:

- tourism-related services, including airline reservations, entertainment, culture, health and sports;
- telecommunications-based services, including informatics, geographic information
- systems and drafting;
- financial services;
- environmental services; and
- business services, including accounting, legal and marketing.

179 A possible strategy would be to develop services on two basic pillars. The first pillar is tourism upon which a number of related services would develop. The second pillar is telecommunications services upon which a set of related services like informatics, GIS, drafting and business services could develop.Cheaper telecommunications would open avenues for people to vacation or work in the Caribbean if greater connectivity were provided.

180 In order to develop capability in the service sector, the following issues need to be addressed:

- *Human Resource Development*: countries would have to pay more attention to human resources development. The emphasis must be on training a skilled and flexible labour force.

- *Reduction of Telecommunications Costs*: The majority of service activities are dependent on the availability of a good telecommunications infrastructure and cost effective telecommunications services. Although the telecommunications infrastructure in the OECS is not at the level of the developed countries in terms of international access, waiting time, faults etc., it ranks quite high among developing countries. The major problem is the cost of telecommunications services as a result of the monopoly status held by the main carrier and this would be addressed by increased competition.

- *The Regulatory Framework and Incentive Regime*: An appropriate legal and regulatory framework needs to be put in place to encourage the development of services. The current incentive regime of the OECS countries is heavily biased towards the production of manufactured goods. The OECS-World bank informatics project has made some suggestions for the improvement of the incentive regime. Given the high technological component in these services, incentives should be given to foreign service-providers to establish commercial presence in these countries.

181 In most of the service sectors in which the OECS has a strong interest they commitments for greater liberalization almost immediately have been made. This can be seen by examination of the major service sub-sectors.

- Tourism. In spite of the recent weakening in the performance, tourism represents one sure competitive advantage for OECS countries. Hence, this area can be liberalized immediately.

- Financial services. In this area, it is useful to separate domestic and offshore financial services. In the area of offshore financial service there is no local market to protect and the objective should be to encourage foreign service-providers to establish in these territories. In the domestic economy two major financial service sub-sectors are banking and insurance.

    - In the area of banking except for prudential restrictions (permissible under the GATS) foreign banks are free to establish. Some foreign banks have left and new ones are not coming because they have ceded the market for retail banking services to the local competition. The same is not true for the lucrative value-added financial services like investment services, investment baking banking etc. The nature of these services are such that the foreign competitors need not set up commercial presence in these countries but can send in operatives to solicit business from governments, firms and individuals of high net worth. This area of activity has been heavily dominated by Trinidadian financial institutions and to a lesser extent some Wall Street investment houses. Local financial institutions have neither the financial resources nor the expertise to compete in this market. The indigenous financial institutions in the OECS need to come together and pool their financial and human resources to mount a credible competitive response.

    - Quite a number of foreign companies in the insurance sector have left the OECS countries because they perceive of the area as high risk.

Liberalization will not bring foreign firms back unless there is a fundamental change in their risk assessment of the region.

- Telecommunications. Liberalization of telecommunications could be the key to breaking the monopoly of the major service provider. As with offshore financial services the major markets for telecommunications based services are outside of the region. The local market is inconsequential in the scheme of things. Thus the countries would have more to gain by guaranteeing access into the foreign markets than they lose by allowing foreigners access. The aim should be to encourage commercial presence of foreign firms to exploit foreign markets.

- Business services. This market is already open to foreign service-providers, with international accounting chains dominating the accounting profession. Apart from the withholding tax on income, both regional and foreign business consultants have a relatively free rein in the OECS. Software maintenance services are usually contracted to firms in the larger CARICOM countries, Puerto Rico and Miami. Even some business equipment maintenance services are sourced from Barbados, Trinidad and Tobago and Puerto Rico.

- Construction: Local firms face several disadvantages in this sub-sector. Most do not have the financial strength to provide effective competition to foreign firms. They also do not have the depth of expertise and experience to pre-qualify for major construction projects. Major projects are usually funded by official development agencies and institutions and procurement rules have the effect of opening up the market to international competition. Firms operating only in the local market are subject to import duties on equipment imports which foreign-based firms can avoid by the strategic movement of heavy equipment. For example if a foreign base firm wins a contract in Dominica it brings in the heavy equipment temporarily free of duty. At the completion of the project it can then move the equipment to another project in another country, never having to pay import duties for the life of the equipment. These disadvantages provide a strong case for OECS construction firms to establish strategic alliances with other OECS entities and also with foreign operators.

182 The OECS market for services is already quite open and international obligations would not permit any new restrictions. The completion of a regime in services would create competitive effects similar to goods with a consequent reduction in the price of these services. Because the use of services, especially financial services permeates all types of production (including services themselves), there is a further boost to all types of businesses using these services. Competition in the provision of financial services can lead to the reduction in cost of credit if firms can raise their loans in other CARICOM territories.

183 Although the movement of labour is not currently included in any of the negotiations, the regime in services can be used to move in that direction. The OECS countries would benefit from the provisions related to the movement of natural persons and the establishment of commercial presence under the services regime. This would provide some degree of reciprocity for the de facto unilateral liberalization that now exists for most of the economically important services.

Telecommunications

184 The liberalization telecommunications under the General Agreement on Trade in Services (GATS) signed in 1997 unleashed a wave of competitive pressures which has resulted in a spate of international mergers. Formerly protected national telecommunications companies have scrambled to position themselves to be players in the global market. This development has forced the monopoly provider of telecommunications services in the OECS countries to soften its stance and agree to renegotiate its contract with five of the independent OECS countries.

185 At the same time, technological advances in telecommunications is threatening to create a glut of bandwidth internationally that would force the price of telecommunications services to near zero levels. These advances are taking place at all three critical points in telecommunications networks: (i) international/long distance carrying capacity, (ii) switching gear; and (iii) the local loop. Cost reduction in the local loop is critical as 75 to 80 percent of the cost of a call consists of the cost of the link in the last couple of miles. About two thirds of the assets of telephone companies is invested in this segment hence making them a candidate for natural monopolies.

186 In OECS countries, the dominant provider of telecommunications services (CWWI) operates a monopoly. The reforms geared towards containing monopolies and introducing commercially oriented principles in the provision of services can have a positive impact for the OECS because developing countries such as the OECS offer exceptional opportunities for telecommunications reform as untapped demand make attractive markets and spurs investment.

187 It is clear that reforms could lead to a change in the market structure and two alternative market structures may emerge - monopolistic competition or oligopoly. However, the size of the countries suggests the market structure that is more likely to prevail after the liberalization of the telecom sector would be oligopolistic. This type of market lends itself to strong rivalry among firms, which creates incentives for the frequent introduction of new products, reduced prices and aggressive advertising. On the other hand, the firms in an oligopolistic market can collude to set the market price. Although the consumers may have a choice of a variety of products and services, monopoly prices may be set, resulting in a loss of economic efficiency and consequently reduce national welfare. Hence one of the tasks of the regulatory agencies is to ensure that there is orderly competition.

188 Careful attention needs to be paid to the number of firms given licenses to operate especially in the provision of domestic services. The frequent entry and exit of firms from the industry can leave consumers without service for considerable periods of time. Thus while some competition is good, too many firms may well lead to a decline in the quality of service if they have to exit the industry because the level of business is not sufficient for all firms to make a reasonable profit.

189 Although CWWI has invested a substantial amount of capital to establish a modern telecommunications network it has benefited from the investment as it has enjoyed guaranteed tax concessions, high rates of return coupled with no price caps on the collection of charges. This translates into high domestic and international rates charged to consumers for the use of the services provided. CWWI has not provided a clear basis to justify its rate structure. The introduction of competition

would not only change the market structure, but it is expected that consumers and service providers would have better knowledge of the sector and therefore would seek to eliminate a number gray areas in the context of information sharing.

190 Because CWWI has a presence in all of the territories there are certain synergies that it can achieve as a regional company that licensing of individual entities in the various countries may not be able to achieve. Hence the OECS authorities should give consideration to offering regional licenses for companies to operate all of the countries. This would provide opportunities for companies to take advantage of a larger market and give them the capacity to implement new technologies more readily. Such regional licenses could be auctioned off since they would be more valuable than the sum of national licenses. This may be one way to provide competition when the individual local market may be too small to support more than one service provider.

Offshore Financial Services

191 The term *offshore financial services* refers to a variety of activities which take place between corporations registered in a country with residents in the rest of the world and with little interaction with domestic residents. This terminology is somewhat limiting in that it does not accurately describe the range of activities undertaken in these centres and may also limit the scope of opportunities considered when trying to visualize the future development of the industry. A more accurate descriptor would be *international business facilitation centres*. Not only does this nomenclature cover the wide range of services provided by the offshore sector, it also makes for a much neater classification of the activities and would ultimately assists in resolving some of the ticklish regulatory issues, since different types of activities do not necessarily need the same level of regulation.

192 The offshore sector was developed to provide services which are normally provided in the domestic economy at lower cost or under a less demanding regulatory environment. Thus, all of the activities which take place in the offshore sector have counterparts in the domestic economy and it is quite natural that any such classification would be equally applicable to the offshore sector. The International Monetary Fund along with the other international institutions has recently revised its classification of financial institutions and this framework can be useful in the development taxonomy of *international business facilitation services.* The IMF Classification divides corporations/enterprises into five mutually exclusive sectors, households, general government, financial corporations, non-financial corporations and non-profit institutions. IBFS are concerned with Financial Corporations and Non-financial Corporations and the bulk of the activity is concerned with the former.

193 The Offshore Services sector in the OECS is at varying stages of development. Offshore service in Antigua and Barbuda are the most established, dating back to 1982, while in St. Lucia where the legislation was establishing offshore services was only recently passed in 1999. The oldest offshore centre is in St. Vincent and the Grenadines which enacted offshore banking and ship registry legislation in 1976. However the activities promoted by the St. Vincent Trust Authority Limited based in Liechtenstein have not really taken off. The legislation was modernized in 1996 to give the sector a new lease on life. The most dynamic centres

are in Nevis and Anguilla, which have recently passed modern legislation creating fiscal consumer products which are on the leading edge of the industry.

194 The legislation in most OECS countries is patterned on that of the British Virgin Islands which is reputed to be one of the most successful emerging offshore financial services centres. The sector is usually exempt from all forms of corporation taxes in the jurisdiction of incorporation. These include income taxes, corporate taxes, capital gains taxes, inheritance taxes, withholding tax, other indirect taxes levied on international business activity. Offshore activities are also exempt from indirect taxes such as stamp duties and customs duties. Government revenue from these activities is generated by modest license fees.

195 Several opportunities exist for the countries in the ECCB jurisdiction to develop offshore financial centres. These opportunities can be discussed under seven broad categories:

- *Tax Advantages -* Individuals of high net worth and multinational corporations are attracted to offshore jurisdictions because of the many tax advantages they offer. These jurisdictions offer legitimate deferment, reduction or avoidance of taxes on certain profits earned abroad. Most of the OECS countries have chosen to be no tax jurisdictions. This factor makes them attractive to external investors as possible tax havens. However, this non-tax situation may make these offshore jurisdictions reluctant to enter into bilateral double taxation agreements with other nations because the initial benefits are not always apparent. These bilateral agreements do however have certain distinct advantages for the developing financial services provider jurisdictions. Some of the benefits may be that the home country provides the developing host offshore jurisdiction with avenues for resolving disputes, procedures for exchanging information regarding drug abuse and other illegal activities, favourable tax treatments for residents or companies organized under signatory laws.

- *Product Development -* Offshore financial products and laws can be viewed as fiscal consumer goods. The range of legal products offered can be as broad as the jurisdiction so desires and spans the fields of banking, brokerage and other "traditional" financial services, immigration and nationality, manufacturing and general law services. Emerging jurisdictions are advised that the more readable and understandable the laws, the more saleable are the jurisdiction. Putting the appropriate legislation in place is a therefore a necessary, albeit not sufficient, condition for the development of the offshore sector. Jurisdictions have to be vigilant to ensure that their legal products always remain on the leading edge of the industry.

- *Niche Positioning* - Since it may not be possible or advisable for an emerging centre to simultaneously develop the full range of financial services to the same degree, countries should seek to develop niches and therefore position themselves and gain an international advantage. In the development of a niche profile countries should seek to render quick, efficient and professional service, and be innovative in meeting the needs of a niche clientele in a changing and dynamic environment. It is advisable for emerging centres to develop niches and to seek to gain an international advantage in a particular

segment of the market. This strategy may, however, prove difficult to pursue given that other more established and resourceful jurisdictions are competing to diversify into new and different products.

- *Marketing and Promotion* - A continuous marketing and public relations program is necessary to support the legislation in place.

- *Private-Public Sector Co-operation* - Other successful Caribbean jurisdictions have identified the need to have co-operation and smart partnerships between the private sector professionals and government officials.

- *Communications Technology* - Private banking and other financial services increasing utilize high technology communications systems and electronic payments systems, which offer opportunities for emerging centres to compete globally. Moreover an offshore jurisdiction cannot compete effectively if it does not offer twenty-four hour online searches and registration.

- *Supervisory and Regulatory System* - Those jurisdictions with effective systems for supervision are increasingly the choice of reputable institutions and individuals. The threats of money laundering and other illegal activities require that countries put in place a competent and efficient regulatory system.

196 Among the major challenges facing the offshore industry in the OECS are the following:

- *Limited Professional Expertise -* To attract desirable investors OECS countries must have in place an infrastructure accompanied by highly trained professional accountants, bankers, taxation specialists and legal experts.

- *Telecommunications and Air Transportation -* The cost of telecommunication service in the region is generally regarded as high and in some cases prohibitive. The irregularity or unavailability of international flights also inhibits efficient travel services.

- *Regulation and Supervision -* Unregulated or inadequately regulated financial services centres pose a threat to global financial stability. New regulatory standards will constrain growth of new centres due to increased financial and human resources requirements. At the same time the need for a good reputation should ensure that laxity in regulation frameworks is not encouraged.

- *Financial Liberalization in Developed Markets -* In the 1980's many of the regulations which encouraged institutions to move offshore were dismantled as developed countries have liberalized and deregulated their economies. New threats are always emerging from the anti-tax haven posture of the U.S Government and new laws are being continuously passed which serve to restrict the development of offshore centres. The recent threat by the OECD countries on harmful tax competition follows in this same vein. Such challenges are likely to increase in the future. It is therefore incumbent on

newly- emerging offshore centre like the OECS countries to maintain the highest standard of regulation and propriety.

197 In spite of these constraints the offshore sector provides significant opportunities for economic diversification. The global offshore sector is growing at a rapid pace propelled by the growth in the global economic wealth. Countries embarking on this path however need to remain cognizant of the many responsibilities they face to uphold the integrity of the financial system.

enterplan
CREATING A NATURAL ADVANTAGE

3 Impact of the EPA

3 Impact of the EPA

Priority Development Issues for the OECS in the Context of the Economic Partnership Agreement

Introduction

198 Since the start of the EPA negotiations, CARIFORUM has maintained that these negotiations with the EU are to be development centred. The Region's position has been that neither trade nor market access by themselves are sufficient to promote development. This is particularly relevant for this Region, especially the countries of the OECS which suffer from much capacity constraints and institutional inadequacies and are thereby rendered ill-equipped to make the best use of market access, even under preferential terms. It is for this reason that CARIFORUM has insisted that an EPA should address the Region's development needs.

199 Some of the items being considered as integral to "development" are (a) social and environmental development; (b) structural transformation; and (c) diversification of Caribbean economies including the stimulation of investment. It is intended that this development will take the form of technical assistance and capacity building initiatives, trade facilitation and export diversification, production and employment adjustment, skill development and productivity enhancement.

200 For the OECS Region, such assistance is welcome. Known to be vulnerable because of their small size/ levels of poverty, developmental issues germane to OECS countries are afforded priority in the CARIFORUM-EU EPA. If these economies are to improve the welfare of their citizens, it is imperative that the outcome of the EPA address issues, such as, the reduction of poverty, enhancement of business opportunities for domestic producers, improvement in infrastructural and environmental conditions and generally raising the standard of living and quality of life of this sub-region.

201 This section of the report examines these issues. It is intended that the identification of (i) the developmental shortcomings and aspirations of the OECS and; (ii) strategies to attain such, would serve to reduce their vulnerabilities by developing their human and institutional capacities. Further, highlighting the developmental requirements of the OECS would serve to build awareness on the adjustments which have to be undertaken and assist the OECS in preparing policy recommendations at this stage of the negotiations.

Developing a Developmental Agenda for the OECS

202 The World Bank in its document entitled "The World Bank in Action in Small States", notes that "for the OECS, with a total population of about eight hundred thousand, institutional capacity is limited and per capita costs of basic social and infrastructure services are very high. Hurricanes and floods frequently destroy infrastructure and disrupt key economic activities, such as agriculture and tourism, reversing the countries' economic gains. Moreover, most of the islands have historically promoted mono-cropping in agriculture, relying on preferential trade arrangements, which now face certain, albeit phased, dismantling as a result of World Trade Organization rulings."

203 Although previous sections have discussed this issue, it bears re-emphasising that:

- a well crafted development strategy becomes even more important for the OECS in the context of far-reaching economic and social repercussions that will follow the dismantling of preferential arrangements, and
- countries, such as, the OECS, suffering from capacity constraints and institutional inadequacies, will not be able to make the best use of market access, even under preferential terms.

204 It is for these reasons that CARIFORUM has been insisting on a developmental agenda for the EPA which must ultimately contribute to the Region's sustainable development, poverty alleviation, integration of ACP States into the world economy and assistance regarding supply side constraints and adjustment cost issues. The OECS development agenda and strategy for the OECS must be informed by the facts of globalisation, liberalization and particularly the special circumstances of small island states. It must explicitly consider the issues of:

- *Special and Differential Treatment (SDT):* In light of the vulnerability of the OECS sub-region, one of the myriad of challenges posed by the EPA will be how to ensure that the EU delivers on its commitment, that this new trading arrangement will enhance market access for the OECS. This is where the SDT concept is being proposed. The proposal is aimed at formally incorporating SDT in the application of developmental assistance. The key objective is to enable the EPA to have a strong SDT component which would enable countries such as the OECS to adjust their economies at a pace and level that would be consistent with their resources and ability to develop competitiveness necessary to trade with the EU on a reciprocal basis.

205 The case for SDT is very strong for the small and vulnerable OECS economies. For these countries, the adjustment costs that would arise from increasing liberalization and eventually full reciprocity with the EU may lead to adverse results in the form of loss of government revenue, loss of competitiveness in already small and weak domestic industries, and in turn loss of market share and of industries (with few alternatives to diversify), and weak social security systems to cater to increasing unemployment.

206 The development dimension of the EPA should therefore encompass a variety of forms of SDT, which effectively address the constraints of small size and vulnerability, especially as it relates to market size and scale of economic activity. This SDT may be reflected, in longer periods for compliance with specific obligations, exemptions, waivers, a development fund, treatment of sensitive products and treatment of commodity protocols.

- *Supply Constraints:* With respect to the domestic market, smaller economies often exhibit relatively higher costs of infrastructure and public administration. Both factors are related to resource constraints: in the first case, the constraint being lack of physical capital; in the latter case, that of human capital.

207 With respect to the external market, the OECS economies are characterized by increased import demand and lagging export capacity. Lagging export capacity is in part a reflection of the lack of capacity within the private sector and a weak manufacturing sector. These tendencies compromise the capacity of the OECS sub-region to become more competitive, with serious implications for its survival in a liberalized trading environment with the EU.

- *Adjustment Costs:* Adjustment costs pertain to the negative fiscal impacts through loss of revenue due to increasing liberalization of tariff barriers, as well as the implications of loss of market share in EU markets with the removal of preferences on several basic commodity exports.

208 The EPA will involve adjustment costs which may be very high. These adjustment costs are threefold:

- Adjustment for Export: Although most ACP products enter the European market duty free, the new Trade Agreement entails risks in terms of access, especially for sensitive agricultural products covered by protocols.

- Adjustment for Imports: The opening of their market to European imports is the major concern to ACP countries. The domestic restrictions on production limit the ability of ACP economies to react to the competition of European products. This could be a threat to many uncompetitive sectors in the ACP.

- Adjustment in Tax Revenues: Withdrawing customs duties on European imports will cut customs revenues in ACP countries where it represents more than 20 percent of the budget. As the diversification of tax resources is very difficult, national budgets could find themselves in great difficulty. The question of some form of compensatory mechanism to address the loss of government revenue will therefore have to be considered within the development package.

209 How well these adjustments are made and the extent to which Caribbean territories handle them will be directly linked to the negotiating focus of CARIFORUM on the development issues of relevance to this sub-region.

Technical and Trade Related Development Issues

210 The following technical and trade related development issues may be considered, from a sector perspective:

211 Agriculture, *that*:

- existing Commodity Protocol arrangements which guarantee a minimum level of access to Caribbean exports free of duties, taxes and non-tariff barriers should be kept in place in the least for an additional period;
- any agreed liberalization of the exports from these protocols should after the moratorium be implemented on a gradual basis with a small portion of its exports attracting an agreed level of imposition;
- additional resources targeted to assist Caribbean economies suffering shortfalls in export earning from liberalization should be set aside in a Special Fund for this purpose;
- any improved market access into Caribbean markets for EU produce should be limited to agreed sectors with special safeguard mechanisms built in to provide for dislocations which threaten the survivability of the sector;
- clear exemptions for “sensitive” sectors critical to the economic, social and political stability of the country must be granted for an agreed period;
- commitments for market liberalization from the Caribbean must be linked to and matched by agreed commitments from the EU to reduce subsidies and other trade distorting measures;
- appropriate anti-dumping measures should be developed and enforced within the agreement;
- any development dimension of an EPA should include the transformation of agriculture in the OECS supporting diversification into higher value added production.

Sanitary and Phytosanitary (SPS) Measures:

212 This issue is of immense importance to the Caribbean given its potentially trade distorting nature. Evidence abounds as several instances in which the EU, like many other developed countries have used these measures as a way of setting up barriers to legitimate market access to goods coming from developing countries. Not only does it make market access unpredictable and difficult, these measures can also increase the costs of doing business by raising standards artificially and thereby rendering exports uncompetitive in external markets. On the other hand, such standards can and when

appropriately developed and correctly applied prevent major public health and regulatory problems from occurring in developing and developed country markets.

213 For these reasons Caribbean negotiators have emphasized the need for assistance in meeting SPS rules and EU market requirements. Some of the needs in this regard include:

- support to capacity building initiatives in Caribbean countries so that they may not only be able to meet EU compliance and verification of standards but also establish and administer standards of their own to protect domestic markets.
- financial assistance for support to the upgrading of local export Caribbean enterprises to EU standards, so that part of the costs associated with higher EU standards can be defrayed.
- transitional periods, which permit temporary derogations from stringent standards.

214 Services, *that*:

- commitments must be made by the EU to ensure that any EPA should seek to strengthen the capacity, efficiency and competitiveness of Caribbean economies to be high quality suppliers of services in all areas of critical importance to the region.
- in seeking to realize the EPA, the EU remains committed to its undertakings in the Cotonou Agreement under the Chapter on Trade in Services particularly Article IV 1:2 which states, *inter alia*, “that the parties reaffirm their respective commitments under the GATS and underline the need for special and differential treatment to ACP suppliers of services”

Socio-Economic Development Imperatives

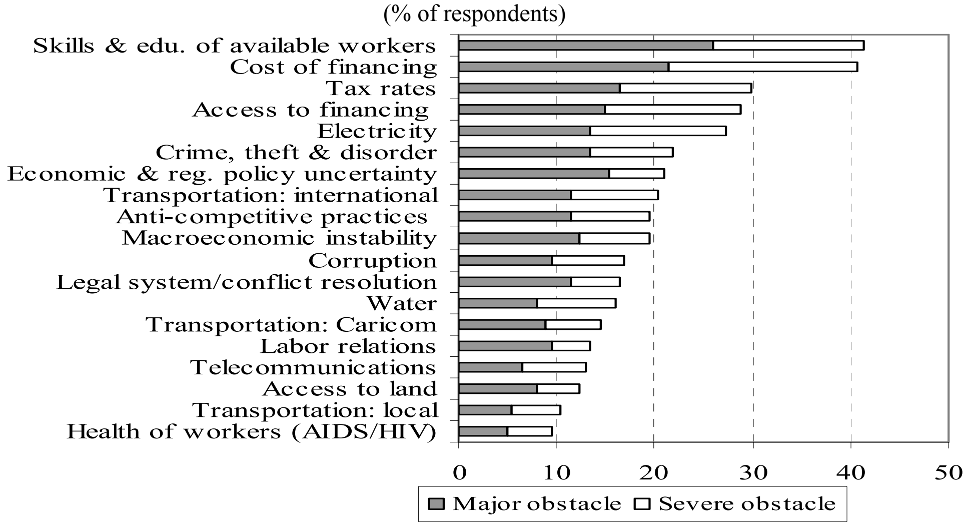
215 In addition to technical and trade related development issues, there are socio-economic development imperatives for the OECS with respect to the EPA negotiations. An indicative list of some of the major developmental themes which may be considered is discussed below.

Skills, Education and Training

216 Global economic reforms, together with the changing pace of science and technology are reshaping the priorities for the education system. Developments in science and technology are rapidly stimulating the demand for a labour force with greater conceptual and cognitive skills including the capacity to innovate, analyse, discover and solve problems in the production process, and above all, to transform information into economic value.

217 The shortage of skilled labour has been cited by firms in the OECS as the number one constraint to improving competitiveness. Despite the frequent claim that one of the comparative advantages of the OECS is a relatively well-educated English-speaking workforce, the public and private sector alike report severe shortages of skilled labour across the sub-region. In a survey of 24 export firms undertaken for the OECS Export Development Unit, the education level of labour was ranked as the biggest problem. The shortage of skilled labour was cited as the number one constraint to increasing competitiveness by firms in Grenada, where a diagnostic of the investment climate was conducted in 2004 (Figure 2).

Figure 2:
Major Obstacles to Firm Competitiveness in Grenada
(% of respondents)



Source: World Bank, 2005: *OECS - Towards a New Agenda for Growth*

218 The shortages are found in very specific skills such as equipment mechanics for food processing companies, as well as in more broadly applied skills such as accounting and information technology. As identified by the enterprises surveyed for a Diagnostic of the Investment Climate in Grenada, the key skills shortages were found in technical skills such as industrial engineering, and managerial skills at middle and senior management levels.

219 The World Bank in its policy document "Towards a New Agenda for Growth" has summarized the deficiencies of the educational system in the OECS as:

- an education system that has not maintained its relevance ;
- poor quality of education;
- secondary school curricula in need of reform;
- low enrollment in tertiary education;
- inadequately skilled labour force.

220 To address these issues, the World Bank has identified a number of actions:

- Building Capacity in Science and Technology Development, the core activities including:-
    - upgrading teacher training facilities with special attention given to developing science, mathematics and computer competency;
    - formulating national training policies and programmes in ICT critical areas;
    - reforming curriculum at all levels of education and training to include ICT;
    - establishing National Science and Technology Councils to formulate and review national policies on Science and Technology in pursuit of national development plans and objectives;
    - establishing community learning centers focusing on tutoring in science and technology.
- Improving the quality of education, including:-
    - reforming teacher training and deployment schemes;
    - shifting resources from better performing schools to those where the needs are greatest;
    - accelerating the reform of secondary education curriculum to provide youth with appropriate competencies and skills for the further education and/or the transition from school to work;
- Increasing access to tertiary education, including:-
    - encouraging greater participation of the private sector in tertiary education while ensuring that adequate standards are maintained. A sub-regional approach to accreditations that emphasizes integration with regional and international standards will help both to make the OECS market more attractive to external service providers, and stimulate greater demand by students;
    - improving the efficiency of spending on tertiary education by increasing cost-sharing, and appropriately targeted loan or scholarship programs;
    - encouraging Government collaboration with the private sector to provide more training programs in all areas, and schools should be encouraged to expose young people more to the world of work in order to prepare them better for the job market.

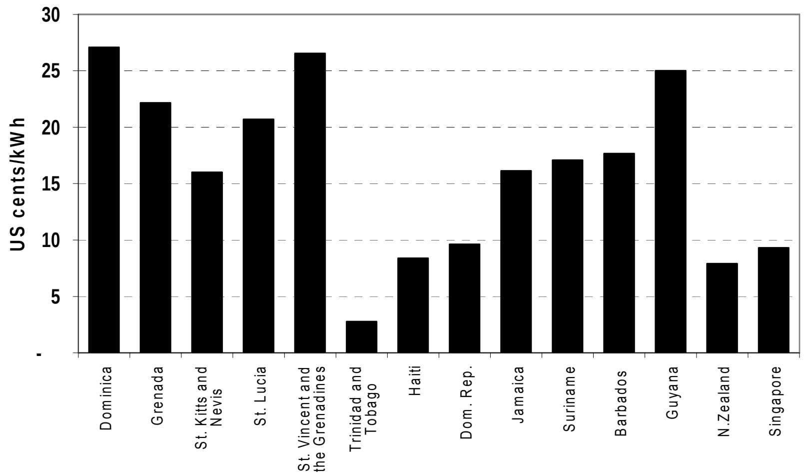
- Producing skills demanded by employers, with an emphasis on:-
    - strengthening the involvement of the private sector in the secondary school curriculum reform, governance of tertiary institutions, and the design and provision of job training programs to ensure that curriculum and course offering are relevant to market needs;
    - promotng private sector involvement in articulation and definition of training needs;
    - encouraging stronger private sector involvement in critical education and training activities, especially in areas such as enterprise development, computer literacy and science and technology;
    - expanding skills training in some key areas such as IT, hospitality, non-hotel tourism services, accounting and management.

Infrastructure

221 With relatively good levels of access to utility services by the general population, the OECS countries have uncompetitively high costs in a number of key utility and infrastructure–related services. The World Bank recommends that the OECS countries should focus on improving reliability, quality of supply and costs of its utility services. This is important since utility services impact competitiveness *directly* through cost of production and cost of living, as well as *indirectly* by affecting the productivity of a country's human resources.

- Electricity: Electricity supply and costs are deemed as the leading infrastructure related constraint in the OECS. In particular Antigua and Barbuda, Grenada and St. Kitts and Nevis experienced significant shortages in capacity resulting in periodic power cuts. Figure 3 illustrates the higher electricity costs experienced in the OECS compared with the rest of the Region.

Figure 3: Electricity costs in the OECS compared with the Rest of the Region



Source: World Bank, 2005: *OECS - Towards a New Agenda for Growth*

222 According to the World Bank, a number of actions are necessary to improve the delivery of this service. These include the need to:

- strengthen the regulatory oversight of the operations, investments and pricing of electricity utilities
- pursue greater private participation in ownership or operations
- regularly undertake a regional and international benchmarking of the electricity utilities

223 Telecommunication services: Telecommunication services are critical to the development of service exports and improving competitiveness of OECS firms. Despite recent advances in this area, with the establishment of the Eastern Caribbean Telecommunications Authority and the successful dismantling of the sub-regional monopoly in some key areas, the OECS will have to make significant advances in lowering costs and expanding access.

224 Teledensity (land and mobile lines) in the OECS is low averaging 48 subscribers per 100 inhabitants compared to other upper middle income countries, which average 56 subscribers per 100 people. Further, costs of fixed telephony remain high relative to competitors, probably a function of small population size. With respect to the internet, costs are higher than the sub-region's competitors particularly with the business sector. This is significant as internet services are now just as important as conventional voice communications as well as for export oriented service businesses.

225 If the OECS countries hope to use internet access as a key factor in building competitive advantage, they must reduce the costs of these services to their business sector. They must also broaden access significantly if they wish to use the internet as a means of raising competitiveness.

226 Maritime Transport and Ports: For small island economies, competitive shipping and port costs are critical to competitiveness. The main issue in maritime transport for the OECS relates to intra-regional shipping which is found to be irregular and serviced by vessels which are in poor condition. The World Bank cites the example of only one shipping line providing service, albeit irregular, between Grenada and Trinidad and Tobago. Given this existing situation, to facilitate exports, it is easier and more reliable to move the predominantly agricultural cargo through informal traders which have much smaller volumes and use the smaller (and more frequent) vessels. On the import side, firms have found themselves having to retain larger stocks of inventory in order to make up for irregular shipping services. Such substantial inventory not only ties down the firms working capital resources, but also incurs additional costs in terms of storage and safekeeping.

227 Compounding the problem are high freight costs and high cost ports in the OECS. The main contributors are excessive cargo handling charges caused by antiquated work rules and strong union opposition to reform. Most of the ports in the sub-region are operated on the public service port model in which the port authority owns, maintains and operates all assets. In a number of ports, attempts have been made to use private companies for cargo handling, but without the appropriate regulatory framework this resulted in an escalation of labor costs without commensurate improvements in productivity.

228 It is critical that port management be very responsive to developing trends in global and regional trade as it has implications for the OECS' ability to trade and to trade efficiently. In this regard, administrative systems should be up to mark to facilitate an effective work flow, communications, data collection, and the other array of information that is vital in port operations.

229 Air Transport: Given the reliance on tourism, airlift is a critical component of transport for the OECS, both intra- and inter-regionally. Airlift and airport capacity are however limited. For instance, neither Dominica nor St. Vincent and the Grenadines can accommodate medium sized jets and Dominica does not have night landing.

230 The OECS is served by several regional airlines in which governments continue to have a major stake but which are also plagued by financial problems. LIAT serves the intra-regional market and is part-owned by most of the OECS governments and the Government of Trinidad and Tobago. It has undergone several financial restructurings but is still struggling for viability. BWIA, which provides service between the OECS and its various hubs in the Caribbean and links to its international destinations, is owned primarily by the Government of Trinidad and Tobago and also faces financial problems. More recently, the OECS has been served by Air Jamaica, in which the Government of Jamaica has recently re-acquired a significant stake after an unsuccessful privatization effort.

231 The main objective of government policy on air transport is to ensure reliable, competitively-priced supply of airlift that keeps apace with the demands of the market. Against this background, continued protection of routes for regional carriers, like BWIA and LIAT, is usually intended to serve two purposes: to ensure a minimum level of

service and continuity in markets that are not expected to attract adequate supply from the private sector and to prevent anti-competitive or monopolistic behavior in markets that may be considered small enough to be natural monopolies. However, over time, this protection of route rights for LIAT and BWIA has resulted in large public expenditures to ensure the viability of both airlines as 'national carriers', and has not contributed to lowering prices or safeguarding supply.

232 The World Bank has observed that a more coordinated response to airlift and aviation issues can help to reduce costs and safeguard this crucial input into the tourism industry. They further recommend that the OECS needs to undertake a thorough analysis of the intra-regional market and reach an agreement on sub-regional aviation policy, in order to resolve the domestic air carrier situation and encourage the emergence of a reliable and stable market situation.

Health

233 While health status in the sub-region is relatively good and health care services broadly adequate, health care standards appear to be faltering somewhat with growing complaints among users about a deterioration in the quality of service and growing inability to respond effectively to the changing needs of users.

234 The World Bank notes that some of the more pressing challenges facing the health sector are an upsurge in communicable diseases (HIV/AIDS) and chronic non-communicable diseases (cancer, heart diseases, diabetes) which are increasingly placing additional burdens administrative, technical and financial pressures on the health system. The following have been proposed to ameliorate the health care services in the OECS:

- Strengthen the leadership and regulatory roles of health authorities, based on:
  - initiating meaningful and sustainable reforms of the health sector; and
  - developing systems for monitoring performance of Ministries of Health.
- Strengthen the capacity of health care personnel including:
  - training adequate and appropriate human resources to support health sector reforms;
  - creating mechanisms and incentives that encourage retention or return of trained health care personnel;
- Extend the Coverage of Health Services, with emphasis on:
  - promoting shifts in the allocation for both existing and new resources to be spent on prevention services and health promotion;
  - emphasizing health-related policies that promote efficient use of health resources and also alliances between health and pharmaceutical and equipment suppliers;

- Promoting and Protecting the Health and Well-Being of the Elderly, including:
  - developing and strengthen policies on aging; and
  - sensitizing health workers about the special needs of the elderly
- Reducing the Downtime of Critical Health Equipment, mainly:
  - making adequate financial resources available for maintenance services;
  - involving maintenance staff in the process of selection and purchase of new equipment.

Empowering Disadvantaged Groups

235 The goal of this developmental theme is to facilitate the effective participation of the elderly, the youth, and the disabled in the development process and to lead quality lives.

- The Elderly: Surveys in the OECS reveal that the elderly experience the following: (a) adverse economic circumstances including an excessive burden for their own upkeep; (b) poor nutritional status due in part to unbalanced dieting; (c) unsatisfactory health linked to infrequent medical examinations; (d) poor social relations marked by inactivity and isolation; inadequate community based programmes and services.
- Governments should ensure that macro-level policies take into account the independence, participation, care, self-fulfillment and dignity of the elderly. Some proposals for consideration include:
  - devising programmes to provide older persons with multiple and meaningful roles;
  - providing opportunities for older persons to have a means of livelihood;
  - identifying income generating projects for older persons;
  - develop and strengthen policies on aging;
  - strengthening Primary Health Care services targeted at the elderly
- The Youth: The youth comprise about one-quarter of the population of the OECS and economically will be the ones who will be called upon to effect the economic transformation of the Caribbean. Unfortunately their contribution to economic development is constrained by high levels of unemployment. Additionally, the youth are confronted by the following:
  - age discrimination within the labour market linked to their inability to satisfy experience requirements of most jobs;

- lack of access to secondary and tertiary education.

Table 3.1: Youth Unemployment

	Year of Source data	Unemployment rate Youth	Adult	Youth share of unemployment
Antigua and Barbuda	1991	13.0	4.2	47.0
Dominica	2001	56.0	16.7	50.1
Grenada	1998	23.9	9.2	49.0
St. Kitts and Nevis	2001	11.0	3.6	44.0
St. Lucia	2001	36.8	11.7	48.6
St. Vincent and the Grenadines	2001	39.4	15.3	45.3
OECS		31.9	10.8	47.6

Source: World Bank (2005): OECS: Towards a New Agenda for Growth

236 To reverse these trends and enable the youth to realize their potential to contribute to national development, some proposals for action may include:

- developing and promoting employment opportunities for young persons within an overall employment promotion strategy;
- providing the youth with realistic work experiences through attachments and apprenticeship schemes;
- developing and maintaining sustainable approaches to funding youth employment programmes on a long term basis;
- encouraging the active participation of youth in sporting and recreational activities (for example, establish sports as an integral part of primary and secondary education, encourage private sector involvement in sports and recreational activities).

The Disabled

237 While awareness of the plight of the disabled has become more widespread, this heightened awareness has not brought a concomitant improvement in the social and economic conditions of the disabled. In many cases, Government support to the disabled has moved to the margins and has been expressed mainly through subventions to voluntary or non-governmental organisations. Consequently, the disabled are far from being integrated into the mainstream of the society and the economy in OECS countries. They continue to face various forms of discrimination within the job market as well as within the education systems.

238 Against this background, the following are proposed:

- Strengthening the capacity of governmental and non-governmental organisations providing services to the disabled
    - Provide appropriate forms of incentives to organisations providing voluntary services to the disabled;
    - Design and implement National Policies on the Disabled
- Facilitating the Active Participation of the Disabled in the Development Process
    - Enact and enforce legislation prohibiting all forms of discrimination against the disabled;
    - Invest in the training of teachers in special education;
    - Ensure that all public buildings are equipped with ramps and other facilities for use by the disabled.

Poverty Eradication

239 Inequality and deprivation continue to challenge the socio-economic landscape of the OECS. The Caribbean Development Bank recognizes that poverty is a condition where people "lack….essential assets and opportunity to improve their living conditions and to achieve a quality of life they consider acceptable." Hence, poverty is not just an economic condition, rather it involves human and social elements that contribute to the lack of capability and the absence of opportunity to change one's conditions.

240 Poverty surveys reveal that there are growing pockets of poverty in the OECS countries. It is expected that the continued contraction of traditional crop sectors – sugar and bananas – due to disappearing preferences, will maintain pressure on rural incomes and hence poverty levels. Any poverty reduction strategy must balance the need to sustain economic growth and macroeconomic stability, facilitate job creation and ensure the provision of high quality health and education services. Although poverty reduction strategies will vary from country to country, the following elements are recommended for consideration:

- Policies which orient public spending toward basic social services and improved efficiency can have an important impact on poverty reduction.
- Improved public access to basic infrastructure, including access to potable water, solid and liquid waste disposal facilities, electricity.
- Improvement in the quality, efficiency and equity in the delivery of social services. In particular, more emphasis should be placed on higher quality basic health and education that will have the largest benefits for the poor.

- Increasing access to relevant education for poor children and adults within poor households by establishing educational facilities in poor communities

- Reform of the Social Safety Net. Reform of the safety net is needed to improve efficiency, support innovations in the administration and delivery of social assistance and national insurance schemes, and extend coverage and adjust benefit levels.

- Address the problem of crime and violence. This will require (i) strengthening enforcement and neighbourhood crime prevention programmes; (ii) targeting programmes to the highest risk group - young men – such as programmes that provide training in conflict resolution, improve self-esteem and involve youth in the community; (iii) combating the drug problem, (iv) improving educational and job opportunities.

Environmental Management

241 Environmental degradation is another developmental issue of concern, given the importance of tourism, export agriculture and fisheries in generating income in the economy. These activities involve the direct exploitation of natural resources such as coastal and marine environments, land and water. Degradation of these resources would greatly influence the OECS' prospects for social and economic growth and development.

242 To better manage the environment, the OECS countries could:

- Strengthen their public sector environmental departments with qualified staff and equipment;

- Further monitor environmental degradation and implement remedial action;

- Attract private sector investment and induce local communities to manage and financially support environmental assets such as national protected areas, beaches and coastal waters.

Disaster Management

Conclusion

243 As the preceding highlights, the countries of the Eastern Caribbean contend with structural, income and social insecurities at country and household levels. Within the context of the EPA, the goal for the OECS and indeed for the Region should not be to negotiate an agreement that focuses excessively on liberalizing markets, rather, it must be about creating holistic cooperation pacts that are case sensitive to the problems facing the region as a whole and its economies specifically. Agreements should be sought that would promote differentiated treatment between the less developed and the more developed; that help the region to overcome the principle effects of smallness,

lack of capacity and dependence on limited economic activities; and that are gradual in approach and people centered in focus.

244 Therefore, it is of paramount importance that this Third Phase of Negotiations address qualitative issues. The allocation of resources to social infrastructure and human development, is just as important as the allocation of resources to the economic sectors. Investment in these critical areas will accelerate the transition process by providing enterprises with an environment that is conducive to profitable business operations, and by providing them the human resources capable of taking up the challenge of regional and international competition.

Assessment of Possible Impact of Trade Liberalization with the EU

Introduction

245 As a precursor to presenting the simulated impacts of reducing tariffs on imports into the OECS countries from the EU and MDC, it is useful to investigate the structure of trade and border charges. Indeed, proper interpretation of the simulation results requires that they be placed into the proper context. This section therefore presents and discusses export similarity indexes (Finger and Kreinen) in order to provide information on the degree to which the OECS imports from various regions overlap. This discussion is followed by an analysis of the structure of border charges for each OECS country.

Export Similarity Indexes

246 Any analysis of the trade data reveals similarities and differences in the geographic distribution and product compositions of trade between OECS countries and their trading partners. However, given the level of detail in the data (e.g. 4-digit HS level comprising 1600+ commodity groups) it is difficult to ascertain the degree to which total trade structures are similar or different. Trade creation and trade diversion associated with trade liberalization with one (preferred) region vis-à-vis the remaining (non preferred) regions, depends to some extent on the degree to which trade patterns "overlap". Such information is very useful.

247 A convenient measure that provides such information is the bilateral export similarity index developed by Finger and Kreinen. Suppose one wishes to compare the structure of exports from two regions, say i and j, to some third region k. The export similarity index is given by:

$$S_{ij} = \sum_{l=1}^{n} \min(X_{il,} X_{jl;})$$

where X_{il} *and* X_{jl} denote the share in total exports of product *l* in region *i* and *j's* respective export to region *k* and *n* is the number of products exported. A value of 0 for the index implies complete dissimilarity of the structure of export of region i and *j*'s trade with region *k*, while a value of 1 implies identical export structures.

248 The calculated export similarity measures for each OECS country based on 4-digit HS data obtained from the United Nations Comtrade data base are presented in Table 3.2. The world is divided into the following regions, EU-4 (France, Germany, Netherlands and Spain), the United Kingdom (UK), the United States (US), the CARICOM MDCs (Barbados, Jamaica, Trinidad and Tobago, Guyana) plus the Dominican Republic (MDC+), other OECS countries and the rest of the world (ROW).

249 Examination of Table 3.2 shows that with few exceptions there is relatively little overlap between the exports of every pair wise regional comparison of trade with each OECS country. Indeed, in only one case, exports to Grenada between the OECS and the EU-4 (S = 0.92) does the export similarity index exceed 0.50, and in only three case does the calculated index exceed 0.40. Examination of the data, indicate that much of the calculated export similarity index for Grenada and the OECS/EU-4 index is attributable to one commodity, beer and malt beverages. At the other extreme, over half of the calculated export similarity measures (48) are less than 0.20. Thus, the general inference to be gleaned from the export similarity indexes is that the structure of exports to OECS countries when examined on the basis of pair wise regional groupings show relatively little overlap. This suggests that any form of OECS trade liberalization with trading partners should not result in significant trade diversion effects.

250 In this regard, a particular concern is that an EPA with the European Union (EU-4 and UK in Table 3.2) might result in trade diversion from MDC to the EU. Examination of Table 3.2, shows that the calculated export similarity index for the pair wise comparisons of both the MDC/EU-4 and MDC/UK exhibit little similarity between export from the UK and EU-4 and those of the MDC. This suggests that an EPA between the OECS and EU that reduced the current preference margins afforded to MDCs by the common external tariff (CET) would result in relatively little trade diversion. Analysis conducted in another portion of this study which simulates the trade creation and diversion effect of complete tariff removal on EU imports to the OECS indicates that trade diversion of less than 0.3 percent of the CIF value of baseline OECS imports would result. Trade creation and trade diversion amount to 0.45 percent and 0.39 percent of baseline CIF value respectively.

Table 3.2 Bilateral Similarity of Export Structures of Major Exporters to OECS

	Trading Partner Pairs						
Country	MDC+/EU-4	MDC+/US	MDC+/UK	MDC+/ROW	EU-4/UK	EU-4-US	**EU-4/ROW**
Antigua	0.15	0.31	0.22	0.33	0.22	0.27	0.11
Dominica	0.30	0.33	0.07	0.28	0.11	0.37	0.03
Grenada	0.18	0.27	0.22	0.18	0.15	0.16	0.07
St. Kitts	0.13	0.22	0.10	0.18	0.18	0.23	0.08
St. Lucia	0.17	0.33	0.23	0.19	0.31	0.23	0.13
St. Vincent	0.15	0.29	0.21	0.32	0.22	0.26	0.10
	Trading Partner Pairs						
Country	US/ROW	UK/ROW	OECS/MDC+	OECS/EU-4	OECS/UK	OECS/US	**OECS/ROW**
Antigua	0.28	0.23	0.19	0.06	0.07	0.12	0.06
Dominica	0.28	0.12	0.18	0.20	0.19	0.17	0.21

Grenada	0.43	0.39	0.18	0.92	0.15	0.16	0.13
St. Kitts	0.42	0.21	0.17	0.12	0.06	0.19	0.16
St. Lucia	0.45	0.31	0.18	0.14	0.16	0.11	0.18
St. Vincent	0.26	0.22	0.18	0.06	0.07	0.11	0.05

Structure of Border Taxes

251 Tables 3.3 – 3.8 provide information on both the distribution of border taxes across tax categories and across regional trading partners. In 2003 Antigua collected about $230.9 million in border taxes on an estimated $1.18 billion of imports (see Table 10.2). Imports from the NAFTA countries accounted for 43.6 percent of the total CIF value of imports and about 62 percent of total border taxes collected. The EU accounted for only about 10 percent of the CIF value of imports and a mere 6 percent to border tax collections. The distribution of trade taxes across categories is generally consistent for the EU, NAFTA and the rest of the world (ROW) grouping. In terms of total imports from the world, import duties, the consumption tax and the customs service tax accounted for about 31 percent, 33 percent and 39 percent of total border taxes respectively.

252 As can be seen in Table 3.4 Dominica collected $95.5 million in border taxes on an estimated $418.5 million in imports. Imports from NAFTA accounted for 37 percent of the CIF value and just over 32 percent of total border taxes. However imports from NAFTA accounted for over 50 percent of total import duties collected. The EU and MDC+ (MDCs plus the Dominican Republic) combined, accounted for over 36 percent of the total CIF value of trade but about 40 percent of total border taxes collected. However these two regions accounted for only about 12 percent of total import duties collected.

253 The distribution of border taxes collected on all trade indicates that the consumption tax accounted for 36.5 percent of all tax collections. Import duties were the next most significant border tax accounting for almost 23 percent of the total. The consumption tax on petroleum accounted for an additional 21 percent of total border tax collections. Import duties on imports from the EU and MDC+ accounted for about 12 percent of total import duties collected.

254 Grenada collected $166.7 million in border taxes on imports valued at $775.1 million. NAFTA countries accounted for almost 40 percent of the CIF value of imports, 43 percent of the total border taxes collected but over 55 percent of imports duties collected. The EU and MDC+ accounted for 39 percent of the CIF value of imports and almost 31 percent of total border taxes collected. Imports duties collected from these two regions amounted to just over 16 percent of the total.

255 Table 3.5 also indicated that the largest proportion of border taxes collected (48.7 percent) in Grenada arise from the consumption tax. Import duties account for about one quarter of border tax collections. Customs service charges account for about 18 percent of total border taxes.

256 Table 3.6 shows that St. Kitts and Nevis collected $106.9 million in border taxes on imports totalling $492.7 million in 2003. As is the case in other OECS countries,

NAFTA accounted for the largest proportion of imports (57 percent), total border taxes collected (54 percent) and import duties collected (54 percent). The SU and MDCs+ accounted for about 27 percent of the CIF value of imports, about 20 percent of total border taxes and just over 11 percent of import duties collected. The consumption tax in St. Kitts and Nevis accounts for over half of total border taxes collected. Import duties account for roughly 33 percent of the total. Customs service charges account for 16 percent.

257 In 2003 St. Lucia collected $215.7 million in border taxes on imports valued at $1.11 billion. NAFTA countries accounted for almost 37 percent of the total CIF values of imports, 45 percent of total border taxes collected and 52 percent of imports duties collected. The EU and MDC+ accounted for about 30 percent of the CIF values of imports, about 26 percent of total border taxes and 15 percent of imports duties collected. As seen in Table 3.7, import duties account for about 31 percent of total border taxes collected and the consumption tax accounts for almost 35 percent. The customs service charge account for roughly 18 percent of border taxes.

258 As illustrated in Table 3.8, St. Vincent collected $54.7 million in border taxes on imports valued at $132.6 million. NAFTA countries accounted for over 58 percent over the CIF value of imports, almost 60 percent of total border taxes and 58 percent of import duties collected. The EU and MDC+ accounted for about 13 percent of total import value, about 12 percent of total border taxes collected and 12.5 percent of import duties. The consumption tax in St. Vincent accounts for almost 57 percent of total border taxes collected. Import duties account for an additional 33 percent.

Table 3.3The Structure of Border Taxes in Antigua, 2003

Distribution of Trade Taxes by Region of Origin (Percent)								
Region	Import Duty	Consumption Tax	Customs Service Tax	Environ. Levy	National Solid Waste Levy	Throughput Levy	Total Taxes Paid	
EU	32.96	31.52	30.92	2.40	2.20	0.00	100.00	
NAFTA	34.42	33.73	28.06	2.22	1.55	0.01	100.00	
MDC+	6.24	44.24	37.37	0.41	9.97	1.78	100.00	
OECS	10.11	37.41	42.62	0.58	9.28	0.00	100.00	
ROW	33.22	25.91	24.93	8.74	0.60	6.60	100.00	
World	31.11	32.92	28.63	3.46	2.28	1.60	100.00	
Total CIF Value and Trade Taxes Collected from Various Regions ($US)								
Region	CIF Value	Import Duty	Consumption Tax	Customs Service Tax	Environ. Levy	National Solid Waste Levy	Throughput Levy	Total Taxes Paid
EU	122,724,517	4,285,779	4,098,745	4,020,154	312,637	285,511	0	13,002,827
NAFTA	515,063,025	49,196,473	48,213,705	40,113,209	3,175,508	2,216,970	20,069	142,935,936
MDC+	113,465,662	1,302,240	9,230,369	7,798,060	84,550	2,080,864	370,382	20,866,465
OECS	22,535,570	399,831	1,479,017	1,685,211	22,893	366,784	0	3,953,737
ROW	408,671,546	16,658,375	12,992,633	12,504,490	4,383,360	303,211	3,309,765	50,150,506
World	1,182,451,471	71,842,256	76,014,470	66,120,239	7,978,949	5,253,340	3,700,216	230,909,469
Share of Total CIF Value and Total Trade Taxes Collected from Various Regions (Percent)								
Region	CIF Value	Import Duty	Consumption Tax	Customs Service Tax	Environ. Levy	National Solid Waste Levy	Throughput Levy	Total Taxes Paid
EU	10.38	5.97	5.39	6.08	3.92	5.43	0.00	5.63
NAFTA	43.56	68.48	63.43	60.67	39.80	42.20	0.54	61.90
MDC+DR	9.60	1.81	12.14	11.79	1.06	39.61	10.01	9.04
OECS	1.91	0.56	1.95	2.55	0.29	6.98	0.00	1.71
ROW	34.56	23.19	17.09	18.91	54.94	5.77	89.45	21.72

Table 3.4 The Structure of Border Taxes in Dominica, 2003

Distribution of Trade Taxes by Region of Origin (Percent										
Region	Import Duty	Import Duty Alcohol	Consumption Tax	Consumption Tax Petrol	Environment. Surcharge	Surcharge	Customs Service Charge	Environment. Surcharge Vehicles	Total Taxes Paid	
EU	24.90	9.53	39.22	0.00	7.15	0.24	18.84	0.12	100.00	
NAFTA	36.08	0.56	43.02	0.02	6.15	0.37	13.78	0.03	100.00	
MDC+	2.72	0.01	21.97	64.06	2.00	0.01	9.23	0.00	100.00	
OECS	2.63	0.04	68.70	5.95	4.91	0.04	17.68	0.05	100.00	
ROW	33.88	0.58	41.60	0.04	7.86	6.72	8.91	0.40	100.00	
World	22.86	1.07	36.49	20.73	5.28	1.81	11.64	0.12	100.00	
Total CIF Value and Trade Taxes Collected from Various Regions ($US)										
	CIF Value	Import Duty	Consumption Tax	Import Duty Alcohol	Consumption Tax Petrol	Environment. Surcharge	Surcharge	Customs Service Charge	Environment. Surcharge Vehicles	Total Taxes Paid
EU	50,573,942	1,851,471	708,355	2,915,715	0	531,633	17,950	1,400,675	9,192	7,434,991
NAFTA	156,673,796	11,039,963	170,145	13,162,952	5,945	1,881,035	112,705	4,217,533	9,190	30,599,469
MDC+	101,697,773	831,793	3,977	6,721,943	19,603,318	611,289	2,101	2,825,518	0	30,599,939
OECS	20,573,878	84,280	1,297	2,199,548	190,586	157,132	1,425	566,028	1,514	3,201,809
ROW	88,931,879	8,031,477	138,198	9,860,897	8,734	1,863,795	1,593,811	2,112,510	95,589	23,705,011
World	418,451,269	21,838,983	1,021,972	34,861,054	19,808,584	5,044,884	1,727,992	11,122,263	115,486	95,541,219
Share of Total CIF Value and Total Trade Taxes Collected from Various Regions (Percent										
	CIF Value	Import Duty	Import Duty Alcohol	Consumption Tax Consumption Tax Petrol		Environment. Surcharge	Surcharge	Customs Service Charge	Environment. Surcharge Vehicles	Total Taxes Paid
EU	12.09	8.48	69.31	8.36	0.00	10.54	1.04	12.59	7.96	7.78
NAFTA	37.44	50.55	16.65	37.76	0.03	37.29	6.52	37.92	7.96	32.03
MDC+	24.30	3.81	0.39	19.28	98.96	12.12	0.12	25.40	0.00	32.03
OECS	4.92	0.39	0.13	6.31	0.96	3.11	0.08	5.09	1.31	3.35
ROW	21.25	36.78	13.52	28.29	0.04	36.94	92.23	18.99	82.77	24.81

Table 3 .5 The Structure of Border Taxes in Grenada, 2003

Distribution of Trade Taxes by Region of Origin									
Region	Import Duty	Consumption Tax	Customs Service Charge	Environm. Levy	Surcharge	Petroleum Tax	Petroleum Tax GCT	Total Tax Paid	
EU	28.26	47.67	22.12	1.95	0.00	0.00	0.00	100.00	
NAFTA	32.11	48.66	16.22	1.13	0.00	0.48	1.40	100.00	
MDC	6.97	45.22	23.86	1.21	0.00	2.85	19.90	100.00	
OECS	4.56	46.45	22.42	26.57	0.00	0.00	0.00	100.00	
ROW	27.83	52.28	14.06	5.82	0.00	0.00	0.00	100.00	
World	24.83	48.70	17.95	2.71	0.00	0.83	4.97	100.00	
Total CIF Value and Trade Taxes Collected from Various Regions									
	CIF Value	Import Duty	Consumption Tax Customs Service Charge		Environm. Levy	Surcharge	Petroleum Tax	Petroleum Tax GCT	Total Tax Paid
EU	91,863,565	4,198,286	7,081,424	3,285,527	290,345	0	0	62	14,855,644
NAFTA	308,504,530	22,857,683	34,647,236	11,547,875	802,135	297	342,412	998,893	71,196,531
MDC	210,968,597	2,554,761	16,568,895	8,742,127	441,721	0	1,042,693	7,291,528	36,641,725
OECS	9,889,644	90,570	921,580	444,819	527,090	0	0	13	1,984,072
ROW	153,829,312	11,707,453	21,987,627	5,913,471	2,449,274	519	0	2,067	42,060,411
World	775,055,648	41,408,753	81,206,762	29,933,819	4,510,565	816	1,385,105	8,292,563	166,738,383
Share of Total CIF Value and Total Trade Taxes Collected from Various Regions									
	CIF	Import Duty	Consumption Tax Amount	Customs Service Charge	Import Duty Alcohol	Mercantile Tax	Total Taxes Collected	Total Taxes Collected	Total Taxes Collected
EU	11.85	10.14	8.72	10.98	6.44	0.00	0.00	0.00	8.91
NAFTA	39.80	55.20	42.67	38.58	17.78	36.40	24.72	12.05	42.70
MDC	27.22	6.17	20.40	29.20	9.79	0.00	75.28	87.93	21.98
OECS	1.28	0.22	1.13	1.49	11.69	0.00	0.00	0.00	1.19
ROW	19.85	28.27	27.08	19.76	54.30	63.60	0.00	0.02	25.23

Table 3.6. The Structure of Border Taxes in St. Kitts and Nevis

Distribution of Trade Taxes by Region of Origin (Percent)							
Region	Import Duty	Consumption Tax Amount	Customs Service Charge	Import Duty Alcohol	Mercantile Tax	Total Taxes Collected	
EU	21.27	55.01	20.56	3.00	0.15	100.00	
NAFTA	32.24	50.94	16.26	0.36	0.20	100.00	
MDC+DR	15.24	61.08	23.56	0.09	0.03	100.00	
OECS	11.61	68.28	18.39	1.36	0.37	100.00	
ROW	42.96	44.87	11.46	0.44	0.27	100.00	
World	31.36	51.49	16.41	0.54	0.20	100.00	
Total CIF Value and Trade Taxes Collected from Various Regions ($US)							
	CIF	Import Duty	Consumption Tax Amount	Customs Service Charge	Import Duty Alcohol	Mercantile Tax	Total Taxes Collected
EU	46,546,397	1,542,500	3,988,408	1,491,023	217,567	10,817	7,250,315
NAFTA	281,281,716	18,220,072	28,788,491	9,188,131	203,000	114,161	56,513,855
MDC+DR	89,817,097	2,207,396	8,849,643	3,412,778	12,854	4,776	14,487,447
OECS	10,485,083	280,184	1,648,417	443,921	32,807	8,974	2,414,303
ROW	64,565,629	11,266,026	11,765,646	3,005,112	114,310	71,177	26,222,271
World	492,695,922	33,516,178	55,040,605	17,540,965	580,538	209,905	106,888,191
Share of Total CIF Value and Total Trade Taxes Collected from Various Regions							
	CIF	Import Duty	Consumption Tax Amount	Customs Service Charge	Import Duty Alcohol	Mercantile Tax	Total Taxes Collected
EU	9.45	4.60	7.25	8.50	37.48	5.15	6.78
NAFTA	57.09	54.36	52.30	52.38	34.97	54.39	52.87
MDC+DR	18.23	6.59	16.08	19.46	2.21	2.28	13.55
OECS	2.13	0.84	2.99	2.53	5.65	4.28	2.26
ROW	13.10	33.61	21.38	17.13	19.69	33.91	24.53

Table 3. 7. The Structure of Border Taxes in St. Lucia

Distribution of Trade Taxes by Region of Origin

Region	Import Duty	Consumption Tax	Customs Service Tax	Environ. Levy	Excise Tax	Compulsory Standards Fee	Domestic Excise Tax	Domestic Consumption Tax	Total Taxes Collected
EU	31.37	25.71	15.94	3.46	23.52	0.00	0.00	0.00	100.00
NAFTA	36.30	39.41	16.61	4.13	3.53	0.02	0.00	0.00	100.00
MDC+DR	6.50	50.99	33.86	4.63	4.01	0.00	0.01	0.00	100.00
OECS	4.64	44.18	42.61	5.61	2.97	0.00	0.00	0.00	100.00
ROW	35.58	24.52	14.28	5.96	19.65	0.02	0.00	0.00	100.00
World	31.34	34.92	18.31	4.63	10.78	0.02	0.00	0.00	100.00

Total CIF Value and Trade Taxes Collected from Various Regions

	CIF Value	Import Duty	Consumption Tax	Customs Service Tax	Environ. Levy	Excise Tax	Compulsory Standards Fee	Domestic Excise Tax	Domestic Consumption Tax	Total Taxes Collected
EU	121,914,900	9,117,482	7,474,496	4,632,658	1,005,631	6,837,532	294	0	0	29,068,093
NAFTA	429,328,977	35,154,578	38,174,459	16,083,207	4,000,732	3,417,074	24,176	28	0	96,854,254
MDC+DR	212,379,623	1,777,345	13,939,844	9,256,029	1,265,244	1,096,687	75	1,781	0	27,337,005
OECS	19,722,502	99,952	951,944	918,141	120,847	63,929	0	0	0	2,154,813
ROW	328,647,066	21,436,351	14,773,150	8,604,871	3,589,346	11,836,966	9,880	0	-45	60,250,519
World	1,111,993,068	67,585,708	75,313,893	39,494,906	9,981,800	23,252,188	34,425	1,809	(45)	215,664,684

Share of Total CIF Value and Total Trade Taxes Collected from Various Regions

	CIF Value	Import Duty	Consumption Tax	Customs Service Tax	Environ. Levy	Excise Tax	Compulsory Standards Fee	Domestic Excise Tax	Domestic Consumption Tax	Total Taxes Collected
EU	10.96	13.49	9.92	11.73	10.07	29.41	0.85	0.00	0.00	13.48
NAFTA	38.61	52.01	50.69	40.72	40.08	14.70	70.23	1.55	0.00	44.91
MDC+DR	19.10	2.63	18.51	23.44	12.68	4.72	0.22	98.45	0.00	12.68

OECS	1.77	0.15	1.26	2.32	1.21	0.27	0.00	0.00	0.00	1.00
ROW	29.55	31.72	19.62	21.79	35.96	50.91	28.70	0.00	100.00	27.94

Table 3.8. The Structure of Border Taxes in St. Vincent

Distribution of Trade Taxes by Region of Origin			(Percent)			
Region	Import Duty	Consumption Tax	Customs Service Charge	Vehicle Surcharge	Total Taxes Paid	
EU	33.42	55.17	11.41	0.00	100.00	
NAFTA	32.60	57.58	9.82	0.00	100.00	
MDC+DR	38.98	51.29	9.72	0.00	100.00	
OECS	32.27	58.48	9.25	0.00	100.00	
ROW	34.63	55.62	9.75	0.00	100.00	
World	33.38	56.66	9.96	0.00	100.00	
Total CIF Value and Trade Taxes Collected from Various Regions ($US)						
	CIF Value	Import Duty	Consumption Tax	Customs Service Charge	Vehicle Surcharge	Total Taxes Paid
EU	15,926,152	1,864,015	3,077,211	636,671	0	5,577,897
NAFTA	80,078,840	10,627,453	18,768,814	3,200,478	0	32,596,746
MDC+DR	2,630,952	421,934	555,151	105,223	0	1,082,308
OECS	224,706	31,345	56,808	8,988	0	97,141
ROW	37,408,877	5,313,764	8,533,366	1,496,264	0	15,343,394
World	136,269,526	18,258,512	30,991,351	5,447,624	0	54,697,487
Share of Total CIF Value and Total Trade Taxes Collected from Various Regions (Percent)						
	CIF Value	Import Duty	Consumption Tax	Customs Service Charge	Vehicle Surcharge	Total Taxes Paid
EU	11.69	10.21	9.93	11.69	0.00	10.20
NAFTA	58.77	58.21	60.56	58.75	0.00	59.59
MDC+DR	1.93	2.31	1.79	1.93	0.00	1.98
OECS	0.16	0.17	0.18	0.16	0.00	0.18
ROW	27.45	29.10	27.53	27.47	0.00	28.05

Simulating the Effects of Tariff Elimination of EU and MDC+ Imports

259 Evaluating the potential impacts of a trade reciprocity agreement on trade flows is crucial to understanding the fiscal impacts of trade liberalization since trade flows are the basis for taxation and tariff revenues. Unfortunately, quantitative evaluation in the context of the OECS is difficult due to the paucity of historical data. Thus one must find a good balance between theoretical rigor and the available data. Generally this involves a tradeoff between aggregate analyses utilizing existing historical data "averaging out" many crucial trade effects with highly detailed analysis based on limited historical data[1/]. This analysis does the latter approach and assesses the quantitative impact of an EPA between the OECS countries and selected country groupings using a framework adopted by Busse, Borrmann and Grobmann (2004).

260 The basic model is predicated a Vinerian partial equilibrium framework. Accordingly, the fiscal impacts and trade flows associated with various trade liberalization scenarios are estimated using a model originally advanced by Verdoorn in the 1960s. Despite its vintage, the model has been shown by many to be suitable for the "teasing out" of trade flows in scenarios such as the proposed EPA. The model assumes product differentiation between supplying countries (the so-called Armington Assumption). In this context, imported goods from different countries are assumed imperfect substitutes in use.

261 The model also assumes that exchange rates and incomes are unaffected by changes in the magnitude of trade flows, iso-elastic demand functions, and infinite supply elasticities. It should be noted that supply elasticities may in fact be less than infinitely elastic. However, as OECS countries account for less than 1 percent of the exports from the EU and NAFTA countries, expected changes in total domestic production are likely to be small and the assumption of a horizontal supply curve, acceptable.

262 The basic model used in this analysis begins with the assumption that consumption decisions are based on maximization of the weakly separable (in domestic and imported products) utility function:

$$(1) \qquad U = f\left[f_1\left(Q_1, Q_2\right), Q_3\right]$$

where the branch of the utility function f_1 is homogeneous of degree one, Q_1 and Q_2 denote imports of goods from preferred and non-preferred countries, respectively and Q_3 represents domestically produced products. The assumption of homogeneity of the utility function implies that total imports (Q_1 + Q_2) are substituted equally for domestic

1/ General equilibrium frameworks are the preferred analytical approach for studies, which aim at assessing the trade and welfare impacts in trade models. However, the rigorous data requirements on each of the OECS economies and in particular the absence of a social accounting matrix for any of the OECS countries involved in the study, precluded any attempt at estimating such a model. By contrast, the partial equilibrium approach, while being highly static, allows an examination of the impact of interesting trade policy changes through the application of a detailed data set developed for this study.

production. This is tantamount to assuming consumers have no strong preferences for domestic goods vis-à-vis imported goods.

263 The assumption weak separability also implies that given import demand elasticities, it is possible to operationalize the model without the need for domestic production data. This assumption is critical for OECS countries, where domestic production data is not collected at the level of disaggregration, used in this analysis[2/].

264 The basic empirical model is predicated on two key assumptions. First the total import demand function ($Q_1 + Q_2$) for any given product is takes the form

$$(2) \qquad Q_1 + Q_2 = \beta P_1^{\varepsilon\alpha_1} P_2^{\varepsilon\alpha_2}$$

where P_1 and P_2 are the prices of beneficiaries' and non-beneficiaries, imports, α_1 and α_2 are the share coefficients $\left(\alpha_1 = Q_1/\left(Q_1 + Q_2\right) \text{and} \, \alpha_1 + \alpha_2 = 1\right)$, β is a location parameter and ε represents the elasticity of demand. The second assumption is that the elasticity of substitution (σ) of preferred for non-preferred imports is to be defined as:

$$(3) \qquad \frac{Q_1}{Q_2} = \gamma \left(\frac{P_1}{P_2}\right)^{\sigma}$$

265 If the tariff is eliminated on preferred imports, Q_1, and supply elasticities are infinite, the price of the beneficiaries' imports P_1 changes by:

$$(4) \qquad \frac{\delta p_1}{p_1} = \frac{\delta t}{1+t}$$

266 Then the total expansion of imports from the preferred country's viewpoint due to the trade preferences can be expressed as follows:

$$(5) \qquad \frac{\delta Q_1}{Q_1} = \left(\alpha_1 \varepsilon + \left(1 - \alpha_1\right)\sigma\right)\left(\frac{\delta t}{1+t}\right)$$

267 The total effect emerges in two ways: first, the tariff is eliminated on Q_1, and P_1 falls, and then the consumer substitutes Q_1 for Q_2. Equation (5) can be rearranged by substituting α_2.

$$(6) \qquad \frac{\delta Q_1}{Q_1} = \left(\varepsilon + \alpha_2\left(\sigma - \varepsilon\right)\right)\left(\frac{\delta t}{1+t}\right)$$

2/ A later chapter of the study employs the estimates along with qualitative and quantitative data to extrapolate on the effects of the EPA for various economic sectors.

268 The total change in preferred imports can be divided into trade creation (TC) and trade diversion (TD). The former is defined as the change in imports from beneficiaries' countries and consists of the consumption effect, that is, the increase in overall consumption due to lower prices, and the displacement of domestic production. This effect can be determined from the preferred country's standpoint as follows:

$$TC = Q_1 \varepsilon \left(\frac{\delta t}{1+t} \right) \tag{7}$$

269 Trade diversion is defined as the substitution of preferred for non-preferred imports due to the preferential tariff elimination:

$$TD = Q_1 \alpha_2 (\sigma - \varepsilon) \left(\frac{\delta t}{1+t} \right) \tag{8}$$

270 The expected change in import duties (ID) is equal to the sum of import duties for imports from the preferred country Q_1, which are now excluded from import tariffs, and the replacement of imports from non-preferred countries (TD) multiplied by the import tariff:

$$\delta\, ID = Q_1 t_1 + TD\, t_2 \tag{9}$$

where t_1 and t_2, represent the post-change tariff rates for preferred and non-preferred imports, respectively.

271 The estimation of trade creation and trade diversion and the changes in import duties were conducted at the eight-digit HS level. At this level of disaggregration, the analysis is undertaken for approximately 6,360 tariff lines (the precise number varies slightly among OECS Member States). The benefit of this level of aggregation is that it avoids aggregation of tariffs and other border charges and permits a detailed analysis of products most affected by possible tariff reductions

272 As can be seen from equations (7) and (8), estimation of TC and TD in the model requires estimates of import demand and substitution elasticities. Estimates of the elasticity of demand are available from a number of studies, however none of these estimates have been undertaken at the eight-digit level. Consequently, estimates of the elasticity of demand are adapted from existing studies by Devarajan et al (1999)[3/] and by Kee et al (2004)[4/]. Several authors among them Kee et al (2004), have indicated that

3/ Devarajan, Shantayanan, Delfin Go, and Hongyi Li. "Quantifying the Fiscal Effects of Trade Reform: A general Equillibrium Model Estimated for 60 Countries". World Bank (1999).

4/ Kee Looi Hiau, Alessandro Nicita and Marcelo Olarreaga. "Import Demand Elasticities and Trade Distortions", World Bank (2004).

the more disaggregated the level of analysis, the more elastic the responsiveness of import demand. Accordingly, simulations assuming low, medium and high values around the estimated levels of import demand elasticities were used to assess the sensitivity of the results to change in these parameters. The differences in the basic nature of products are reflected in differentiated elasticities for agricultural, raw material and manufactured goods. These are reported in Table (3.9).

273 The relative magnitude of the elasticities of substitution reflect the fact that raw materials tend to be less distinctive and hence are more likely to be substituted than either manufactured or agricultural products. The elasticities of substitution are higher than the elasticities of import demand reflecting the easier substitution of the same product across competing producing regions (imports from the US switching to imports from the US). The appendix tables report on all scenarios, the Mid-range is assumed the most likely outcome of immediate integration between the EU and the OECS countries. The "high-scenario" provides a good estimate of the upper bound of the trade and budget effects.

Table 3.9. Elasticity Estimates Employed in the Model Simulation

Product Category (HS Chapters)	Import Demand Elasticity			Elasticity of Substitution		
	Low	Medium	High	Low	Medium	High
Agricultural Products (1-24)	0.5	0.9	1.10	1.2	2.2	3.5
Raw Materials (25-27)	0.6	1.0	1.25	2.5	3.5	6.5
Manufacturing (28-97)	0.8	1.2	1.50	1.95	3.0	4.5

Note: Assumed elasticities at the eight-digit level.

274 A major unknown in analyses of this nature relates to the period of time over which tariff reductions will occur. Recent discussions aimed at entering into Phase III of the CARIFORUM-EU negotiations, suggest that CARICOM and by extension the OECS countries will engage in negotiations based on three or four "baskets." Basket 1, contains products subject to immediate tariff removal. Basket 2 includes products for which tariff reductions would not occur for five to ten years (or in year five and year ten in the case of the four basket approach). The final basket includes products in which liberalization would occur over a period longer than ten years.

275 At the time of this study, the approach to CARICOM liberalization is not well defined. In fact, the results of this study are intended to assist the LDC's of CARICOM, which are members of the OECS Grouping to define their liberalization schedules according to relative trade and budget impacts as well as production and other interest (food security, rural livelihood etc). In this context, a "first cut" at the impact of liberalization can be obtained from assuming the "worst case scenario" and utilizing the results of the liberalization scenario to define the liberalization scenario most advantageous to the Member States of the OECS.

276 Another pertinent issue regarding liberalization relates to the definition of substantially all the trade, which constitutes one of the conditions for Regional Trading Agreements (RTA's), under Article XXIV of the GATT. Article XXIV in relevant parts state that " *substantially all trade*" must be covered and full reciprocity is expected "*within a reasonable time frame*". The lack of precision in Article XXIV renders it difficult

to come to a definite conclusion about WTO conformity, although the former has commonly been adopted to mean 90 percent of all trade, and the latter provision 10 years. It is noteworthy that the EU-South Africa Agreement, includes asymmetrical reciprocity in favor of South Africa. While 95 percent of the goods are imported duty free into the EU from South Africa, only 86 percent is imported into South Africa from the EU and the maximum transition period is twelve years. In the US-Costa Rica, bilateral agreement the maximum period for liberalization is twenty years.

277 With the exception of the relatively stringent definition of substantially all the trade advanced by the Delegation of Australia, which proposes the liberalization of 95 percent of trade in tariff lines in which trade occurs, our analysis indicates that the OECS countries would satisfy the criteria of substantially all the trade commonly adopted for RTA's (90 percent of all trade).

278 In the analysis undertaken in this study, we assume implementation of the EPA between the EU and the OECS occurs through complete and immediate tariff removal on all products. The results are thus indicative of a "worst case" scenario. Accordingly, the analysis reflects the upper bound of the effects of liberalization between the EU and the OECS. In reality, the trade and budget effects of OECS liberalization will be mitigated by the exclusion of various tariff lines based on revenue or other sensitivities. It should also be noted that this assumption closely fits with the final stage of the tariff liberalization, in which all tariffs are eliminated, rather than the case where the effects of the liberalization is mitigated by appropriate staging into baskets.

279 While OECS countries apply a range of broadly similar taxes, there are several differences among them. All countries adopt import duties and consumption taxes, which are the two most important taxes collected at the border. Consumption taxes account for the largest share of international trade taxes in all OECS countries. Import duties represent the second largest contributor to international trade taxes. The customs service charge accounts for the third largest contributor to total trade taxes.

280 Only import duties are assumed to be eliminated because of the EPA between the OECS and the EU. The impact on total trade taxes, will depend on the extent to which the elimination of duties impact total duty collections is offset by the increase in the level of consumption tax and customs service charge resulting from the increase in imports resulting from the "Total Trade Effect". No *a priori* sign can be ascribed to the impact of liberalization on Total Trade taxes. By contrast, the sign on the impact of tariff elimination on duty collection is unambiguously negative.

281 The analysis was undertaken at the individual OECS country level, hence six individual models were constructed, on which the various simulation of elasticities (low, medium and high) were analyzed. The six countries were then aggregated into an "ALL OECS Model" and the results of the analysis reported on both on an individual country and OECS sub-regional basis.

282 The scenario analyzed in this paper assumes complete tariff removal on all imports between the EU and the MDCs of CARICOM plus the Dominican Republic (MDC+), as the "preferred country" and the rest of the world as the "non-preferred"

country. This scenario most accurately reflects the framework for EU-CARIFORUM EPA integration through an EPA. The summary results for the "medium" elasticity scenario[5/] are presented in Table 3.10. The absolute increase in total imports from the EU is greatest in St. Lucia due to the relatively larger imports by this country in the OECS, and the larger magnitude of EU imports in this country's import mix.

283 The results demonstrate that trade creation exceeds trade diversion in absolute terms in St. Vincent, St. Lucia, St. Kitts and Nevis and Dominica and Grenada. Trade diversion exceeds trade creation in Antigua. This result is consistent with the finding in Table 3.14, that average tariff rates on imports from the EC are somewhat less than for the NAFTA grouping or for the Rest of the World. When trade diversion exceeds trade creation as in Antigua, there exist the tendency for less efficient imports from the EU and the CARIFORUM, to substitute for more efficient imports from NAFTA and the Rest of the World. The results for these countries also reflects the finding that trade among the grouping is "*not compatible*" in the sense that the various trade grouping supply different types of good to the OECS economies. The results suggest that an EPA between the OECS and the EU, will induce more efficient sourcing of imports for virtually, all the OECS countries with the exception of Antigua. The Summary Table 3.10, suggests that the welfare gains will not be substantial, with trade creation benefits exceeding trade diversion by less than EC $2.0 Million[6/]. Accordingly, trade liberalization with the EC could lead to benefits for St. Vincent, St. Lucia, St. Kitts and Nevis, Grenada and Dominica, in that consumers are able to substitute lower cost imports for goods produced at home.

Table 3.10. Summary results "medium" elasticity scenario

Country	Trade Creation	Trade Diversion	Total Trade Effect	Change in Tariff Revenues	Change in Consumption Tax
Antigua	$1,045,300	$2,270,697	$3,315,997	-$5,911,042	$78,806
Dominica	1,369,999	958,661	$2,328,660	-2,821,339	171,909
Grenada	1,746,356	1,589,520	$3,335,877	-3,064,189	314,691
St. Kitts	1,417,185	746,609	$2,163,794	-3,821,919	350,329
St. Lucia	4,718,169	3,573,978	$8,292,146	-11,632,651	553,603
St. Vincent	1,043,662	743,526	$1,787,188	-2,413,514	2,803
Total	$11,340,671	$9,882,992	$21,223,663	-$29,664,654	$1,472,141

284 Table 3.11 presents the estimated trade effects as a percentage of baseline imports. Trade effects range from 0.28 percent of baseline CIF value of imports under the scenario of complete liberalization with the EU and CARIFORUM with Antigua, to 1.31 percent for St. Vincent and Grenadines.

5/ Results for the "low" and "high" elasticity scenarios are presented in Appendix A

6/ Trade diversion, is apparent for the OECS economies of Antigua as more efficient sources of imports displace by higher cost-producers.

Table 3.11 Trade Effect as a % of Base-line Imports under the "medium" elasticity scenario

Country	Percent of base-line imports
Antigua and Barbuda	0.28
Dominica	0.56
Grenada	0.43
St. Kitts and Nevis	0.44
St. Lucia	0.75
St. Vincent and the Grenadines	1.31

285 Separate and apart from the induced impact on trade of the EPA, Table 3.12 shows the revenue impacts resulting from the elimination of import duties. Import duties as a percentage of GDP range from 4.5 percent to 9.6 percent for the OECS countries as a whole. Clearly, import duties and border taxes constitute major elements in total government revenues and by extension government expenditure.

286 By this token, an appreciable decline in the contribution of import duties or international trade taxes will have major implications for the OECS Governments, particularly given the high levels of external debt to GDP and the impending adjustments that are anticipated from commitments already entered into at the multilateral level.

287 Table 3.13 indicates that import duties will decline for all OECS countries as a consequence of complete liberalization with the EU and the CARIFORUM, within the framework of an EPA. St. Lucia, St. Vincent, St. Kitts and Nevis and Dominica will undergo non-negligible adjustments, ranging from 8.5 percent for Antigua to 17.9 percent of base import duty collections for St. Lucia. The OECS as a whole, stand to lose approximately 12.34 percent of baseline import duties.

288 The results also show (Table 3.14) that while the reduction in tariff revenues/duties are non-negligible for virtually all the countries, the impact in term of the proportion of GDP and of total trade taxes (import duties, consumption tax, customs service charge and others) is quite small. St. Lucia, St. Vincent and Grenada, display higher revenue dependency and hence greater loss in import duties as a percentage of total tax collections. Dominica and Antigua demonstrate the smallest degree of revenue loss. As a proportion of GDP, the calculations based on the results of the models demonstrate that in the "worst -case scenario" of complete liberalization with the EU and CARIFORUM OECS countries will be impacted on average by around 1 percent of GDP. St. Lucia, Grenada, and Dominica demonstrate the greatest sensitivity to revenue loss.

Table 3.12. Baseline values and estimated changes in import duties under "medium" elasticity scenario

Country	Baseline Values Import Duties Collected		Post Change Values Import Duties Collected	
	EU-MDC-DR	ROW	Total	% Change
Antigua	$5,588,019	$66,254,237	$65,708,542	-8.54
Dominica	2,683,264	19,155,719	18,930,332	-13.32
Grenada	6,753,047	34,655,706	38,244,984	-7.64
St. Kitts	3,749,896	24,121,963	23,988,206	-13.93
St. Lucia	10,894,827	56,690,881	55,477,432	-17.92
St. Vincent	2,285,950	15,972,562	15,759,121	-13.69

Total	$31,955,002	$216,851,068	$218,108,617	-12.34

Table 3.13 Impact of Duty Reductions –Based on Base-line Import Tax Collections

Country	Percent of GDP	Percent of Total Tax Collections
Antigua	0.75	2.8
Dominica	1.03	1.19
Grenada	0.43	4.1
St. Kitts	0.96	3.5
St. Lucia	1.71	5.1
St. Vincent	0.61	4.4

Identification of Sensitive Products

Trade Diversion and Trade Creation Impacts[7/]

289 In the stylized model applied to examine the total trade impact of the EPA between the EU and the economies of the OECS, as a part of the CARIFORUM Grouping, domestic sector adjustments were incorporated through the elasticity of substitution. This approach, carries with it certain limitations, particularly however, where the domestic sector is a significant contributor to economic activity. In these instances, the results of tariff liberalization will need to be considered in a much broader context, using the results as a "guide", than in instances where the sector is marginal.

290 For many OECS economies, sectors such as brewing, milling, certain agricultural and manufacturing sectors etc., subscribe to this dilemma of being significant enough to generate production, domestic tax and employment adjustments effects of measurable proportions. It is important though to restate that the results of the trade examination, suggests that ***ceteris paribus***, the impacts of trade liberalization with the EU will not generate large changes in fiscal, trade flows or overall economic growth terms.

291 In identifying the sectors most affected by liberalization with the EU, certain industries are likely to emerge which are not produced in the domestic economy, such as vehicles in many of the OECS economies. Clearly, these industries reflect the revenue sensitivity of the particular OECS country in its purist form, since there are no domestic or other effects to be considerations to be taken into account. In still other instances, the results of the Model could convey useful information on the sensitive industries in other CARICOM countries, which could be impacted as a result of the elimination of the "tariff preference" between, EU and MDCs imports. Interestingly, by essentially treating the CARICOM MDCs as "preferred partners" and by regarding imports and domestic production as complementary, the stylized model correctly creates no distinction between the market of the OECS and those of MDC states.

7/ The results presented here are based on the scenarios of complete tariff removal on all products imported into the OECS by the EU and MDCs under the "medium" assumption concerning import demand elastiticies and the elasticity of substitution between import and domestic production.

292 Tables 3.15 through 3.20 present the simulated trade creation, trade diversion and total trade effects, which are the sum of the former two effects resulting from the elimination of tariffs on OECS imports from the EU and MDCs. Trade creation results from increased trade that results from both the replacement of domestic production with imported products and, as a result of economic growth, realized by efficiency gains. Trade diversion captures the shift in imports from the “non-preferred” countries (for which tariffs have not been eliminated) to the “preferred” countries (EU and MDCs). The total trade effect is the sum of trade creation and trade diversion. The results suggest that for the OECS, trade creation and trade diversion amount to 0.45 percent and 0.39 percent of baseline CIF value respectively.

Products Most Affected by Liberalization with the EU

293 The general finding for the OECS as a whole is that the effects of tariff removal on imports for the EU and MDC results in minor trade impacts. Indeed, the total trade effect from complete tariff elimination amounts to only 0.84 percent of the baseline CIF value of OECS imports.

294 Tables 3.14 – 3.20 show the 2-digit HS code product categories most affected by tariff elimination ranked on the basis of the total trade effect. Beverages, spirits and vinegars show the largest impact accounting for over 27 percent of the total trade effect. Other agricultural and food product groups most affected by trade liberalization include preparation of cereal, miscellaneous food preparations and dairy. Appendix 4 lists imports ranked by total trade effects across the OECS countries.

295 The indiviudal country results on the total trade effect indicate that in:-

- Antigua and Barbuda, the total trade effect is estimated at $5.7 million, of which $1.9 million results from trade creation and $1.8 million results from trade diversion. The total trade effect amounts to 0.48 percent of the baseline CIF value of Imports. Beverages, spirits and vinegars show the largest impact from tariff elimination, accounting for over 27 percent of the total trade effect (Table 3. 17). Other agricultural and food product groups most affected by trade liberalization include preparation of cereal, miscellaneous food preparations and dairy.

- Dominica, the estimated total trade effect was $3.7 million which amounts to 0.89 percent of the baseline CIF value of imports. Trade creation was valued at $2.2 million and trade diversion amounted to about $1.5 million. The two most affected product groups are electrical machinery and equipment and meat and edible offals which account for 17 percent and 12 percent of the total trade effect respectively. Other agricultural products most affected by trade liberalization include preparations of cereals, miscellaneous edible preparations and dairy products.

- Grenada, the elimination of tariff on imports from the EU and MDCs yields an estimated total trade effect of about $5.1 million, amounting to 0.66 percent of

the baseline CIF value of imports. Trade created had an estimated value of $2.6 million and trade diverted and estimated value of about $2.5 million. The most affected product groups are mineral fuels and related products and vehicles and parts thereof which had estimated total trade effects accounting for 21.8 percent and 13 percent of the total, respectively. In terms of food and agricultural products, beverage, spirits and vinegars had the largest estimated total trade effect ($690,638) followed by dairy products sugars and sugar confectionary, miscellaneous edible preparations and preparations of cereals.

- St. Kitts and Nevis, the total trade effect was estimated at $3.9 million, which amounts to 0.80 percent of the baseline value of CIF imports. Estimated trade creation amounted to about $2.5 million and trade diversion was estimated at $1.4 million. Mineral fuels imports demonstrated the largest total trade affect accounting for over 30 percent of the total. Food and agricultural product groupings incurring the largest total trade effect included, beverage, spirits and vinegars, miscellaneous edible preparations, sugars and sugar confectionary, preparations of cereals, dairy products and meats and edible offals.

- St. Lucia, realized the largest total trade effect of all OECS countries, estimated at $13.4 million which amounts to about 1.2 percent of the CIF value of baseline imports. Trade creation was estimated at $7.6 million and trade diversion was estimated to be about $5.8 million. Vehicles, beverages, sprits and vinegars, and electrical machinery were the products groups experiencing the largest total trade effects accounting for 19.5 percent, 19 percent and about 18 percent of the total, respectively. Other most affected food and agricultural product groupings include dairy products, preparations of cereals, and miscellaneous dibble preparations.

- St Vincent and the Grenadines, incurred the smallest total trade effect of all OECS countries in terms of value, about $2.9 million. However, this amounts to 2.2 percent of the baseline CIF value of imports, the largest proportion of all OCES countries. Trade creation was estimated to be about $1.7 million and trade diversion was estimated to be $1.2 million. The product grouping with the largest total trade impact was edible vegetable and certain roots and tuber, accounting for just over 10 percent of the total trade effect. Other most affected food and agricultural products include dairy products, sugars and sugar confectionary, preparations of cereals and beverages, spirits and vinegar.

Table 3.14 Antigua and Barbuda: Most Affected Products from Tariff Elimination for the EU and MDCs

Code	Commodity Name	Trade Creation	Trade Diversion	Total Trade* Effect	% of Total
22	Beverages, spirits and vinegar.	$919,811.50	$656,747.67	$1,576,559.17	27.80
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and	0.00	443,536.16	443,536.16	7.82
19	Preparations of cereals flour, starch or milk; pastry cooks' products.	192,350.53	180,346.07	372,696.60	6.57
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	0.00	327,673.09	327,673.09	5.78
30	Pharmaceutical Products	0.00	308,334.82	308,334.82	5.44
21	Miscellaneous edible preparations.	127,087.77	144,251.19	271,338.96	4.78
40	Rubber and articles thereof	0.00	207,676.19	207,676.19	3.66
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included.	121,331.92	84,426.70	205,758.62	3.63
24	Tobacco and manufactured tobacco substitutes.	141,584.85	52,176.18	193,761.03	3.42
18	Cocoa and cocoa preparations.	66,184.68	65,483.00	131,667.68	2.32
20	Preparations of vegetables, fruit nuts or other parts of plants.	64,821.37	63,133.82	127,955.19	2.26
16	Preparations of meat, of fish or of crustaceans, mollusks or other aquatic invertebrates.	56,985.05	65,138.25	122,123.30	2.15
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.00	100,375.06	100,375.06	1.77
33	Essentials oils and resinoids; perfumery, cosmetic or toilet preparations.	0.00	94,995.08	94,995.08	1.67
73	Articles Of Iron And Steel	0.00	82,531.57	82,531.57	1.46
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or preparations	0.00	72,252.55	72,252.55	1.27
02	Meat and edible meat offal.	31,345.70	40,779.63	72,125.33	1.27
39	Plastics and articles thereof	0.00	69,110.85	69,110.85	1.22
17	Sugars and sugar confectionery	33,524.22	31,657.57	65,181.79	1.15
07	Edible vegetables and certain roots and tubers.	30,049.45	33,580.70	63,630.15	1.12
03	Fish and crustaceans, mollusks and other aquatic invertebrates	31,277.17	31,181.11	62,458.28	1.10
	Total trade creation, diversion and trade effect	$1,881,471	$3,790,414	$5,671,8857	

*Results are based on the "Medium" Elasticity Scenario

Table 3.15 Dominica: Most Affected Products from Tariff Elimination for the EU and MDCs

Code	Commodity Name	Trade Creation	Trade Diversion	Total Trade* Impact	% of Total
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and	$307,197.01	$320,746.53	$627,943.54	16.78
02	Meat and edible meat offal.	352,415.43	90,323.89	442,739.31	11.83
30	Pharmaceutical Products	153,963.04	124,270.11	278,233.16	7.44
40	Rubber and articles thereof	101,059.57	106,186.84	207,246.41	5.54
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fitting, not elsewhere specified	111,677.27	92,754.74	204,432.01	5.46
39	Plastics and articles thereof	114,098.39	86,280.45	200,378.84	5.36
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	74,245.30	78,015.91	152,261.21	4.07
19	Preparations of cereals flour, starch or milk; pastry cooks' products.	80,575.76	55,366.87	135,942.63	3.63
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	62,221.27	61,500.32	123,721.59	3.31
73	Articles Of Iron And Steel	56,456.90	41,624.69	98,081.59	2.62
21	Miscellaneous edible preparations.	55,235.29	40,823.29	96,058.58	2.57
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or preparations	56,283.56	36,260.27	92,543.83	2.47
33	Essentials oils and resinoids; perfumery, cosmetic or toilet preparations.	41,890.29	49,717.47	91,607.76	2.45
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included.	72,717.32	14,291.07	87,008.38	2.33
27	Mineral Fuel, Mineral Oils And Products Of Their Distillation; Bituminous Substances; Mineral Waxes	77,751.74	7,675.57	85,427.31	2.28
17	Sugars and sugar confectionery	65,705.35	7,131.66	72,837.01	1.95
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	32,256.49	21,929.92	54,186.41	1.45
24	Tobacco and manufactured tobacco substitutes.	28,908.93	22,589.03	51,497.96	1.38
96	Miscellaneous manufactured articles	26,494.47	21,049.71	47,544.18	1.27
07	Edible vegetables and certain roots and tubers.	28,746.98	17,172.83	45,919.82	1.23
	Total trade creation, diversion and trade effect	$2,192,216	$1,549,138	$3,741,355	

*Results are based on the "Medium" Elasticity Scenario

Table 3.16 Grenada: Most Affected Products from Tariff Elimination for the EU and MDCs

Code	Commodity Name	Trade Creation	Trade Diversion	Total Trade Effect	% of Total
27	Mineral Fuel, Mineral Oils And Products Of Their Distillation;	$1,498,204.77	$163,273.34	$1,661,478.11	21.79
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	494,469.14	487,800.74	982,269.87	12.88
22	Beverages, spirits and vinegar.	492,758.59	197,879.61	690,638.20	9.06
85	Electrical machinery and equipment and parts thereof; sound reocrders and reproducers, television image and sound recorders and reproducers, and	332,390.22	222,770.44	555,160.66	7.28
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	164,435.19	146,649.11	311,084.29	4.08
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included.	192,083.08	93,188.20	285,271.28	3.74
39	Plastics and articles thereof	158,573.68	113,175.07	271,748.75	3.56
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; l amps and lighting fitting, not elsewhere specified	152,856.59	110,296.82	263,153.41	3.45
17	Sugars and sugar confectionery	192,954.07	25,843.98	218,798.05	2.87
21	Miscellaneous edible preparations.	128,725.09	85,852.61	214,577.70	2.81
19	Preparations of cereals flour, starch or milk; pastry cooks' products.	120,959.39	54,852.93	175,812.32	2.31
73	Articles Of Iron And Steel	97,925.49	65,204.90	163,130.39	2.14
30	Pharmaceutical Products	80,811.93	67,374.30	148,186.23	1.94
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes.	106,852.06	40,340.72	147,192.78	1.93
69	Ceramic Products	92,302.89	52,001.04	144,303.93	1.89
89	Ships, Boats and Floating Structures	80,456.25	18,628.27	99,084.52	1.30
33	Essentials oils and resinoids; perfumery, cosmetic or toilet preparations.	49,462.34	44,948.42	94,410.76	1.24
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or preparations	43,884.77	31,655.71	75,540.48	0.99
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	46,357.42	24,065.69	70,423.10	0.92
20	Preparations of vegetables, fruit nuts or other parts of plants.	33,703.88	30,964.47	64,668.34	0.85
	Total trade creation, diversion and trade effect	2,619,535	2,487,945	$5,107,479	

*Results are based on the "Medium" Elasticity Scenario

Table 3.17 St. Kitts and Nevis: Most Affected Products from Tariff Elimination for the EU and MDCs

Code	Commodity Name	Trade Creation	Trade Diversion	Total Trade Effect	% of Total
27	Mineral Fuel, Mineral Oils And Products Of Their Distillation; Bituminous Substances; Mineral Waxes	$1,186,787.35	$98,228.10	$1,285,015.45	32.64
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	180,680.54	227,213.09	407,893.63	10.36
22	Beverages, spirits and vinegar.	188,097.81	161,803.00	349,900.81	8.89
85	Electrical machinery and equipment and parts thereof; sound reocrders and reproducers, television image and sound recorders and reproducers, and	143,979.63	161,735.89	305,715.52	7.76
21	Miscellaneous edible preparations.	84,406.96	100,906.58	185,313.54	4.71
40	Rubber and articles thereof	79,179.25	82,535.87	161,715.12	4.11
30	Pharmaceutical Products	95,937.83	63,685.44	159,623.27	4.05
17	Sugars and sugar confectionery	67,686.58	26,752.29	94,438.87	2.40
39	Plastics and articles thereof	37,528.80	46,029.03	83,557.83	2.12
19	Preparations of cereals flour, starch or milk; pastry cooks' products.	40,542.43	41,636.19	82,178.62	2.09
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	54,237.59	21,103.70	75,341.29	1.91
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fitting, not elsewhere specified	26,039.31	33,162.09	59,201.40	1.50
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere Specified or included.	35,318.98	23,108.44	58,427.42	1.48
02	Meat and edible meat offal.	23,751.31	21,012.53	44,763.84	1.14
33	Essentials oils and resinoids; perfumery, cosmetic or toilet preparations.	19,351.71	23,629.47	42,981.18	1.09
72	Iron And Steel	35,908.36	3,838.43	39,746.79	1.01
73	Articles Of Iron And Steel	18,361.88	20,076.30	38,438.17	0.98
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or preparations	19,549.32	15,327.49	34,876.80	0.89
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	17,494.02	16,879.35	34,373.36	0.87
69	Ceramic Products	13,650.55	18,567.23	32,217.78	0.82
	Total trade creation, diversion and trade effect	$2,550,933	$1,386,560	$3,937,493	

*Results are based on the "Medium" Elasticity Scenario

Table 3.18 St Lucia: Most Affected Products from Tariff Elimination for the EU and MDCs

Code	Commodity Name	Trade Creation	Trade Diversion	Total Trade Effect	% of Total
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	1,565,810.51	2,162,204.50	3,728,015.01	19.25
22	Beverages, spirits and vinegar.	2,133,086.27	1,543,169.53	3,676,255.80	18.98
85	Electrical machinery and equipment and parts thereof; sound reocrders and reproducers, television image and sound recorders and reproducers, and	1,561,795.77	1,827,693.11	3,389,488.88	17.50
30	Pharmaceutical Products	306,478.07	358,184.15	664,662.22	3.43
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artifical waxes, prepared waxes, polishing or preparations	315,135.07	280,456.54	595,591.62	3.08
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included.	274,799.05	297,774.90	572,573.94	2.96
19	Preparations of cereals flour,starch or milk; pastrycooks' products.	299,587.42	223,248.37	522,835.79	2.70
21	Miscellaneus edible preparations.	189,220.89	271,773.76	460,994.65	2.38
39	Plastics and articles thereof	199,092.41	256,254.41	455,346.82	2.35
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fitting, not eleswhere specified	196,367.69	234,119.46	430,487.15	2.22
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	143,380.94	206,639.96	350,020.90	1.81
73	Articles Of Iron And Steel	142,260.95	175,565.42	317,826.37	1.64
33	Essentials oils and resinoids; perfumery, cosmetic or toilet preparations.	122,486.63	192,311.54	314,798.17	1.63
17	Sugars and sugar confectionery	184,892.66	58,944.22	243,836.87	1.26
69	Ceramic Products	111,628.58	128,913.02	240,541.60	1.24
20	Preparations of vegetables, fruit nuts or other parts of plants.	109,337.50	120,331.33	229,668.83	1.19
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coluring matter; paints and varnishes; putty and other mastic;	117,427.91	111,334.86	228,762.77	1.18
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	109,887.17	106,434.26	216,321.43	1.12
96	Miscellaneous amnufactured articles	76,316.93	114,164.92	190,481.85	0.98
38	Miscellaneous chemicals products.	67,193.37	78,556.91	145,750.28	0.75
72	Iron And Steel	120,580.00	18,413.65	138,993.65	0.72
18	Cocoa and cocoa preparations.	72,117.24	37,108.08	109,225.33	0.56
	Total trade creation, diversion and trade effect	$7,567,575	$5,832,011	$13,399,586	

*Results are based on the "Medium" Elasticity Scenario

Table 3.19 St Vincent: Most Affected Products from Tariff Elimination for the EU and MDCs

Code	Commodity Name	Trade Creation	Trade Diversion	Total Trade Effect	% of Total
07	Edible vegetables and certain roots and tubers.	$196,272.32	$100,362.14	$296,634.46	10.16
39	Plastics and articles thereof	139,448.13	115,657.81	255,105.94	8.73
30	Pharmaceutical Products	118,903.95	88,464.82	207,368.78	7.10
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included.	114,470.02	75,788.56	190,258.58	6.51
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	89,931.90	82,845.86	172,777.76	5.92
17	Sugars and sugar confectionery	145,308.94	14,883.21	160,192.14	5.48
73	Articles Of Iron And Steel	67,796.01	57,205.75	125,001.76	4.28
21	Miscellaneous edible preparations.	75,216.20	46,988.80	122,204.99	4.18
19	Preparations of cereals flour, starch or milk; pastry cooks' products.	57,845.71	58,231.58	116,077.29	3.97
69	Ceramic Products	53,155.42	62,282.37	115,437.79	3.95
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	58,748.55	55,022.56	113,771.11	3.90
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or preparations	49,274.21	54,873.50	104,147.71	3.57
33	Essentials oils and resinoids; perfumery, cosmetic or toilet preparations.	41,251.48	53,246.72	94,498.20	3.24
22	Beverages, spirits and vinegar.	54,182.64	40,041.98	94,224.62	3.23
38	Miscellaneous chemicals products.	46,845.53	20,658.20	67,503.73	2.31
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and	39,928.31	25,176.91	65,105.22	2.23
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastic;	34,630.69	14,192.54	48,823.23	1.67
20	Preparations of vegetables, fruit nuts or other parts of plants.	23,138.80	24,496.52	47,635.32	1.63
82	Tools, Implements, Cutlery, Spoons And Forks, Of Base Metal; Parts Thereof Of Base Metal	23,574.59	18,088.49	41,663.08	1.43
83	Miscellaneous Articles Of Base Metal	23,759.89	17,371.87	41,131.76	1.41
	Total trade creation, diversion and trade effect	$1,692,082	$1,228,479	$2,920,561	

*Results are based on the "Medium" Elasticity Scenario

Effective Rates of Protection

296 The effective rate of protection provides an estimate of the protection afforded to domestic producers at each stage of production. It does not matter whether the final product or the inputs used in its production, are actually imported or not. What is important is that they are importable. The effective rate of protection is calculated as

$$\text{ERP} = (VA_D/VA_I) - 1$$

where VA_D = domestic value added and VA_I = international value added. The effective rate of protection (ERP) reveals adverse effect of tariffs that escalate from low rates on raw materials to high rates on intermediate inputs and yet higher rates on the final product as, in fact, most countries' tariff schedules do.

297 There are several limitations to estimating the ERP for products produced in the OECS. The most critical is the dearth of information on value added and price data for computation of the effective rates of protection. Given that the CARICOM rules of origin require the OECS to achieve a value added for some products of up to 40 percent, and that trade takes place in some of these items, it was assumed that OECS producers meet this requirement in most cases. EPR estimates were calculated using value added ratios of 35, 40 and 50 percent. The 35 percent VA is used since it is the level currently used in the CBI and Lome' trade preferences. The impact of the Licensing Regime under Article 56 of the Treaty and where relevant, the Oils and Fats Regime was also factored into the product analysis

298 Estimated rates of effective protection for selected products in each OECS country are presented in Tables 3.21 through 3.26. The results indicate that in

- Antigua and Barbuda, …….
- Dominica, the ERPS are exceedingly high for some products in particular vegetable juices, pepper sauce, paints, soaps, candles and sandals and slippers. Dominica is the only OECS country that has undertaken the tariffication of the Article 56 regime, removing the licensing requirement from the items benefiting from protection. The items in red denote both these items and those that are covered by the oils and fats regime which also require the grant of a license in order to permit import competition.
- Grenada, only the agriculture items show an ERP in excess of 100 percent, with two items covered by the Licensing regime of Article 56.
- St. Kitts and Nevis, all estimated ERPs are below 100 percent. However it must be noted that some of the items are covered under the two licensing regimes and therefore the protection in these cases is much higher than reflected in the figures. Also noteworthy is the fact that many items have very low or zero protection, such as, parts and items of Chapter 85 and bank notes and other printed material.
- St. Lucia, the majority of items show ERPs below 100 percent, with some exceptions, and these include pepper, rum, liquors and cordials and solar water heaters. Both aerated beverages and solar water heaters are covered

by the Article 56 Licensing regime and hence the levels of protection are much higher than reflected above. The products of Chapter 85 are not protected and compete internationally.

- St. Vincent and the Grenadines, only 5 items show ERPs in excess of 100 percent and these are mainly agricultural, including dasheens, ginger, plantains, arrowroot flour and beer. There are 4 items which also enjoy Article 56 protection and these include flour, beer, aerated beverages and furniture.

Table 3.20 Estimated EPR for Selected Product in Antigua

Tariff No	Product	Tariff/ Nominal Protection	ERP 35% VA	ERP 40% VA	ERP 50% VA
'2202101'	aerated beverages*	20	57%	50%	40%
'2203001'	beer*	45	129%	113%	90%
'2208401'	rum and tafia in bottles of a strength not exceeding 46% volume	45	129%	113%	90%
'2505100'	silica sands and quartz sands	5	14%	13%	10%
'3208103'	enamels based on polyesters	15	43%	38%	30%
'3208104'	other paints based on polyesters	15	43%	38%	30%
'3208209'	other paints & varnishes (inc.lacquers & enamels) based on synthetic poly	15	43%	38%	30%
'3214109'	other glaziers' putty. grafting putty. resin cements. caulking compounds	5	14%	13%	10%
'6306390'	sails of other textile materials	15	43%	38%	30%
'6306990'	'tarpaulins awnings and sunblinds tents sails for boats of oth. text. mat.'	15	43%	38%	30%
'7210411'	flat-rolled prod. otherwise plated/coated with zinc corrugated thick.< 3mm'	15	43%	38%	30%
'7326909'	other articles of iron or steel	20	57%	50%	40%
'7907001'	gutters. roof capping. skylight frames and other fabricated building comp.	5	14%	13%	10%
'8409919'	other parts suitable for use with spark-ignition intern combust pis engine	5	14%	13%	10%
'8409999'	other parts	5	14%	13%	10%
'8471490'	other machines presented in the form of systems	5	14%	13%	10%
'8517500'	other apparatus. for carrier-current line systems or for digital line sys.	5	14%	13%	10%
'8518290'	loudspeakers: other	20	57%	50%	40%
'8518500'	electric sound amplifier sets	20	57%	50%	40%
'8525209'	transmission apparatus incorporating reception apparatus: other	5	14%	13%	10%
'8527900'	radio-broadcast receivers including apparatus capable of receiving: other	20	57%	50%	40%
'9007110'	cameras: for film of less than 16mm width or for double 8mm film	20	57%	50%	40%
'9403400'	Wooden Furniture Of A Kind Used In The Kitchen*	20	57%	50%	40%
'9403609'	'Other Furniture'*	20	57%	50%	40%

* denotes that also receive the added protection of the Article 56 Licensing regime

Table 3.21 Estimated EPR for Selected Product in Dominica

Tariff No	Product	Tariffs/Nominal Protection	ERP 35% VA	ERP 40% VA	ERP 50% VA
'1520000'	glycerol. crude; glycerol waters and glycerol lyes*	0	0%	0%	0%
'2009809'	other juice of any other single fruit or vegetable	135	386%	338%	270%
'2103901'	pepper sauce	135	386%	338%	270%
'2202909'	other waters . include . min. waters and aerated waters cont added sugar*	20	57%	50%	40%
'2402200'	cigarettes containing tobacco	45	129%	113%	90%
'3210001'	water-thinned paints (emulsion paints or dispersion paints)	165	471%	413%	330%
'3210003'	enamels	165	471%	413%	330%
'3301291'	essential oils of bay	15	43%	38%	30%
'3303001'	bay rum	20	57%	50%	40%
'3306101'	toothpastes	20	57%	50%	40%
'3401112'	other medicated soap in the form of bars. cakes. moulded pieces or shapes*	65	186%	163%	130%
'3401191'	soap in form of bars.cakes.moulded pieces or shapes. for laundry & oth.hou*	65	186%	163%	130%
'3402201'	dish washing liquids	20	57%	50%	40%
'3402202'	other liquid dertrgents	20	57%	50%	40%
'3402902'	other detergents preparations put up for retail sale	20	57%	50%	40%
'3405200'	polishes. creams and similar preparations for the maintenance of wooden fu	20	57%	50%	40%
'3406002'	decorative candles of paraffin wax*	125	357%	313%	250%
'3808401'	disinfectants put up in fors or packings for retail sale or as preparation	20	57%	50%	40%
'6402991'	sandals and slippers	165	471%	413%	330%

* denotes that also receive the added protection of the Article 56 Licensing regime

Table 3.22 Estimated EPR for Selected Product in Grenada

Tariff No	Product	Tariff/ Nominal Protection	ERP 35% VA	ERP 40% va	ERP 50% VA
'0810902'	golden apples	40	114%	100%	80%
'0908100'	Nutmeg	40	114%	100%	80%
'0908200'	Mace	40	114%	100%	80%
'1101009'	other wheat or meslin flour*	25	71%	63%	50%
'1801001'	raw cocoa beans. whole or broken. raw or roasted	5	14%	13%	10%
'2202902'	malt beverages*	20	57%	50%	40%
'2309903'	prepared complete poultry feed	15	43%	38%	30%
'2309909'	other preparations of a kind used in animal feeding	15	43%	38%	30%
'3210001'	water-thinned paints (emulsion paints or dispersion paints)	15	43%	38%	30%
'3210006'	other varnishes (including lacquers)	15	43%	38%	30%
'3301294'	essential oils og nutmeg	15	43%	38%	30%
'4818100'	toilet paper	20	57%	50%	40%
'4818409'	other sanitary towels & tampons. napkins & napkin liners for babies & simi	20	57%	50%	40%
'6105100'	men's or boys' shirts knitted or crocheted of cotton	20	57%	50%	40%
'6109101'	t-shirts of cotton	20	57%	50%	40%
'7010931'	bottles for soft drinks.beers.wines and spirits exceeding 0.15 1 but not	15	43%	38%	30%
'7210301'	flat-rolled prod.electrolytically plated or coat.with zinc thick.< 3 mm co	15	43%	38%	30%
'7210701'	painted.varnished or coated with plastics of a thickness of < 3mm corrug.	15	43%	38%	30%
'8518290'	loudspeakers: other	20	57%	50%	40%
'9405400'	other electric lamps and lighting fittings	20	57%	50%	40%

* denotes that also receive the added protection of the Article 56 Licensing regime

Table 3.23 Estimated EPR for Selected Product in St. Kitts and Nevis

Tariff No	Product	Tariff/ Nominal Protection	ERP 35% VA	ERP 40% VA	ERP 50% VA
'1517100'	margarine. excluding liquid margarine*	25	71%	63%	50%
'1517901'	imitation lard and lard substitutues (shortening)*	25	71%	63%	50%
'1902190'	other pasta whether or not cooked or stuffed (with meat or other substan.)	25	71%	63%	50%
'1904900'	other prepared foods obtained by the swelling or roasting of cereals	25	71%	63%	50%
'2202101'	aerated beverages*	25	71%	63%	50%
'2202109'	other waters. including mineral waters and aerated waters cont. sugar*	25	71%	63%	50%
'2202902'	malt beverages*	25	71%	63%	50%
'3923290'	sacks & bags of other plastics	15	43%	38%	30%
'4007000'	vulcanised rubber thread and cord	0	0%	0%	0%
'4901999'	other printed books. brochures. leaflets and similar printed matter	0	0%	0%	0%
'4907002	bank and currency notes	0	0%	0%	0%
'6211120'	women's or girls' swim wear	25	71%	63%	50%
'7010911'	bottles for soft drinks. beer. wines. and spirits exceeding 1 1:	15	43%	38%	30%
'7118909'	other coin	0	0%	0%	0%
'7309009'	other reservoirs. tanks. vats & similar containers for any material	5	14%	13%	10%
'8503000'	parts suitable for use with electric motors. generators & rotary converter	5	14%	13%	10%
'8532100'	fixed capacitors designed for use in 50/60 hz circuits > 0.5kvar	5	14%	13%	10%
'8532900'	Parts	5	14%	13%	10%
'8536500'	other switches	5	14%	13%	10%
'8536900'	other apparatus	5	14%	13%	10%
'9403609'	other furniture*	30	86%	75%	60%
'9603100'	brooms and brushes. consisting of twigs or other vegetable materials	30	86%	75%	60%

* denotes that also receive the added protection of the Article 56 Licensing regime

Table 3.24 Estimated EPR for Selected Product in St. Lucia

Tariff no	Products	Tariff/ Nominal Protection	ERP 35% VA	ERP 40% VA	ERP 50% VA
'0904110'	neither crushed nor ground peper	40	114%	100%	80%
'1902190'	other pasta whether or not cooked or stuffed (with meat or other substan.)	20	57%	50%	40%
'2103901'	pepper sauce	30	86%	75%	60%
'2103909'	other sauces and preparations	30	86%	75%	60%
'2202101'	aerated beverages*	20	57%	50%	40%
'2204210'	other wine in containers holding 2 litres or less	30	86%	75%	60%
'2208409'	'other rum and tafia	45	129%	113%	90%
'2208700'	liqueurs and cordials	45	129%	113%	90%
'3303009'	other perfumes and toilet waters	20	57%	50%	40%
'3506990'	other prepared glues & other prep. adhesives. not elsewhere specified or	25	71%	63%	50%
'3923290'	sacks & bags of other plastics	20	57%	50%	40%
'4819100'	cartons. boxes & cases. of corrugated paper or paperboards	15	43%	38%	30%
'5607101'	twine and ropes	15	43%	38%	30%
'6104220'	ensembles of cotton	25	71%	63%	50%
'6109101'	t-shirts of cotton	25	71%	63%	50%
'6203491'	trousers and shorts of other textile materials	25	71%	63%	50%
'6216001'	industrial gloves	10	29%	25%	20%
'7113191'	articles of jewellery of gold	30	86%	75%	60%
'8419191'	solar water heaters. for domestic use*	35	100%	88%	70%
'8504210'	liquid dielectric transformers: having a power handling capacity<= 650kva	0	0%	0%	0%
'8525100'	transmission apparatus	0	0%	0%	0%
'8533310'	wirewound variable resistors: for a power handling capacity <= 20w	0	0%	0%	0%
'8533400'	other variable resistors. including rheostats and potentiometers	0	0%	0%	0%

* denotes that also receive the added protection of the Article 56 Licensing regime

Table 3.25 Estimated EPR for Selected Product in St. Vincent and the Grenadines

Tariff No	Product	Tariff/ Nominal Protection	ERP 35% VA	ERP 40% VA	ERP 50% VA
'0714902'	dasheens	40	114%	100%	80%
'0803002'	plantains fresh	40	114%	100%	80%
'0910100'	ginger	40	114%	100%	80%
'1006203'	parboiled rice in packages for retail sale	25	71%	63%	50%
'1006204'	other parboiled rice	25	71%	63%	50%
'1006307'	'holly milled parboiled rice in packages of not more than 10 kg.	25	71%	63%	50%
'1101001'	of durum wheat*	5	14%	13%	10%
'1106202'	arrowroot flour*	40	114%	100%	80%
'1902190'	other pasta whether or not cooked or stuffed (with meat or other substan.)	20	57%	50%	40%
'2202101'	aerated beverages*	20	57%	50%	40%
'2202902'	malt beverages*	20	57%	50%	40%
'2203001'	beer*	35	100%	88%	70%
'2302300'	bran of wheat	0	0%	0%	0%
'2309903'	prepared complete poultry feed	15	43%	38%	30%
'2309905'	prepared complete pig feed	15	43%	38%	30%
'2309906'	other prepared complete animal feeds	15	43%	38%	30%
'3923210'	sacks & polymers of ethylene	15	43%	38%	30%
'3923901'	cups	5	14%	13%	10%
'4818100'	toilet paper	20	57%	50%	40%
'4819100'	cartons. boxes & cases. of corrugated paper or paperboards	15	43%	38%	30%
'6211490'	other garments women's or girls of other textile materials	20	57%	50%	40%
'7210411'	flat-rolled prod. otherwise plated/coated with zinc corrugated thick.< 3mm	15	43%	38%	30%
'7610100'	doors. windows and their frames and thresholds for doors	10	29%	25%	20%
'9403609'	other furniture*	20	57%	50%	40%

* denotes that also receive the added protection of the Article 56 Licensing regime

The Service Sector in the OECS[8/]

Introduction

299 Services play a vital and dynamic role in OECS economies. While the importance of a range of services is mentioned in the *OECS Development Charter*, the economic policy statements regarding services have not yet become integrated into national or regional development strategies. OECS service suppliers export at least 65 different types of services into all CARICOM economies and to at least 42 markets outside of CARICOM. In fact, OECS economies are considerably more services export intensive than other CARICOM partners. In terms of service export priorities, the following services offer particularly attractive opportunities: tourism, professional services, computer (ICT) services, financial services, entertainment (cultural) and audio-visual services, agricultural research, research & development, educational services, health services, environmental services, sporting services, market research, cargo handling, port services, and construction services.

8/ The section draws heavily and quotes extensively on the excellent study entitled “OECS Services Policy Framework prepared for the OECS Secretariat by Dr. Dorothy I. Riddle

Possibilities exist to leverage foreign partnerships and export opportunities to enhance education, health, and sports services. Domestic service suppliers can be engaged to assist with environmental sustainability and the promotion of cultural heritage.

OECS Services Trade

300 Services industries in the OECS economies, constitute on average 87 percent of GDP and 80 percent of export earnings (Table 3.26). Existing macroeconomic data indicate that, since 1998, OECS domestic services production has grown slightly faster than the global average. However, overall OECS revenues from services exports have not grown as fast as services in domestic production, and average annual growth in services exports has been less than one-tenth the global growth rate. Ongoing growth and global competitiveness of OECS service industries is critical to the development and vibrancy of the regional economy.

Table 3:26: Services as a Percent of GDP and Exports for OECS Member States

Economy	Services as a Percent of:		Average Annual Growth in:	
	Exports (2003)	GDP (2003)	Service Exports (1998-2003)	Services GDP (1998-2003)
Antigua & Barbuda	90.4	92.9	-0.5%	3.2%
Dominica	66.6	77.8	-1.9%	-0.3%
Grenada	75.2	84.2	2.9%	3.4%
St. Kitts & Nevis	65.2	83.2	1.3%	2.5%
St. Lucia	81.6	89.7	-0.2%	1.6%
St. Vincent & the Grenadines	76.8	83.9	4.3%	3.0%
OECS Total	80.0%	87.3%	0.5%	2.4%
Global Total	20.0%	75.0%	6.0%	2.0%

Source: OECS data calculated from ECCB, Balance of Payments for Year Ending December 2003, and ECCB, National Accounts Statistics 2004. Global data calculated from IMF, Balance of Payments Statistics Yearbook 2004, and World Bank, World Development Report.

301 Service industries earn the majority of the region's foreign exchange, exporting at least 65 different types of services into all CARICOM economies and to at least 42 markets outside of CARICOM. This export activity has developed in large part without targeted government initiatives and has been undertaken mainly by very small service suppliers, many of whom are women-owned. Extrapolation from Canada's Business Register suggests that at least 44 percent of OECS exporters are probably service exporters with fewer than five employees (see Table 3.27). For micro and very small service suppliers in economies like the Member Countries, access to export markets is particularly important since the domestic markets are so small.

302 Given the importance of services to the region, it is imperative that the broad economic policy focus on services laid out in the *OECS Development Charter* and becomes translated into a core element in national and regional development strategies, supported by a clearly articulated services trade policy framework.

Table 3.27: Estimated Distribution of OECS Firms by Economic Sector and Size

Category	Percent in the Economy	Percent of Exporters
Service firms:	86%	83%
less than 5 employees	50%	44%
5-9 employees	15%	14%
10-19 employees	10%	9%
20-49 employees	7%	6%
50+ employees	4%	10%
Goods-producing firms	14%	17%
Total firms	**100%**	**100%**

Source: Extrapolation from Statistics Canada Business Register, June 2004.

Strengths and Opportunities in the OECS Services Trade

Leveraging inward services investment

303 Each of the Member Countries has an office engaged in attracting foreign investment. Services investment attraction can have a positive economic impact on domestic service suppliers if market access conditions contain requirements (or incentives) to purchase a range of service inputs from domestic service suppliers. Foreign Service investors can assist in addressing human development objectives by requiring employment and training of local supervisory and managerial staff.

304 Educational services are one of the areas in which the OECS region earns revenues through the activities of foreign investors. Opportunities exist to leverage partnerships with foreign educational institutions to address the challenges that currently exist in the regional educational systems. Improved access to high quality, affordable health services has a direct bearing on workers' quality of life and workplace effectiveness. As in education, the opportunities with foreign partners in health services can be leveraged to expand the range of services available domestically and ensure quality service.

Opportunities in outward investment

305 There is still very little outward investment by OECS service suppliers. The little bit that has developed is in the areas of advertising, banking, equipment leasing and rental, management consulting, market research, and air transportation. Stimulating more outward investment could have several benefits, as long as such an initiative is not at the expense of providing support to the many micro and very small service exporters unlikely to use Mode 3. First, successful outward investment confirms that OECS services are indeed globally, or at least regionally, competitive. Second, the spread of OECS-owned service enterprises helps to raise the profile of the quality of OECS service provision, thus improving the chances of increased service exports via all four modes of supply.

Priority Attention for Export Development

306 The following services have the most export earnings potential for the region at the present time, with top priority services indicated with an asterisk (*):

Agricultural research*	Financial services*
Audio-visual services	Health services (hospitals, health spas)
Cargo handling	Market research
Computer services (ICT)*	Port services
Construction services	Professional services*
Educational services	Research & development
Entertainment (cultural) services*	Sporting services
Environmental services	Tourism*

Weaknesses and Challenges in the OECS Services Trade

Weak Domestic Regulatory Framework

307 The World Trade Organization in its most recent annual report emphasised that a strong domestic regulatory framework is critical if economies are to benefit from liberalisation. Before any further market access liberalisation takes place, the Member Countries need not only to revise the existing regulatory regimes but also to ensure that domestic policies and regulations are being enforced. All economies have a responsibility to regulate services; however, there are a number of issues as to how this can best be done in a manner that is not trade distorting. The arena of domestic regulation is one where the Member Countries need to devote technical resources for review of current regulations, drafting of new regulations, officer training in implementation, and monitoring of enforcement.

Lack of Strong Service Industry Associations

308 Given the small size and limited resources of the Member Countries, regional institutions can be effectives alternative to national ones. As an example, the Institute of Chartered Accountants of the Eastern Caribbean (ICAEC) was established in June 2004, with the existing national Institutes serving as its chapters. Similarly there is an OECS Bar Association. In the other service industries, however, regional institutions have yet to be developed. Important functions of service industry associations include providing a code of conduct, linked to professional licensing, and ongoing professional development training. By and large, OECS industry associations are not well developed in this regard. Professional licensing boards themselves are also not well developed (a key component of domestic regulation), and there is not a clear requirement for annual ongoing professional development in order to maintain one's license. Without strong support for professional behaviour and competence, OECS professional services may not be in a position to support the global competitiveness of other businesses. Before liberalising market access any further, professional licensing standards need to be developed and enforced for all relevant services, supported by a regional network of service industry associations.

Inequitable Treatment of Domestic Service Suppliers

309 One aspect of the lack of current policy coordination is that incentive programmes have been developed to stimulate agricultural exports or manufacturing exports, but these incentives have not necessarily been extended to service firms. Similarly, incentives have been developed to attract foreign service investors without those incentives being extended to national service suppliers. Both trends can place national service suppliers at a competitive disadvantage.

Foreign Competition in Domestic Markets

310 Net foreign exchange earnings are threatened by an increased focus on attracting inward services investment that can both crowd out domestic service suppliers and increase the level of service imports. In addition, an initiative has been launched to support inward services investment into OECS. There is a definite potential from these two trends to "crowd out" domestic OECS service suppliers as the domestic service markets are small.

Non-competitive Telecommunications Infrastructure

311 Telecommunications serves as the "highway" over which a majority of service transactions occur. The competitiveness of the Member Countries is directly linked to immediate, reliable, and inexpensive access to telecommunications networks. To survive and thrive in a globalized economy, high-speed inexpensive Internet access has become a necessity for the business community. The Internet provides for the first time a real "level playing field" for small and medium service firms to compete with the large service transnationals. Conversely, as purchasers of services turn more and more to the Internet both for information on services available worldwide and to purchase services, firms without efficient Internet access run a real risk of becoming marginalized in the global economy. One of most direct competitive differences will be in the cost of international telecommunications, which is a critical and often costly input for service firms. Ongoing OECS initiatives to generate competition and lower telecommunication and Internet fees are critical.

Lack of Appropriately Skilled Workers

312 In order to develop a competitive and attractive domestic service sector, skilled workers are needed with appropriate skills. Service sector workers, for example, need not only technical skills (including competence with information technology) but also the interpersonal communications and problem-solving skills that allow staff to interact effectively with customers to provide a quality service. Member Countries need to weigh carefully whether or not they can afford to lose skilled workers to out-migration, temporary or permanent. The global trends in outsourcing offer attractive opportunities to create domestic jobs and retain skilled workers rather than losing them to competitors.

313 At the present time, for example, there are not sufficient attractive opportunities in OECS economies for the teachers and nurses being trained, even though the economies may have a need for the skills. In addition, young teachers and nurses often look to employment opportunities abroad to provide additional skills through on-the-job training and a wider variety of employment opportunities. This out-migration process is costly for the Member Countries, particularly the lack of return on public sector investment in training facilities and the cost to families and community of having these persons in distance markets, sometimes permanently. Unless alternate solutions are found, net migration is likely to increase in the coming years. While the argument is made that these costs are offset by remittances, there is no assurance that remittances will occur and there are alternatives with greater economic and social benefits to the home economy. Focusing on leveraging training capacity with the creation of OECS-based employment development could help turn this trend around.

Lack of support for quality assurance and innovation

314 The *OECS Development Charter* identifies the need to provide incentives to manufacturers specifically to increase registration to the international quality standard, ISO 9001:2000, and to continuously upgrade the skill levels of their employees. These same issues are of critical importance to service sector competitiveness.

315 While quality assurance in services is critical to competitiveness, it is challenging to achieve. Most services cannot be inspected before purchase – either by the consumer or by the supervisor – as they are not produced until after the sales agreement has been reached. Therefore, the way that excellence is assured (e.g., in ISO 9001:2000) is through control of the process of production rather than through inspection of the end product. Successful service firms have careful documentation of what staff are expected to do and what their latitude is for decision-making when interacting with a consumer. The other method of quality control is through the licensing or accreditation of service suppliers, especially the requirement for ongoing continuing professional education.

316 In addition, OECS service enterprises will maintain or increase market share only if they are able to continuously innovate. This is because it is usually not possible to protect a new service through copyright or patent (as one can with a manufactured product); instead, one protects market share through continuing to meet and exceed consumers' expectations. Focusing on innovation means a shift away from standardized services to specialty and customized services, which in turn requires that staff have the knowledge and authority to address consumer needs.

Lack of growth financing for small service suppliers

317 For small service firms in particular, growth financing can be a challenge if they do not have traditional physical collateral to offer in exchange for bank financing. Many successful service firms – especially in the high growth areas of business and professional services – are small or very small firms that reach a "glass ceiling" of growth based on the personal assets of the principals. Initiatives are needed to ensure that instruments such as overdraft facilities secured by accounts receivable are available.

Non-competitive transportation infrastructure

318 Given the geographic dispersion of Member Countries as well as the importance of tourism, cost-competitive and frequent air transport is critical for service firms. Strengthened regulatory frameworks and incentives for investment in physical infrastructure development are key to the region's competitiveness.

Limited multiplier effects from tourism

319 While tourism is already an important revenue generator for the region, multiplier effects from tourism (especially cruise ships) fall short of their potential. Initiatives are needed to enhance tourism offerings so as to increase revenue per tourist night and to increase revenue generation from cruise ships, with targets set based on international benchmarks.

Policies Needed to Strengthen OECS Services Trade

320 OECS Member Countries have already made commitments to liberalise market access in services within the CSME as well as in the GATS. In order for such liberalisation to benefit OECS economies, it is imperative that action be taken in three areas:

- Strengthen the domestic regulatory frameworks in order to be able to ensure economic development benefits from the activities of foreign service suppliers.
- Link inward foreign investment to the creation of local economic benefits through requirements for local service inputs.
- Strengthen OECS services export capacity to take advantage of market openings by trading partners and offset the drain on foreign exchange reserves due to increased service imports, including redirecting EDU's activities towards services export development initiatives.

321 The following are the specific types of policies needed in order to strengthen OECS services trade:

- Domestic Capacity Development Policies -
    - Ensure that the domestic regulatory framework is complete and that laws and regulations are administered in a reasonable, objective, and impartial manner with appropriate review tribunals.
    - Strengthen regulatory frameworks and incentives for investment in physical infrastructure development to ensure cost-competitive, frequent air transport services within OECS and to key export markets.
    - Ensure that national and regional educational and training institutions produce appropriately skilled workers with strong interpersonal communication, needs assessment, negotiation, team building, customer service, quality assurance, innovation, and problem solving skills.
    - Ensure globally competitive telecommunication and Internet fees and access speeds for service suppliers.
    - Ensure that financing instruments appropriate to micro and very small service suppliers (such as overdraft facilities secured by accounts receivable) are available at globally competitive rates.
    - Develop and enforce professional licensing standards for all relevant services before liberalising access to OECS service markets any further.
    - Support the development of a regional network of service industry associations in all priority service industries, which have the legal authority to enforce professional codes of conduct and require ongoing professional education in order to maintain professional licenses.

- Export Development Policies

- Structure services export development initiatives through service industry or trade associations in order to provide support for developing sectoral credibility and networking with potential trade partners.

- Launch a specific initiative to support outward investment (Mode 3) in order to raise the profile of the quality of OECS services provision, thus improving the chances of increased services exports via all modes of supply.

- Launch initiatives to enhance tourism offerings so as to increase revenue per tourist night and revenue generation from cruise ships, with targets set based on international benchmarks.

- Leverage partnerships with foreign educational institutions to address the challenges that currently exist in the regional educational systems.

- Leverage export opportunities in health services to expand the range of services available domestically and ensure quality service.

- Develop and submit a proposal to the International Trade Centre UNCTAD/WTO for technical assistance to train OECS service suppliers and OECS service industry associations in successful services exporting techniques.

Prerequisites to Further Market Access Liberalization

322 The World Trade Organization, in its most recent annual report, has emphasised that a strong domestic regulatory framework is critical if economies are to benefit from liberalisation. Before any further market access liberalisation takes place, OECS Member States need not only to revise the existing regulatory regimes but also to ensure that domestic policies and regulations can be, and are being, enforced.

Request Offer Process

Minimum Requests of Trading Partners

323 The modes of supply of primary interest to OECS service exporters are, in order of importance:

- Mode 2 (the supply of services to foreigners or foreign-controlled companies in the national market);

- Mode 4 (temporary business entry, which is critical for business development as well as for service delivery in foreign markets);

- Mode 1 (cross-border supply, which is the least expensive).

324 In order to assist OECS service exporters in maximizing foreign exchange earnings, the following are the most common requests to be made of trading partners:

- Remove any barriers or disincentives to foreign nationals travelling to OECS to purchase services (Mode 2).
- Take full commitments (i.e., schedule "none") in Modes 1 and 2 for all sectors and sub-sectors listed in Table 6, except where technically unfeasible, removing any local presence or nationality requirements.
- Remove any barriers to temporary business entry for up to 30 days by OECS service suppliers (Mode 4).
- Recognize OECS professional credentials (Mutual Recognition Agreements) in as many professions as possible, but at least for the following professions: accountants & bookkeepers, architects, engineers, lawyers, midwives, and nurses.
- Establish a single national-level registration process for professionals from OECS, particularly those listed in Table 3.28.
- Remove all economic needs tests, citizenship, or residency requirements, discriminatory capital requirements, land purchase restrictions, and restrictions on legal form (where still in place) affecting Modes 3 and 4.
- Under Mode 4, remove citizenship and residency requirements, as well as ENTs and prior years of experience, where they still exist.

Table 3.28: Services Sub-Sectors for Which OECS Might Make Sector Requests

Service Sub-Sector	Mode of Supply			
	Cross-Border	Consumption Abroad	Commercial Presence	Movement of Natural Persons
1A. Professional services:				
a. Legal services	H	H	L	H
b. Accounting/bookkeeping	H	H	L	H
d. Architectural services	H	H	L	H
e. Engineering services	H	H	L	H
j. Nurses & midwives	H	H	L	H
1B. Computer services	H	H	L	H
1C. Research & development	H	H	L	H
1Fa. Advertising (tourism)	H	M	L	H
1Fc. Management consulting	H	H	L	H
1Fe. Technical testing	H	H	L	H
1Fk. Supply of personnel	M	H	L	H
1Fn. Maintenance & repair	H	H	L	H
1Fs. Convention services	H	H	L	H
2C. Telecommunications	H	H	L	H
2D. Audio-visual services	H	H	M	H
4. Distribution services:				
A. Commission agents	H	H	M	H
B. Wholesale trade services	H	H	H	H
5. Educational services	H	H	L	H
7A. Insurance	H	H	M	H
7B. Banking	H	H	M	H
8B. Health-related services (spas, rehabilitation, etc.)	-	H	L	M
9A. Hotels (CRS)	H	H	L	H

Service Sub-Sector	Mode of Supply			
	Cross-Border	Consumption Abroad	Commercial Presence	Movement of Natural Persons
9B. Tour operators	-	H	L	H
9C. Tourist guides	-	H	L	H
10A. Entertainment services	M	H	L	H
11A,C. Port services	-	H	L	H
11Ha-c. Cargo handling, etc.	H	H	L	H

Key:
H = high export potential
M = medium export potential
L = low export potential

Framework for Offers to Trading Partners

325 In drafting offers, the OECS Member States will need to take into account several factors. In general, OECS Member States have limited capacity to oversee regulatory reform and to monitor regulatory compliance. Harmonisation within the CSME is a first priority and needs to be the initial focus of any regulatory initiatives before changes involved other trading partners are considered. Regarding Mode 4, because of labour force development issues, economic needs tests, work permits, residency requirements and other restrictions on open access are quite appropriate at this time. In some instances, OECS Member States are already more liberal in their admission policies than some of their trading partners. In any case, creation of an integrated labour market within the CSME would take priority over opening to other trading partners.

326 With the above comments in mind, the following guidelines for staged liberalisation in drafting offers are suggested:

- Amend the original GATS Schedule of Commitments as appropriate to reflect actual legal, regulatory, and administrative restrictions currently in place.

- Expand the number of sectors scheduled to include, at a minimum, those listed in Table 3.29 (note that the scheduling can be "unbound").

- Avoid scheduling any liberalisation commitments that would require changes in laws, regulations, or administrative practises until after the changes needed to implement the CSME have been completed.

- Avoid scheduling any liberalisation commitments that would involve increased regulatory oversight until all necessary regulatory reforms and implementation training have been concluded.

- Ensure that the degree of liberalisation offered under the GATS is less than that offered under the bilateral or pluri-lateral trade agreement being negotiated.

327 Keep in mind that liberalisation offers can include any of the following:

- Removing a scheduled restriction
- Removing an unscheduled restriction

- Scheduling existing liberal practices
- Scheduling a new liberalisation (immediate, phased in)
- Implementing a scheduled liberalisation ("none")

Table 3:29: Services Sub-Sectors in Which OECS Might Make Offers

Service Sub-Sector	Market Access Limitation by Mode of Supply			
	1	2	3	4
1A. Professional services: a. Legal services d. Architectural services e. Engineering services	 none none none	 none none none	 local partner local partner local partner	 limit on number of suppliers
1B. Computer services	none	none	foreign employees no more than 90%	limit on # of expatriate in top positions
1C. Research & development	none	unbound	unbound	unbound
1Fa. Advertising	none	none	foreign employees no more than 90%	limit on # of expatriate in top positions
1Fb. Market research	none	none	local partner	limit to specialty skills not available locally
2D. Audio-visual services	none	none	require partial local ownership	limit on # of expatriates in top positions
3. Construction services	none	none	joint ventures required	limit to specialty skills not available locally
4. Distribution services	none	none	none	none
5. Educational services	none	none	require partial local ownership	limit on # of foreign teachers
6. Environmental services	none	none	limit on # of firms; local partner required	limit to specialty skills not available locally
7A. Insurance	none	none	require partial local ownership	none
7B. Banking	none	none	require partial local ownership	none
8A. Hospitals	none	none	require partial local ownership	limit on # of foreign professionals
9A. Hotels	none	none	restrictions on size of operation	limit on # of expatriates in top positions
9B. Tour operators	none	none	limit on # of firms	limit on # of expatriates in top positions
9C. Tourist guides	none	none	limit on # of firms	limit on # of expatriates in top positions
10A. Entertainment services	none	none	require partial local ownership; require local content	entry permits for countries without intellectual property rights laws
10D. Sporting services	none	none	require partial local ownership	none
11A,C. Port services	none	none	require local partner	none
11Ha-c. Cargo handling, etc.	none	none	require local partner	none

Recommended Negotiating Strategy for OECS Services Trade

328 In addition to being Members of the World Trade Organization (WTO), the Member Countries are engaged in a series of bilateral and pluri-lateral trade negotiations (as part of CARICOM) that include a services trade component. To maximise the gains from these various negotiations, it would be helpful to develop a coordinated strategy that includes common core elements across all services trade treaties while varying the degree of market access liberalisation by type of trading partner. In the instance of OECS, the most liberal commitments would be within

OECS while the most conservative commitments would be in the GATS. This may be accomplished via the following:

Common services treaty structure

329 Because of limited human resources to negotiate and implement a range of services trade treaties, it is important that the structure of the treaties be similar. This makes it easy to compare proposed principles and commitments across treaties. Also, the same implementation structure can then be used for all services trade treaties. Because OECS Member Countries are already signatories to the GATS, it makes sense to take the GATS as the basic model with its positive list approach. Section C1 provides a list of the structural components that would ideally be the same across all services trade treaties to which OECS Member Countries were signatories.

Common services treaty principles

330 There are a set of principles already present in the GATS that need to be replicated (with suitable modifications) in any other services trade treaty. Sections C2-C10 provide wording for the following core principles:

- Small service suppliers
- Most-favoured-nation (MFN)
- Transparency
- Domestic regulation
- Mutual recognition agreements (MRAs)
- Temporary business entry (Mode 4)
- Government procurement
- Service subsidies
- Denial of benefits

Specific commitments to trading partners

331 It is in the area of specific commitments, both horizontal and sectoral, that OECS can most appropriately manage how aggressive it wishes to be about its defensive interests. OECS' existing commitments in the GATS form a benchmark against which further liberalisation commitments will be measured by trading partners outside of CARICOM. To the extent that commitments have been made in the FTAA negotiations, those form another constraint on the choices open to OECS. The table in Annex I.5 provides a listing of the types of offers that OECS might wish to make to trading partners.

332 In drafting negotiating offers, the Member Countries will need to take into account several factors. In general, the Member Countries have limited capacity to oversee regulatory reform and to monitor regulatory compliance. Harmonisation within the CSME is a first priority and needs to be the initial focus of any regulatory initiatives before changes involved other trading partners are considered. Regarding Mode 4, because of labour force development issues, economic needs tests, work permits, residency requirements and other restrictions on open access are quite appropriate at this time. In some instances, the Member Countries are already more liberal in their admission policies than some of their trading partners. In any case,

creation of an integrated labour market within the CSME would take priority over opening to other trading partners.

333 The following guidelines for staged liberalisation in drafting offers is recommended:

- Amend the original GATS Schedule of Commitments as appropriate to reflect actual legal, regulatory, and administrative restrictions currently in place.
- Expand the number of sectors scheduled to include, at a minimum, those listed in Annex I.5 (note that the scheduling can be "unbound").
- Avoid scheduling any liberalisation commitments that would require changes in laws, regulations, or administrative practises until after the changes needed to implement the CSME have been completed.
- Avoid scheduling any liberalisation commitments that would involve increased regulatory oversight until all necessary regulatory reforms and implementation training have been concluded.
- Ensure that the degree of liberalisation offered under the GATS is less than that offered under the bilateral or pluri-lateral trade agreements being negotiated.

Minimum requests of trading partners

334 The OECS also has offensive interests in services trade liberalisation and the right and responsibility to make requests of trading partners. The modes of supply of primary interest to OECS service exporters are, in order of importance: Mode two (the supply of services to foreigners or foreign-controlled companies in the national market), Mode four (temporary business entry, which is critical for business development as well as for service delivery in foreign markets), and Mode one (cross-border supply, which is the least expensive). In order to assist OECS service exporters in maximizing foreign exchange earnings, the following are the most common requests to be made of trading partners:

- Remove any barriers or disincentives to foreign nationals travelling to OECS to purchase services (Mode two).
- Take full commitments (i.e., schedule "none") in Modes one and two for all sectors and sub-sectors listed in Annex I.6, except where technically unfeasible, thus removing any local presence or nationality requirements.
- Remove any barriers to temporary business entry for up to 30 days by OECS service suppliers (Mode four).
- Recognize OECS professional credentials (Mutual Recognition Agreements) in as many professions as possible, but at least for the following professions: accountants and bookkeepers, architects, engineers, lawyers, midwives, and nurses.

- Establish a single national-level registration process within economies with sub-federal jurisdictions for professionals from OECS, particularly those listed in Annex I.6.

- Remove all economic needs tests (ENTs), citizenship, or residency requirements, discriminatory capital requirements, land purchase restrictions, and restrictions on legal form (where still in place) affecting Modes three and four.

- Under Mode four, remove citizenship and residency requirements, as well as ENTs and prior years of experience, where they still exist.

Special and Differential Treatment for OECS

335 There are several grounds on which OECS Member Countries can argue for special and differential treatment within services trade treaties. Each domestic economy is small, making its service suppliers more vulnerable to crowding out by larger foreign service suppliers. The service suppliers themselves are very small and so their impact on the economies of trading partners is negligible. But perhaps even more important is the limitation of human resources available to execute and monitor policy implementation.

Policies Needed to Strengthen Services Trade Treaties

336 In order to address the issues raised above, the following types of services trade policies are needed:

Policies on Implementing the Caribbean Single Market and Economy (CSME)

- Ensure that harmonisation of policies within the CSME is the initial focus of any regulatory initiatives before changes involved other trading partners are considered.

- Ensure that the creation of an integrated labour market within the CSME takes priority over opening the OECS labour market to other trading partners.

- Avoid scheduling any liberalisation commitments that would require changes in OECS laws, regulations, or administrative practises until after the changes needed to implement the CSME have been completed.

- Ensure that CARICOM services export initiatives include OECS service suppliers and do not focus inappropriately on the OECS region as the target of investment or imports from other CARICOM economies.

Services Trade Negotiations Policies

- Ensure that the interests of the Member Countries are accurately and vigorously represented in multi-lateral, pluri-lateral, and bilateral services trade negotiations through direct participation by knowledgeable OECS trade officers.

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- Ensure that the following principles are incorporated into any trade agreement being negotiated: small service suppliers, MFN, transparency, domestic regulation, MRAs, temporary business entry, government procurement, service subsidies, denial of benefits, special and differential treatment based on size of economy;

- Revise existing regulatory regimes as needed to comply with services trade treaty commitments, and ensure that domestic policies and regulations can be, and are being, enforced before any further market access liberalisation takes place.

- Make gaining liberalisation commitments from key trading partners regarding temporary business entry (a component of Mode four supply) a top negotiating priority, particularly for business visitors, contract service suppliers, and independent professionals.

- Establish an efficient process for negotiating mutual recognition of professional credentials with key trading partners, including establishing a single national-level registration process in economies with multiple sub-federal jurisdictions for professionals from OECS.

- Because of OECS labour force development issues, retain economic needs tests, work permits, residency requirements and other restrictions on open access to OECS service markets.

- Place market entry conditions on inward services investment (e.g., requiring employment and training of local supervisory and managerial staff, requiring the use of local service suppliers) so that domestic service suppliers, particularly women-owned service firms, profit rather than being crowded out.

- Reserve the right to use government contracting to serve economic development purposes, establishing monetary thresholds below which bidding may be restricted to OECS nationals only or to particular groups of nationals (e.g., small businesses, disadvantages groups), and differentiating between the outsourcing of a public service (which may be provided by a monopoly service supplier) and the purchase by government of service inputs (where competitive bidding is appropriate).

- Reserve the flexibility to use service subsidies in order to develop domestic capacity (as per GATS Article IV) and encourage trade participation by micro and very small service suppliers.

- Consult regularly with the private sector on services trade issues, ensuring representative input from women-owned service firms as well as from very small and micro service suppliers by conferring with service industry associations and with trade associations (like Chambers of Commerce) that have a large percentage of members from service industries.

- Oversee the collection of internally consistent and relevant services statistics to support analyses of services trade competitiveness and the impact of services trade liberalisation, including supplemental data on Mode two trade.

Structure of Services Trade Agreements

337 All of the Member Countries face constraints in terms of human resources to oversee and implement trade agreements. This is particularly the case with regard to services trade agreements since (a) there is less governmental experience in the area of services trade negotiations as compared with agriculture or manufactured goods, and (b) none of the Member Countries has a single Ministry responsible for service industries where a critical mass of expertise could be developed. Therefore, the following principles are recommended regarding any new services trade agreement so that such agreements all follow the same format:

- As in the case of CSME-Services, the structure and coverage of the agreement should parallel that of the GATS to which the Member Countries are already signatories. This would include having both horizontal and sector commitments, coverage of all four modes of supply, scheduling of both market access and national treatment commitments, and a positive list approach (i.e., a listing of the specific commitments being made, by sector and mode of supply).

- The agreement should apply to all measures adopted by Parties that affect trade in services, in all sectors and in all modes of supply (i.e., not restricted to cross-border supply). The only exception should be “activities involving the exercise of governmental authority,” to be defined as it is in CSME-Services.

- The measures should include those adopted at the national, regional, or local levels of government, as well as by bodies in the exercise of powers delegated by the national, regional, or local government. (The coverage of sub-national levels of government is particularly important for the Member Countries because, in their largest trading partners, services are regulated primarily at the sub-national level.)

- In fulfilling its obligations and commitments, each Party should take the necessary measures to ensure observance by regional and local governments and authorities and by non-governmental bodies within its territory. (This is an important provision if (c) is to have any meaning for the Member Countries.)

- The sectoral categories should be the same as those used in the GATS and CSME-Services so as to make the process of scheduling commitments comparable across agreements. Use of the CPC classification system should be the same version as is used for GATS schedules (i.e., the provisional classification system), cross-referenced to the 12 sector groupings used by the GATS. The approach should enable the Member Countries to start with the schedules already submitted under the GATS and then make modifications as appropriate, rather than having to engage in a completely different scheduling approach for each agreement.

- No commercially-supplied services should be a priori excluded.

- The modes of supply should be defined as they are in the GATS, Article One (two), and in CSME-Services. With regard to Mode three (commercial

presence), it should be retained as part of a Services chapter in order to provide comparable scheduling as under the GATS or CSME-Services, though the commitments could be cross-referenced to a Chapter on Investment if desired.

- The commitments made should apply to both services and service suppliers. “Service suppliers” refers to natural and juridical persons that supply services. “Service suppliers” should include self-employed persons (as in the “non-wage-earning activities” referred to in CSME-Services), but not nationals of another Party seeking access to the OECS employment market.

- The agreement should make special provisions for less developed economies (such as the Member Countries), not just for “smaller economies” (which would include economies like Barbados that are at a different level of development than the Member Countries).

- The agreement should contain no administrative requirements that are not already imposed by the GATS or CSME-Services.

Small Service Suppliers

338 From an OECS perspective, the following are key principles to consider for inclusion in any services trade agreement:

- “Small service suppliers” are defined as enterprises with fewer than 20 employees and either assets of less than US$250,000 or annual sales of less than US$250,000. For purposes of service subsidies, developing economies may further differentiate the subcategories of “micro” (less than five employees) and “very small” (between five and nine employees).

- Developed countries are requested to exempt OECS small service suppliers from economic needs tests where they have been scheduled in commitments.

- Due to the impracticality of small service suppliers establishing a commercial presence in export markets, Parties are requested to exempt OECS small service suppliers from requirements for local presence in order to supply services via Mode one or Mode four.

- Due to the importance of Mode four for small service suppliers, Parties are requested to revise their horizontal commitments in Mode four to broaden the categories of persons who may enter as “business visitors” or “contractual service suppliers” (i.e., persons employed in the home market but supplying services through physical presence in the export market) to include middle and lower level professionals in the definition of “other persons” and “specialists.”

- In order to ensure that OECS small service suppliers are able to benefit from transparency provisions, especially those with regard to access to Enquiry/Contact points, developed countries are requested to provide contact

points for services trade issues both in their missions in OECS economies and online through searchable databases.

- Under the provisions for technical assistance, developed countries are requested to provide support for domestic OECS service export capacity development through donor funding of appropriate programmes of the International Trade Centre UNCTAD/WTO where such programmes are already well developed.

Most-Favoured-Nation (MFN)

339 The critical elements to be included here are the following:

- MFN should be accorded to both services and service suppliers.
- The extension of MFN treatment should be limited to the measures covered by the agreement.
- MFN should be accorded immediately and unconditionally, except as noted in MFN exemptions already recorded under the GATS or in an Annex on MFN Exemptions.
- MFN treatment should mean treatment no less favourable than what is accorded to services and services suppliers of any other Party or of a non-Party.
- Any Party may confer or accord advantages to adjacent countries in order to facilitate exchanges of services limited to contiguous frontier zones without being in contravention of this provision.
- This provision shall not prevent Parties from entering into economic integration agreements at the sub-hemispheric level provided that conditions similar to GATS, Article V, are met.

Transparency

340 The critical elements to be included here are the following:

- Each Party should notify all others of the relevant laws, regulations, and administrative directives that affect trade in services, including those enacted by national, regional, and local governments and by non-governmental regulatory agencies.
- Each Party should notify at least annually any changes in the measures affecting trade in services.
- Each Party should maintain a national enquiry point where other Parties can make queries regarding measures affecting trade in services, and should respond promptly to all requests for specific information from other Parties.
- Parties should provide a reasonable opportunity for other Parties to make observations on proposed measures.

- Transparency should apply to all measures affecting trade in services, whether or not they are in sectors that have been scheduled.

- Any Party may notify a central body of any measure adopted by another Party which, in its judgement, affects the operation of the agreement.

- The obligation of transparency does not extend to the disclosure of confidential information the disclosure of which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of public or private enterprises.

Domestic Regulation

341 The critical elements to be included here are the following:

- Parties have the sovereign right to regulate services provided that regulations are administered in a reasonable, objective, and impartial manner.

- The key requirements for a domestic regulatory regime that is not trade distorting include transparency; legitimacy, necessity, and proportionality in terms of the potential for being trade restrictive; and consistency with GATS requirements on market access and national treatment.

- Where authorization is required for the supply of a service in which a specific commitment has been made and an application has been submitted that is considered to be complete under domestic laws and regulations, the competent authorities of the Party involved shall provide without undue delay (i) information regarding the status of the application, and (ii) information regarding the decision regarding the application.

- Each Party shall maintain or institute as soon as possible a tribunal through which administrative decisions can be appealed.

- Measures related to qualification requirements and procedures, technical standards, and licensing requirements and procedures shall not constitute unnecessary barriers to trade.

Mutual Recognition Agreements (MRAs)

342 The critical elements to be included here are the following:

- Requirements and procedures for recognizing certifications, licenses, or permits issued by other Parties should:

    - Be based on objective and transparent criteria (such as the capacity, ability, and competence to supply the service).

    - Be no more burdensome than necessary to ensure the quality of the service.

    - Not constitute a disguised restriction on the supply of a service.

- Procedures shall be established whereby Parties can demonstrate that education, experience, licenses, or certifications issued in their territory are comparable to those issued in the territories of other Parties.

- Parties shall eliminate all citizenship or permanent residency requirements for obtaining licenses or certifications.

- Guidelines for the acceptance of diplomas, certificates, and qualifications should not run counter to the provisions in CSME-Services.

Temporary Business Entry (Mode four)

343 For small economies in particular, the provisions of Mode four are critical to the export success of their service suppliers. The following principles are suggested for consideration:

- Commitments under Mode four should be subdivided into four categories: intra-corporate transferees, business visitors (who do not directly supply services but rather enter to attend conferences, meet with potential clients, finalise service contracts, or set up a commercial presence), contract service suppliers (employees of entities in the home market that supply services through physical presence in the export market), and independent professionals (who supply services as self-employed persons).

- Intra-corporate transferees would include managers, executives, specialists, and trainees.

- For all four categories, coverage would be extended to include middle and lower level professionals, including research staff, marketing staff, executive support staff, and staff in training for professional or technical positions.

- Guidelines would be established for the use of economic needs tests (ENTs) and the conditions under which they would apply in order to increase transparency and decrease arbitrary application.

- ENTs would not apply to business visitors as they do not actually supply services.

- Guidelines would be established for service standards with regard to the issuance of visas and work permits under Mode four.

Government Procurement

344 Since governments may be responsible for as much as 15 percent of GDP, access to government contracting can be very important to service exporters. In some instances, increasing the efficiency of the government procurement process can help governments provide better public services to their citizens at a lower cost.

345 While government procurement has not had a high priority at the negotiating table, it is in fact potentially an important issue for service exporters from the Member Countries. Government contracting can be an important source of export activity.

346 OECS governments may wish to reserve the right to use government contracting to serve economic development purposes. Awarding government contracts is often used for job creation, development of rural areas, support to small business, or stimulating economic growth. In OECS, however, there are instances where foreign suppliers are actually given preferential treatment over domestic service suppliers, especially if bid evaluation criteria weigh global business volume more heavily than past performance. The following are principles to consider:

- Any government procurement disciplines need to include all levels of government (national, regional, local) as well as any other body governed by public law.

- The most critical requirement is transparency, which could include publication of tenders or requests for proposal in appropriate media (including the Internet), sufficient time to prepare a bid, all contact information regarding the official in charge, and the ability to learn why a bidder was not successful.

- Government procurement disciplines should distinguish between the outsourcing of a public service (which may well be provided by a monopoly service supplier) and the purchase by government of service inputs (where competitive bidding is appropriate).

- It should be possible to establish monetary thresholds below which bidding may be restricted to OECS nationals only or to particular groups of nationals (e.g., small businesses, disadvantages groups).

- Criteria for both the ability to bid (i.e., being short-listed) and bid award should be publicly available.

- There should be procedures in place to protest the outcome of a bidding process.

Service Subsidies

347 A challenge in addressing the potentially trade distorting effects of subsidies is that the Member Countries need the flexibility to use subsidies in order to develop their domestic capacity (as per GATS Article IV) and encourage trade participation. Common types of cross-industry subsidies include direct funding through grants (e.g., research and development, export development), tax credits that lower the cost of doing business (e.g., research and development credits, export credits, staff training credits), and other forms of rebates that underwrite the cost of doing business (e.g., for providing services in remote areas or to particular groups). Regarding industry-specific subsidies, the WTO Trade Policy Review reports indicate that the service sectors most likely to be subsidized through financial support are audiovisual services, air transport services, maritime transport services, tourism, and banking.

348 In developing disciplines on services, the following are principles to consider:

- A service subsidy may be defined as a government measure that can alter the conditions of competition through direct or indirect financial support to a group of service suppliers.

- Services subsidies are not in themselves trade distorting as long as they are extended on an MFN basis to services and service suppliers operating within the Member's territory.

- Parties have the right to use subsidies in order to achieve national development policy objectives, especially in the instance of developing countries.

- As a condition of transparency, Parties shall notify existing and new subsidies in all sectors and modes, whether scheduled or unscheduled.

- For scheduled sectors and services, Parties shall note in their Schedule of Commitments any instances in which national treatment does not include eligibility for such subsidies.

- Parties shall respond to requests for review in instances where not all modes of supply under national treatment for a particular service are fully committed and subsidisation in a non-committed mode may affect the national treatment commitments made in the scheduled modes of supply.

- In order to meet national development policy objectives and strengthen domestic capacity, it is recognised that the Member Countries may maintain subsidies restricted to domestic services and service suppliers and introduce new ones for a period of up to ten years.

Denial of Benefits

349 The critical elements to be included here are the following:

- To enjoy the benefits of the agreement, the service must be supplied by natural persons who are citizens or permanent residents of a Party or by juridical persons established legally and carrying out substantial operations in the territory of that Party.

- To enjoy the benefits of the agreement, service suppliers must supply the service from or within the territory of a Party to the agreement and must be owned or controlled by nationals of a Party to the agreement.

- In cases where a Party has doubts regarding the origin of a service or a service supplier, consultations may be sought with the Parties involved.

- The wording of "effectively carry out substantial operations in the territory of that Party" should be interpreted as follows:

Juridical persons authorised or domiciled, in accordance with the national legislation, in a respective Party and that are substantially owned and effectively controlled by nationals of that Party" (with "substantially owned" being more than 50 percent equity

interest, and "effectively controlled" being having the power to name a majority of its directors and otherwise legally direct its actions).

Special and Differential Treatment Based on Size of Economies and Levels of Development: A template for OECS bilateral Negotiations

350 The following wording must be included in the EPA Agreement with the EU to ensure that the agreement satisfies the objectives set out in the OECS Development Charter.

Introduction

- OECS Member Countries expect a progressive liberalization process, with due respect for their national policy objectives and level of development as stipulated in Article XIX.2 of the GATS.

- "Progressive liberalization" in services trade is understood to mean a commitment to gradually extend the number of service sectors in which there is a predictable regulatory regime in which unnecessary differentiation between foreign and national service providers has been removed.

- "Small economy" shall be defined, in keeping with the Commonwealth definition, as economies with populations of under 1.5 million persons, as such economies have only a limited domestic market base.

- As small economies, OECS Member Countries will not be expected to make the regulatory changes necessary to liberalize their service sectors at the same pace as larger economies and may commit to a predictable regulatory regime at a pace in keeping with their development interests and capacity to implement and monitor regulatory change.

Development Concerns

- The pace and scope of liberalization of market access in services by OECS Member Countries shall be contingent on CARICOM first achieving its own internal integration in services trade in the context of its Single Market and Economy (CSME).

- When opening their services markets to suppliers from other countries, OECS Member Countries shall have the right to attach conditions aimed at achieving the objectives referred to in GATS Article IV.

Temporary Entry (Mode four)

- Mode four is the primary mode through which small service firms in OECS Member Countries make business contacts, develop potential new business, and deliver a range of services. Larger countries shall ensure facilitation of temporary business travel through predictable terms and conditions for "visa free" entry for periods of under 30 days to service suppliers employed in their home country and travelling abroad for the afore-mentioned purposes.

- Under Mode four, temporary business entry provisions shall be apply to managers, supervisors, professionals, specialists (including those without formal qualifications but with recognized skills as indicated by their governments), and support staff designated to travel with or for their employers.

- Under Mode four, countries shall remove citizenship and residency requirements, as well as economic needs tests (ENTs) and prior years of experience, where they still exist for all service suppliers from small economies such as OECS Member Countries.

Market Access

- The market access granted by larger countries to OECS service exports and service suppliers shall be as, or more, liberal than that granted by OECS Member Countries to them.

- Given the small size of OECS services firms, larger governments shall ensure that OECS service suppliers have access to sub-national markets in larger countries.

- In large developed countries, OECS services firms shall have access to bid on government contracts usually restricted to small national firms.

Special and Differential Treatment

- The development of any standards or norms regarding particular service sectors or service activities shall be sensitive to the need not to increase the regulatory burden on individual OECS Member Countries or on the regional grouping.

- Under Mode three (commercial presence), OECS Member Countries shall retain the right to restrict the purchase of land and to impose performance requirements on service suppliers from larger economies, particularly with regard to local job creation, management positions, the generation of export revenues, and compliance with environmental standards. Under Mode four (movement of natural persons), OECS Member Countries shall retain the right to require work permits and set the terms thereof.

- In order to meet national development objectives, OECS Member Countries shall retain the right to require local content and/or local expertise, the right to reserve certain service activities to national micro-enterprises, and the right to provide service subsidies in order to meet national development objectives.

- If Safeguards are allowed in the case of services, they shall not be imposed against service suppliers from smaller economies due to the negligible impact (if any) of their activities.

- In any crafting of rules on Subsidies, provision shall be made to ensure that Members do not initiate subsidy countervail action against small service suppliers from small economies such as OECS. Their portion of trade in

services is so small that it has negligible market impact in target markets but tremendous development potential in their home territories.

- OECS Member Countries shall be granted derogations from the MFN principle to confer advantage in the context of trade agreements to neighbouring island economies in order to facilitate the exchange of services that are both locally produced and consumed.

- OECS Member Countries may maintain exceptions to the National Treatment principle that would give due respect to their level of development and their national policy objectives.

Technical Assistance

- OECS Member Countries shall be granted technical assistance in order to address human resource, technological, regulatory capacity and other constraints and stimulate the development of services industries in OECS Member Countries.

Trade Facilitation

- Larger countries shall undertake initiatives to recognize the professional credentials of OECS service suppliers without imposing nationality or residency requirements.

- The large countries shall supplement the existing Enquiry/Contact Points system to streamline access to information on domestic regulations and market information through initiatives such as:

    - Advice and training to strengthen the services export capability of trade and investment promotion organizations and private companies in small economies (seminars and courses both in-country and in their home country);

    - Information to small service suppliers from small economies by means of Seminars on Exporting Services to their country and sector-specific reports on the market for services in their country that are of interest to small economies;

    - The development of an on-line database and electronic meeting place to facilitate interaction between small service suppliers from small economies and service companies in larger countries that may be looking to outsource work or to find trade partners. The website should seek to ensure that importers, buyers and agents in the particular developed country are aware of the services that suppliers in smaller economies are seeking to export to their market;

    - Funding for trade missions to other countries for small service exporters from smaller economies, and buying missions to client countries for services importers from developed countries; and,

- Training and capacity building initiatives such as seminars and courses for service exporters, government officials, and export and investment marketing agencies of smaller economies.

Sensitive Services Sectors

351 Riddle (2003) suggests that the OECS use a positive list approach to negotiations with the EU. This is unlike the negative list with remaining restrictions in the case of CSME. In many sensitive areas, the EU requests that there should be no restrictions on market access and on national treatment, i.e., "none", while maintaining its (EU) position as "unbound". For example, it has "requested either full liberalization or at least commitment of Mode 1 for the following services while continuing to list "unbound" in its own schedule: accounting and bookkeeping services, taxation services, architectural services, engineering and integrated engineering services, urban planning and landscape architectural services, real estate services, rental and leasing without operators, technical testing and analysis, related scientific and technical consulting, wholesale pharmacy services, retailing services (except mail order), air transport maintenance, and maintenance & repair of road transport equipment" (Riddle, p. 11).

352 In the specific case of tourism, regional negotiators should seek to insert language that recognises tourism's development potential for small economies in particular, and that positions the industry as a recipient of technical and financial assistance under EDF.

353 Another sensitive area is in maritime transport services. Passenger and freight transportation and services auxiliary to all modes of transport remain "unbound" for both market access and national treatment in Mode 4. Therefore, there is some potential protection for these services over which the country may wish to keep domestic control.

354 In summary, a partial list of sensitive sectors for OECS appears to be:

- Insurance (vulnerable, because of suitcase trading and the impact of ICTs);
- Banking (because of economies of scale, impact of ICTs);
- Maritime/repair (emerging infant sector, country has some advantages);
- Distribution (retailing, franchising);
- Education (national pride/development);
- Government procurement (national development); and
- Professional /health (even though there are many benefits from exporting these services, concerns about nursing "brain drain" remain.

Recognition, Certification, and the Barriers to Movement of Natural Persons

355 The recognition of certificates should not be an insurmountable problem in an EPA between the EU and OECS in certain areas, but can be difficult in others.

Mutual recognition of credentials was a very difficult issue within the EU itself, and thus expectations of speedy progress in this area might have to be tempered. Many local professionals, however, do undergo their training in Europe and belong to the relevant professional associations there. Also, a large number of local programmes either meet or surpass requirements in some European countries.

356 However, obstacles will come up and based on studies done by a number of regional consultants (see Riddle 2003, Kowlessar and Riddle 2004, and Dunlop 2003), it is clear that the following need to be addressed as barriers to movement of natural persons which inhibit services exports:

- Visa requirements,
- Residency requirements in some areas of the tourism sector in EU,
- Pre-existing mutual recognition agreements,
- Ownership restrictions,
- Local presence requirements,
- Specified years of prior experience,
- Capital and security requirements, and
- Differential taxation requirements.

4 Recommendations and Strategy for Negotiations

4 Recommendations and Strategy for Negotiations

Towards a Negotiating Strategy for OECS Countries within the Framework of an EPA.

Recommended Negotiating Strategy for OECS Services Trade

357 In addition to being Members of the WTO, the Member Countries are engaged in a series of bilateral and pluri-lateral trade negotiations (as part of CARICOM) that include a services trade component. To maximise the gains from these various negotiations, it would be helpful to develop a coordinated strategy that includes common core elements across all services trade treaties while varying the degree of market access liberalisation by type of trading partner. In the instance of OECS, the most liberal commitments would be within OECS while the most conservative commitments would be in the GATS. This may be accomplished via the following:

- Common services treaty structure: Because of limited human resources to negotiate and implement a range of services trade treaties, it is important that the structure of the treaties be similar. This makes it easy to compare proposed principles and commitments across treaties. Also, the same implementation structure can then be used for all services trade treaties. Because OECS Member Countries are already signatories to the GATS, it makes sense to take the GATS as the basic model with its positive list approach. Section C1 provides a list of the structural components that would ideally be the same across all services trade treaties to which OECS Member Countries were signatories.

- Common services treaty principles. There are a set of principles already present in the GATS that need to be replicated (with suitable modifications) in any other services trade treaty. Sections C2-C10 provide wording for the following core principles:

    - Small service suppliers
    - Most-favoured-nation (MFN)
    - Transparency
    - Domestic regulation
    - Mutual recognition agreements (MRAs)
    - Temporary business entry (Mode 4)
    - Government procurement
    - Service subsidies
    - Denial of benefits

Specific commitments to trading partners

358 It is in the area of specific commitments, both horizontal and sectoral, that OECS can most appropriately manage how aggressive it wishes to be about its defensive interests. OECS' existing commitments in the GATS form a benchmark against which further liberalisation commitments will be measured by trading partners outside of CARICOM. To the extent that commitments have been made in the FTAA negotiations, those form another constraint on the choices open to OECS. The table in Annex I.5 provides a listing of the types of offers that OECS might wish to make to trading partners.

359 In drafting negotiating offers, the Member Countries will need to take into account several factors. In general, the Member Countries have limited capacity to oversee regulatory reform and to monitor regulatory compliance. Harmonisation within the CSME is a first priority and needs to be the initial focus of any regulatory initiatives before changes involved other trading partners are considered. Regarding Mode 4, because of labour force development issues, economic needs tests, work permits, residency requirements and other restrictions on open access are quite appropriate at this time. In some instances, the Member Countries are already more liberal in their admission policies than some of their trading partners. In any case, creation of an integrated labour market within the CSME would take priority over opening to other trading partners.

360 The following guidelines for staged liberalisation in drafting offers is recommended:

- Amend the original GATS Schedule of Commitments as appropriate to reflect actual legal, regulatory, and administrative restrictions currently in place.
- Expand the number of sectors scheduled to include, at a minimum, those listed in Annex I.5 (note that the scheduling can be "unbound").
- Avoid scheduling any liberalisation commitments that would require changes in laws, regulations, or administrative practises until after the changes needed to implement the CSME have been completed.
- Avoid scheduling any liberalisation commitments that would involve increased regulatory oversight until all necessary regulatory reforms and implementation training have been concluded.
- Ensure that the degree of liberalisation offered under the GATS is less than that offered under the bilateral or pluri-lateral trade agreements being negotiated.

Minimum requests of trading partners

361 The OECS also has offensive interests in services trade liberalisation and the right and responsibility to make requests of trading partners. The modes of supply of primary interest to OECS service exporters are, in order of importance: Mode 2 (the supply of services to foreigners or foreign-controlled companies in the national market), Mode 4 (temporary business entry, which is critical for business development as well as for service delivery in foreign markets), and Mode 1 (cross-

border supply, which is the least expensive). In order to assist OECS service exporters in maximizing foreign exchange earnings, the following are the most common requests to be made of trading partners:

- Remove any barriers or disincentives to foreign nationals travelling to OECS to purchase services (Mode 2).
- Take full commitments (i.e., schedule "none") in Modes 1 and 2 for all sectors and sub-sectors listed in Annex I.6, except where technically unfeasible, thus removing any local presence or nationality requirements.
- Remove any barriers to temporary business entry for up to 30 days by OECS service suppliers (Mode 4).
- Recognize OECS professional credentials (Mutual Recognition Agreements) in as many professions as possible, but at least for the following professions: accountants & bookkeepers, architects, engineers, lawyers, midwives, and nurses.
- Establish a single national-level registration process within economies with sub-federal jurisdictions for professionals from OECS, particularly those listed in Annex I.6.
- Remove all economic needs tests (ENTs), citizenship, or residency requirements, discriminatory capital requirements, land purchase restrictions, and restrictions on legal form (where still in place) affecting Modes 3 and 4.
- Under Mode 4, remove citizenship and residency requirements, as well as ENTs and prior years of experience, where they still exist.

Evaluating offers from trading partners

362 In the request-offer process used in services trade negotiations under progressive liberalisation, OECS will need to be able to evaluate successive offers from trading partners. Annex I.7 provides a template of questions that could be used in that regard.

Special and differential treatment for OECS

363 There are several grounds on which OECS Member Countries can argue for special and differential treatment within services trade treaties. Each domestic economy is small, making its service suppliers more vulnerable to crowding out by larger foreign services suppliers. The service suppliers themselves are very small and so their impact on the economies of trading partners is negligible. But perhaps even more important is the limitation of human resources available to execute and monitor policy implementation. Section C11 provides wording for a article on special and differential treatment to be included in services trade treaties.

Policies Needed to Strengthen Services Trade Treaties

In order to address the issues raised above, the following types of services trade policies are needed:

- Policies on Implementing the Caribbean Single Market and Economy (CSME)
  - Ensure that harmonisation of policies within the CSME is the initial focus of any regulatory initiatives before changes involved other trading partners are considered.
  - Ensure that the creation of an integrated labour market within the CSME takes priority over opening the OECS labour market to other trading partners.
  - Avoid scheduling any liberalisation commitments that would require changes in OECS laws, regulations, or administrative practises until after the changes needed to implement the CSME have been completed.
  - Ensure that CARICOM services export initiatives include OECS service suppliers and do not focus inappropriately on the OECS region as the target of investment or imports from other CARICOM economies.
- Services Trade Negotiations Policies
  - Ensure that the interests of the Member Countries are accurately and vigorously represented in multi-lateral, pluri-lateral, and bilateral services trade negotiations through direct participation by knowledgeable OECS trade officers.
  - Ensure that the principles outlined in Part C of this document (i.e., regarding the structure of services trade agreements, small service suppliers, MFN, transparency, domestic regulation, MRAs, temporary business entry, government procurement, service subsidies, denial of benefits, special and differential treatment based on size of economy) are incorporated into any trade agreement being negotiated.
  - Revise existing regulatory regimes as needed to comply with services trade treaty commitments, and ensure that domestic policies and regulations can be, and are being, enforced before any further market access liberalisation takes place.
  - Make gaining liberalisation commitments from key trading partners regarding temporary business entry (a component of Mode 4 supply) a top negotiating priority, particularly for business visitors, contract service suppliers, and independent professionals.
  - Establish an efficient process for negotiating mutual recognition of professional credentials with key trading partners, including establishing a single national-level registration process in economies with multiple sub-federal jurisdictions for professionals from OECS.

- Because of OECS labour force development issues, retain economic needs tests, work permits, residency requirements and other restrictions on open access to OECS service markets.

- Place market entry conditions on inward services investment (e.g., requiring employment and training of local supervisory and managerial staff, requiring the use of local service suppliers) so that domestic service suppliers, particularly women-owned service firms, profit rather than being crowded out.

- Reserve the right to use government contracting to serve economic development purposes, establishing monetary thresholds below which bidding may be restricted to OECS nationals only or to particular groups of nationals (e.g., small businesses, disadvantages groups), and differentiating between the outsourcing of a public service (which may be provided by a monopoly service supplier) and the purchase by government of service inputs (where competitive bidding is appropriate).

- Reserve the flexibility to use service subsidies in order to develop domestic capacity (as per GATS Article IV) and encourage trade participation by micro and very small service suppliers.

- In the request-offer process for services trade negotiations, use the framework supplied in Annex I.7 of this document in order to apply a consistent methodology to evaluating offers from trading partners.

- Consult regularly with the private sector on services trade issues, ensuring representative input from women-owned service firms as well as from very small and micro service suppliers by conferring with service industry associations and with trade associations (like Chambers of Commerce) that have a large percentage of members from service industries.

- Adopt the framework provided in Annex II of this document for assessing the impact of services trade liberalisation at regular intervals.

- Oversee the collection of internally consistent and relevant services statistics to support analyses of services trade competitiveness and the impact of services trade liberalisation, including supplemental data on Mode 2 trade (in support of the GATS nationality-based definition of modes of supply, as per Annex IIA).

- Adopt the guidelines in Annex IIA of this document for use by all researchers conducting studies of OECS services in order to supplement scarce national statistical resources with consistent data sets and gender disaggregated data related to services export activities, and to improve the base of services trade data available.

- Restructure the OECS website, using the guidelines in Annex I.4, so that it provides clear and coherent content on services trade issues and

negotiations for use in coordinating the services trade strategies of the Member Countries and for purposes of institutional memory.

Structure of Services Trade Agreements

364 All of the Member Countries face constraints in terms of human resources to oversee and implement trade agreements. This is particularly the case with regard to services trade agreements since (a) there is less governmental experience in the area of services trade negotiations as compared with agriculture or manufactured goods, and (b) none of the Member Countries has a single Ministry responsible for service industries where a critical mass of expertise could be developed. Therefore, the following principles are recommended regarding any new services trade agreement so that such agreements all follow the same format:

- As in the case of CSME-Services, the structure and coverage of the agreement should parallel that of the GATS to which the Member Countries are already signatories. This would include having both horizontal and sector commitments, coverage of all four modes of supply, scheduling of both market access and national treatment commitments, and a positive list approach (i.e., a listing of the specific commitments being made, by sector and mode of supply).

- The agreement should apply to all measures adopted by Parties that affect trade in services, in all sectors and in all modes of supply (i.e., not restricted to cross-border supply). The only exception should be “activities involving the exercise of governmental authority,” to be defined as it is in CSME-Services.

- The measures should include those adopted at the national, regional, or local levels of government, as well as by bodies in the exercise of powers delegated by the national, regional, or local government. (The coverage of sub-national levels of government is particularly important for the Member Countries because, in their largest trading partners, services are regulated primarily at the sub-national level.)

- In fulfilling its obligations and commitments, each Party should take the necessary measures to ensure observance by regional and local governments and authorities and by non-governmental bodies within its territory. (This is an important provision if (c) is to have any meaning for the Member Countries.)

- The sectoral categories should be the same as those used in the GATS and CSME-Services so as to make the process of scheduling commitments comparable across agreements. Use of the CPC classification system should be the same version as is used for GATS schedules (i.e., the provisional classification system), cross-referenced to the 12 sector groupings used by the GATS. The approach should enable the Member Countries to start with the schedules already submitted under the GATS and then make modifications as appropriate, rather than having to engage in a completely different scheduling approach for each agreement.

- No commercially-supplied services should be a priori excluded.

- The modes of supply should be defined as they are in the GATS, Article 1(2), and in CSME-Services. With regard to Mode 3 (commercial presence), it should be retained as part of a Services chapter in order to provide comparable scheduling as under the GATS or CSME-Services, though the commitments could be cross-referenced to a Chapter on Investment if desired.

- The commitments made should apply to both services and service suppliers. “Service suppliers” refers to natural and juridical persons that supply services. “Service suppliers” should include self-employed persons (as in the “non-wage-earning activities” referred to in CSME-Services), but not nationals of another Party seeking access to the OECS employment market.

- The agreement should make special provisions for less developed economies (such as the Member Countries), not just for “smaller economies” (which would include economies like Barbados that are at a different level of development than the Member Countries).

- The agreement should contain no administrative requirements that are not already imposed by the GATS or CSME-Services.

Small Service Suppliers

365 From an OECS perspective, the following are key principles to consider for inclusion in any services trade agreement:

- “Small service suppliers” are defined as enterprises with fewer than 20 employees and <u>either</u> assets of less than US$250,000 <u>or</u> annual sales of less than US$250,000. For purposes of service subsidies, developing economies may further differentiate the subcategories of “micro” (less than five employees) and “very small” (between five and nine employees).

- Developed countries are requested to exempt OECS small service suppliers from economic needs tests where they have been scheduled in commitments.

- Due to the impracticality of small service suppliers establishing a commercial presence in export markets, Parties are requested to exempt OECS small service suppliers from requirements for local presence in order to supply services via Mode1 or Mode 4.

- Due to the importance of Mode 4 for small service suppliers, Parties are requested to revise their horizontal commitments in Mode 4 to broaden the categories of persons who may enter as “business visitors” or “contractual service suppliers” (i.e., persons employed in the home market but supplying services through physical presence in the export market) to include middle and lower level professionals in the definition of “other persons” and “specialists.”

- In order to ensure that OECS small service suppliers are able to benefit from transparency provisions, especially those with regard to access to

Enquiry/Contact points, developed countries are requested to provide contact points for services trade issues both in their missions in OECS economies and online through searchable databases.

- Under the provisions for technical assistance, developed countries are requested to provide support for domestic OECS service export capacity development through donor funding of appropriate programmes of the International Trade Centre UNCTAD/WTO where such programmes are already well developed.

Most-Favoured-Nation (MFN)

366 The critical elements to be included here are the following:

- MFN should be accorded to both services and service suppliers.
- The extension of MFN treatment should be limited to the measures covered by the agreement.
- MFN should be accorded immediately and unconditionally, except as noted in MFN exemptions already recorded under the GATS or in an Annex on MFN Exemptions.
- MFN treatment should mean treatment no less favourable than what is accorded to services and services suppliers of any other Party or of a non-Party.
- Any Party may confer or accord advantages to adjacent countries in order to facilitate exchanges of services limited to contiguous frontier zones without being in contravention of this provision.
- This provision shall not prevent Parties from entering into economic integration agreements at the sub-hemispheric level provided that conditions similar to GATS, Article V, are met.

Transparency

367 The critical elements to be included here are the following:

- Each Party should notify all others of the relevant laws, regulations, and administrative directives that affect trade in services, including those enacted by national, regional, and local governments and by non-governmental regulatory agencies.
- Each Party should notify at least annually any changes in the measures affecting trade in services.
- Each Party should maintain a national enquiry point where other Parties can make queries regarding measures affecting trade in services, and should respond promptly to all requests for specific information from other Parties.

- Parties should provide a reasonable opportunity for other Parties to make observations on proposed measures.
- Transparency should apply to all measures affecting trade in services, whether or not they are in sectors that have been scheduled.
- Any Party may notify a central body of any measure adopted by another Party which, in its judgement, affects the operation of the agreement.
- The obligation of transparency does not extend to the disclosure of confidential information the disclosure of which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of public or private enterprises.

Domestic Regulation

368 The critical elements to be included here are the following:

- Parties have the sovereign right to regulate services provided that regulations are administered in a reasonable, objective, and impartial manner.
- The key requirements for a domestic regulatory regime that is not trade distorting include transparency; legitimacy, necessity, and proportionality in terms of the potential for being trade restrictive; and consistency with GATS requirements on market access and national treatment.
- Where authorization is required for the supply of a service in which a specific commitment has been made and an application has been submitted that is considered to be complete under domestic laws and regulations, the competent authorities of the Party involved shall provide without undue delay (i) information regarding the status of the application, and (ii) information regarding the decision regarding the application.
- Each Party shall maintain or institute as soon as possible a tribunal through which administrative decisions can be appealed.
- Measures related to qualification requirements and procedures, technical standards, and licensing requirements and procedures shall not constitute unnecessary barriers to trade.

Mutual Recognition Agreements (MRAs)

369 The critical elements to be included here are the following:

- Requirements and procedures for recognizing certifications, licenses, or permits issued by other Parties should:
    - Be based on objective and transparent criteria (such as the capacity, ability, and competence to supply the service).
    - Be no more burdensome than necessary to ensure the quality of the service.

- Not constitute a disguised restriction on the supply of a service.

- Procedures shall be established whereby Parties can demonstrate that education, experience, licenses, or certifications issued in their territory are comparable to those issued in the territories of other Parties.

- Parties shall eliminate all citizenship or permanent residency requirements for obtaining licenses or certifications.

- Guidelines for the acceptance of diplomas, certificates, and qualifications should not run counter to the provisions in CSME-Services.

Temporary Business Entry (Mode four)

370 For small economies in particular, the provisions of Mode 4 are critical to the export success of their service suppliers. The following principles are suggested for consideration:

- Commitments under Mode four should be subdivided into four categories: intra-corporate transferees, business visitors (who do not directly supply services but rather enter to attend conferences, meet with potential clients, finalise service contracts, or set up a commercial presence), contract service suppliers (employees of entities in the home market that supply services through physical presence in the export market), and independent professionals (who supply services as self-employed persons).

- Intra-corporate transferees would include managers, executives, specialists, and trainees.

- For all four categories, coverage would be extended to include middle and lower level professionals, including research staff, marketing staff, executive support staff, and staff in training for professional or technical positions.

- Guidelines would be established for the use of economic needs tests (ENTs) and the conditions under which they would apply in order to increase transparency and decrease arbitrary application.

- ENTs would not apply to business visitors as they do not actually supply services.

- Guidelines would be established for service standards with regard to the issuance of visas and work permits under Mode four.

Government Procurement

371 Since governments may be responsible for as much as 15 percent of GDP, access to government contracting can be very important to service exporters. In some instances, increasing the efficiency of the government procurement process can help governments provide better public services to their citizens at a lower cost.

372 While government procurement has not had a high priority at the negotiating table, it is in fact potentially an important issue for service exporters from the Member Countries. Government contracting can be an important source of export activity.

373 OECS governments may wish to reserve the right to use government contracting to serve economic development purposes. Awarding government contracts is often used for job creation, development of rural areas, support to small business, or stimulating economic growth. In OECS, however, there are instances where foreign suppliers are actually given preferential treatment over domestic service suppliers, especially if bid evaluation criteria weigh global business volume more heavily than past performance. The following are principles to consider:

- Any government procurement disciplines need to include all levels of government (national, regional, local) as well as any other body governed by public law.
- The most critical requirement is transparency, which could include publication of tenders or requests for proposal in appropriate media (including the Internet), sufficient time to prepare a bid, all contact information regarding the official in charge, and the ability to learn why a bidder was not successful.
- Government procurement disciplines should distinguish between the outsourcing of a public service (which may well be provided by a monopoly service supplier) and the purchase by government of service inputs (where competitive bidding is appropriate).
- It should be possible to establish monetary thresholds below which bidding may be restricted to OECS nationals only or to particular groups of nationals (e.g., small businesses, disadvantages groups).
- Criteria for both the ability to bid (i.e., being short-listed) and bid award should be publicly available.
- There should be procedures in place to protest the outcome of a bidding process.

Service Subsidies

374 A challenge in addressing the potentially trade distorting effects of subsidies is that the Member Countries need the flexibility to use subsidies in order to develop their domestic capacity (as per GATS Article IV) and encourage trade participation. Common types of cross-industry subsidies include direct funding through grants (e.g., research and development, export development), tax credits that lower the cost of doing business (e.g., research and development credits, export credits, staff training credits), and other forms of rebates that underwrite the cost of doing business (e.g., for providing services in remote areas or to particular groups). Regarding industry-specific subsidies, the WTO Trade Policy Review reports indicate that the service sectors most likely to be subsidised through financial support are audiovisual services, air transport services, maritime transport services, tourism, and banking.

375 In developing disciplines on services, the following are principles to consider:

- A service subsidy may be defined as a government measure that can alter the conditions of competition through direct or indirect financial support to a group of service suppliers.

- Services subsidies are not in themselves trade distorting as long as they are extended on an MFN basis to services and service suppliers operating within the Member's territory.

- Parties have the right to use subsidies in order to achieve national development policy objectives, especially in the instance of developing countries.

- As a condition of transparency, Parties shall notify existing and new subsidies in all sectors and modes, whether scheduled or unscheduled.

- For scheduled sectors and services, Parties shall note in their Schedule of Commitments any instances in which national treatment does not include eligibility for such subsidies.

- Parties shall respond to requests for review in instances where not all modes of supply under national treatment for a particular service are fully committed and subsidisation in a non-committed mode may affect the national treatment commitments made in the scheduled modes of supply.

- In order to meet national development policy objectives and strengthen domestic capacity, it is recognised that the Member Countries may maintain subsidies restricted to domestic services and service suppliers and introduce new ones for a period of up to ten years.

Denial of Benefits

376 The critical elements to be included here are the following:

- To enjoy the benefits of the agreement, the service must be supplied by natural persons who are citizens or permanent residents of a Party or by juridical persons established legally and carrying out substantial operations in the territory of that Party.

- To enjoy the benefits of the agreement, service suppliers must supply the service from or within the territory of a Party to the agreement and must be owned or controlled by nationals of a Party to the agreement.

- In cases where a Party has doubts regarding the origin of a service or a service supplier, consultations may be sought with the Parties involved.

- The wording of "effectively carry out substantial operations in the territory of that Party" should be interpreted as follows:

Juridical persons authorised or domiciled, in accordance with the national legislation, in a respective Party and that are substantially owned and effectively controlled by nationals of that Party" (with "substantially owned" being more than 50 percent equity interest, and "effectively controlled" being having the power to name a majority of its directors and otherwise legally direct its actions).

Special and Differential Treatment Based on Size of Economies & Levels of Development

377 The following wording is proposed for inclusion in all services trade treaties in order to ensure that the Member Countries may meet development objectives:

Introduction

- OECS Member Countries expect a progressive liberalization process, with due respect for their national policy objectives and level of development as stipulated in Article XIX.2 of the GATS.

- "Progressive liberalization" in services trade is understood to mean a commitment to gradually extend the number of service sectors in which there is a predictable regulatory regime in which unnecessary differentiation between foreign and national service providers has been removed.

- "Small economy" shall be defined, in keeping with the Commonwealth definition, as economies with populations of under 1.5 million persons, as such economies have only a limited domestic market base.

- As small economies, OECS Member Countries will not be expected to make the regulatory changes necessary to liberalize their service sectors at the same pace as larger economies and may commit to a predictable regulatory regime at a pace in keeping with their development interests and capacity to implement and monitor regulatory change.

Development Concerns

- The pace and scope of liberalization of market access in services by OECS Member Countries shall be contingent on CARICOM first achieving its own internal integration in services trade in the context of its Single Market and Economy (CSME).

- When opening their services markets to suppliers from other countries, OECS Member Countries shall have the right to attach conditions aimed at achieving the objectives referred to in GATS Article IV.

Temporary Entry (Mode four)

- Mode four is the primary mode through which small service firms in OECS Member Countries make business contacts, develop potential new business, and deliver a range of services. Larger economies shall ensure facilitation of temporary business travel through predictable terms and conditions for "visa free" entry for periods of under 30 days to service suppliers employed in their home country and travelling abroad for the afore-mentioned purposes.

- Under Mode 4, temporary business entry provisions shall be apply to managers, supervisors, professionals, specialists (including those without formal qualifications but with recognized skills as indicated by their governments), and support staff designated to travel with or for their employers.

- Under Mode 4, countries shall remove citizenship and residency requirements, as well as economic needs tests (ENTs) and prior years of experience, where they still exist for all service suppliers from small economies such as OECS Member Countries.

Market Access

- The market access granted by larger countries to OECS service exports and service suppliers shall be as, or more, liberal than that granted by OECS Member Countries to them.

- Given the small size of OECS services firms, larger governments shall ensure that OECS service suppliers have access to sub-national markets in larger countries.

- In large developed countries, OECS services firms shall have access to bid on government contracts usually restricted to small national firms.

Special and Differential Treatment

- The development of any standards or norms regarding particular service sectors or service activities shall be sensitive to the need not to increase the regulatory burden on individual OECS Member Countries or on the regional grouping.

- Under Mode 3 (commercial presence), OECS Member Countries shall retain the right to restrict the purchase of land and to impose performance requirements on service suppliers from larger economies, particularly with regard to local job creation, management positions, the generation of export revenues, and compliance with environmental standards. Under Mode 4 (movement of natural persons), OECS Member Countries shall retain the right to require work permits and set the terms thereof.

- In order to meet national development objectives, OECS Member Countries shall retain the right to require local content and/or local expertise, the right to reserve certain service activities to national micro-enterprises, and the right to provide service subsidies in order to meet national development objectives.

- If Safeguards are allowed in the case of services, they shall not be imposed against service suppliers from smaller economies due to the negligible impact (if any) of their activities.

- In any crafting of rules on Subsidies, provision shall be made to ensure that Members do not initiate subsidy countervail action against small service suppliers from small economies such as OECS. Their portion of trade in

services is so small that it has negligible market impact in target markets but tremendous development potential in their home territories.

- OECS Member Countries shall be granted derogations from the MFN principle to confer advantage in the context of trade agreements to neighbouring island economies in order to facilitate the exchange of services that are both locally produced and consumed.

- OECS Member Countries may maintain exceptions to the National Treatment principle that would give due respect to their level of development and their national policy objectives.

Technical Assistance

- OECS Member Countries shall be granted technical assistance in order to address human resource, technological, regulatory capacity and other constraints and stimulate the development of services industries in OECS Member Countries.

Trade Facilitation

- Larger countries shall undertake initiatives to recognize the professional credentials of OECS service suppliers without imposing nationality or residency requirements.

- The large countries shall supplement the existing Enquiry/Contact Points system to streamline access to information on domestic regulations and market information through initiatives such as:

    - Advice and training to strengthen the services export capability of trade and investment promotion organizations and private companies in small economies (seminars and courses both in-country and in their home country);

    - Information to small service suppliers from small economies by means of Seminars on Exporting Services to their country and sector-specific reports on the market for services in their country that are of interest to small economies;

    - The development of an on-line database and electronic meeting place to facilitate interaction between small service suppliers from small economies and service companies in larger countries that may be looking to outsource work or to find trade partners. The website should seek to ensure that importers, buyers and agents in the particular developed country are aware of the services that suppliers in smaller economies are seeking to export to their market;

    - Funding for trade missions to other countries for small service exporters from smaller economies, and buying missions to client countries for services importers from developed countries; and,

- Training and capacity building initiatives such as seminars and courses for service exporters, government officials, and export and investment marketing agencies of smaller economies.

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