



Agricultural trade policy and food security in the Caribbean

Structural issues, multilateral
negotiations and competitiveness



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negotiations and competitiveness**

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Preface

This document is an output of the work on trade and food security in the Caribbean led by staff of the Trade and Markets Division of FAO in close association with the implementation of the CARICOM/CARIFORUM Regional Special Program for Food Security (RSPFS). The financial contribution of the Italian Directorate for International Cooperation to the FAO Trust Fund for Food Security and Food Safety made many of the regional trade policy activities and the publication of this book possible. The contribution of INEA researchers is recognized as being critical to the completion of several chapters. The editors would like to acknowledge the valuable input of all the participants at several workshops and training courses on trade and food security held in the Caribbean region between 2004 and 2006. They also take this opportunity to thank Andrea Stoutland and Chrissi Redfern for their assistance in preparing the volume for publication.

Foreword

FAO

Agricultural trade has been and continues to be a major factor determining food security outcomes in Caribbean countries. In these small open economies, exports are essential to income-earning opportunities, while imports provide a large component of the food supply. This book discusses the structural features characterizing these countries, and specifically the dynamic relationships between trade and food security. It focuses on multilateral trade negotiations, mainly those of the World Trade Organization; elaborates on the implications for Caribbean agricultural and food sector performance and policies; and introduces analytical tools for trade policy evaluation. It benefits from training activities carried out by professionals of the Trade and Markets Division collaborating with Italian and Caribbean counterparts who work on trade policy issues in the Caribbean region. The activities leading to the production and publication of this book were supported by FAO and the Italian Directorate for International Cooperation.

Alexander Sarris

Director, Trade and Markets Division, FAO

INEA

In response to a request from the CARICOM Secretariat on behalf of its member countries, the Italian Directorate for International Cooperation, through its Trust Fund for Food Security and Food Safety, enabled FAO to implement a project directed at improving food systems in the Caribbean in collaboration with Italian agricultural sector technical institutions. The general objective of the CARIFORUM Food Security Project is to improve the food security situation of the CARIFORUM states by increasing the availability and access to adequate quantities of safe, quality-assured food products to food insecure and poor rural communities throughout the region. National- and regional-level project activities were programmed. At the regional level, activities focused on several themes, including trade policies, community-level food security programming, food processing, food

value and safety. This book is one of many results of the activities that fell within the trade policy component of the project. Italy's National Institute of Agricultural Economics (INEA) was actively involved in capacity-building activities under that project component, particularly in organizing and carrying out training in the areas of trade policy analysis and negotiations and quality and safety requirements in international trade and marketing. These are increasingly important concerns in agrifood trade as globalization proceeds; and it is only through an agrifood system pursuing quality, including recognition of the multifunctional role of agriculture, that it will be possible to meet the expectations of today's citizens and consumers.

Lino Rava

President, INEA, Rome, Italy

CARICOM/CARIFORUM Regional Special Program for Food Security (RSPFS)

The Regional Project Management Unit (RPMU) of the CARICOM/CARIFORUM RSPFS is extremely pleased to be associated with this book, which draws upon a number of capacity-building activities and trade-related studies pursued under the trade facilitation area of Regional Food Security project. The book is timely given that in recent years the multilateral, hemispheric and regional trade and economic environment has experienced profound changes with far-reaching consequences for food security in all its dimensions: availability, accessibility, utilization/consumption and stability. Trade liberalization, other trade reforms and the related negotiations have already had and continue to have a significant impact on Caribbean economies, particularly as a result of the challenges facing commodities such as sugar, bananas and rice in traditional preferential markets. The book examines various dimensions of trade policy and related issues of relevance to the countries in the CARICOM/CARIFORUM region and presents policy instruments to address trade and food security and rural development linkages. It will serve as a useful guide and reference document for agricultural trade policy analysts, trade negotiators, policy-makers and planners in both the public and private sectors. The RPMU welcomed the opportunity to work with a number of agencies and individuals during the preparation of this book, most importantly, staff of the FAO Trade and Markets Division and INEA.

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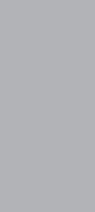
Acronyms and abbreviations

ACP	African, Caribbean and Pacific Group of States
ADB	Agricultural Development Bank
AFT	Aid for Trade
AMF	Agricultural Modernization Fund
AMS	aggregate measurement of support
AoA	Agreement on Agriculture
AQ	additional quantity
ATPSM	The Agricultural Trade Policy Simulation Model
BADMC	Barbados Agricultural Development and Marketing Corporation
BCI	business competitiveness index
BMB	Belize Marketing Board
BRC	British Retail Consortium
CABEX	Caribbean Agribusiness Export Club
CAHFSA	Caribbean Agricultural Health and Food Safety Agency
CAP	Common Agricultural Policy
CARD	Center for Agricultural and Rural Development
CARDI	Caribbean Agricultural Research and Development Institute
CARIBCAM	Caribbean–Canada Trade Agreement
CARICOM	Caribbean Community and Common Market
CARIFORUM	Caribbean Forum
CARTF	CARIFORUM Agribusiness Research and Training Fund
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CDB	Caribbean Development Bank
CET	common external tariff
CFNI	Caribbean Food and Nutrition Institute
CFRAMP	CARICOM Fisheries Resource Assessment and Management Programme

CIF	cost insurance freight
CMOB	Common Market Organisation for Bananas
CN	combined nomenclature
CRNM	Caribbean Regional Negotiating Machinery
CROSQ	CARICOM Regional Organisation for Standards and Quality
CSME	CARICOM Single Market and Economy
DBMC	Dominica Banana Marketing Corporation
DBPL	Dominica Banana Producers Limited
DG	Directorates General
DRC	domestic resource cost (coefficient)
DSU	Dispute Settlement Understanding
DWP	Doha Work Program (WTO)
EBA	Everything But Arms
EC	European Community
ECJ	European Court of Justice
EPA	Economic Partnership Agreements
EPC	effective protection coefficient
ESIM	European simulation model
EU	European Union
EUREP	Euro-Retailer Produce Working Group
FAO	Food and Agriculture Organization of the United Nations
FAPRI	Food and Agricultural Policy Research Institute
FIC	food import coverage indicator
FLO-I	Fairtrade Labelling Organizations International
FOB	free on board
FTAA	Free Trade of the Americas
GAPs	good agricultural practices
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GCI	Global Competitiveness Index
GDP	gross domestic product
GE	general equilibrium
GI	geographical indications

GMO	genetically modified organism
GMPs	good manufacturing practices
GRDB	Guyana Rice Development Board
GSP	generalized system of preferences
GTAP	Global Trade Analysis Project
HACCP	Hazard Analysis and Critical Control Points
HS	harmonized system
HX	concentration index
ICI	food import capacity indicator
IDB	Interamerican Development Bank
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
IOP	Institute of Packaging
IPCC	Intergovernmental Panel on Climate Change (IPCC)
ISO	International Standards Organization (ISO)
JI	Jagdeo Initiative
LDC	least-developed country
LIFDC	low-income food-deficit country
MALMR	Ministry of Agriculture, Land and Marine Resources
MDG	Millennium Development Goal
mt	metric ton
MFN	most-favoured nation
MRL	maximum residue limit
MTN	multilateral trade negotiations
NAMDECO	National Agricultural Marketing and Development Company
NARI	National Agricultural Research Institute
NB	normalized trade balance
NFIDC	net-food-importing developing countries
NGO	non-governmental organization
NPC	nominal protection coefficient
NTBs	non-tariff barriers
OCT	Association of the Overseas Countries and Territories
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States

OIE	World organization for animal health
PAM	policy analysis matrix
PE	partial equilibrium
PSE	producer subsidy equivalent
QA	quality assurance
RCA	revealed comparative advantage
REER	real effective exchange rate
ROI	return on investment
RPA	Rice Producers' Association (Guyana)
RTA	Regional Trade Agreements
RTP	Regional Transformation Programme for Agriculture
SD	standard deviation
SDT	special and differential treatment
SEM	Single European Market
SI	cereal supply indicator
SIDS	small island developing states
SITC	Standard International Trade Classification System
SLBC	St Lucia Banana Corporation
SLBGA	St Lucia Banana Growers Association
SPS	sanitary and phytosanitary measures
SSG	special agricultural safeguard
SSM	special safeguard mechanism
STE	state trading enterprises
SVEs	small, vulnerable economies
TBT	technical barriers to trade
TNC	transnational corporations
TRIPS	trade-related aspects of intellectual property rights
TRQ	tariff rate quota
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UR	Uruguay Round (WTO)
URAA	Uruguay Round Agreement on Agriculture
UWI	University of the West Indies
WFS	World Food Summit



WIBDECO	Windward Islands Banana Development and Exporting Company
WINFA	Windward Islands Farmers' Association
WINBAN	Windward Islands Banana Growers Association
WITS	World Integrated Trade Solution
WMO	World Meteorological Organization (WMO)
WTO	World Trade Organization
XC	coverage ratio

Introduction

J.R. Deep Ford, Crescenzo dell'Aquila and Piero Conforti

Trade and food security in the Caribbean are tied together through a variety of linkages rooted in the importance of exports and imports to these small open economies. On the one hand, export-oriented economic activity is a major source of foreign exchange and employment-based income-earning opportunities (linked to both the supply and accessibility dimensions of food security). On the other, imports are equally critical to nutritional and stability dimensions of food security, as most of these countries are net food importers. Analysing the dynamic relationships between trade and food security is therefore important, especially in the wake of the profound changes occurring in the multilateral, hemispheric and regional economic environment. Agricultural trade liberalization, and trade reform in general, have significant impacts on all dimensions of food security for Caribbean countries – availability, access, utilization and stability.

The book examines the various dimensions of agricultural trade and food security of Caribbean countries. It focuses on multilateral trade negotiations, mainly those of the World Trade Organization, and its implications for Caribbean agricultural and food sector performance and policies. Moreover, it presents policy instruments to analyse and address linkages between trade, and food security and rural development.

Chapters 1 and 2 serve as an introduction to the major linkages between trade policy, trade and food security and presents small and vulnerable economies in the framework of the ongoing WTO negotiations.

Chapter 1 outlines the complex linkages between agricultural trade, trade policy and food security in the Caribbean. Different points of view on trade policy are assessed and the main results of the Caribbean experience in the recent decade of trade liberalization is analysed. While trade as an engine of growth is a generally accepted perspective, the controversy over the impacts of lowering tariffs on domestic food security is developed by considering pros and cons of trade liberalization. If lowering tariffs should result in food becoming more readily available and accessible to consumers, adjustment impacts on small agricultural producers is also a relevant source of concerns

due to the strong link between agrifood systems and income-earning opportunities in the region. The chapter draws the fundamental conclusion that trade liberalization is not a sufficient condition for promoting economic development, and calls for a more comprehensive and integrated Caribbean policy, in which trade policy plays a central role in conjunction with other sectoral, national and regional policies.

Chapter 2 discusses the understanding of small and vulnerable economies (SVEs) in the WTO context, with special reference to Caribbean countries, and defines the main negotiating issues relevant to their food security and trade-related risks. The chapter indicates that the heterogeneity of developing countries, and of the SVEs, can be assessed through a wide set of indicators, and proposes ways of addressing such specificities in the WTO, that would lessen the adverse impacts on food security and rural livelihoods. Two alternative strategies might be employed in the WTO to frame appropriate responses for the Caribbean countries: either assigning them additional special and differential treatment (SDT), similar to those envisaged for LDCs; or strengthening of the current SDT measures available to all developing countries, with additional specific measures. While some WTO members have expressed resistance to the creation of new subgroups there is also wide acceptance of the need to address heterogeneity to facilitate a fuller participation and better integration of SVEs into the global trading arena.

Chapter 3 and 4 focus on two major trade policy issues facing Caribbean countries, proposed tariff cuts and its implications for their tariff profiles and changes in preference regimes and the impact on the value of their exports.

Chapter 3 presents and evaluates the current agricultural tariff profiles for 12 Caribbean countries in the context of the main tariff reduction formulae debated in the WTO Doha Round of negotiations. The tariff profiles represent the current policy treatment meted out to the sector in general, and to some commodities in particular. The chapter emphasizes management of tariff policy as an instrument for promoting the domestic objectives of food security and viable rural livelihoods in the face of increasing globalization, and calls for an appropriate sensitivity in tariff setting. However distortionary, tariffs can enable local communities to produce food with a lower threat of subsidized imports displacing their products in the market, and can create an enabling environment for diversification into value added commodities. Their role in this respect should be analysed comparatively along with that of other policy measures. The chapter applies the main tariff reduction formulae proposed by some WTO Members to the tariff structure of Caribbean countries and demonstrates the likely impact of further tariff reduction on the current policy flexibility. The chapter concludes with recommendations on tariff management strategies in the WTO arena, and in relation to a common external tariff structure for the Caribbean countries.

Chapter 4 addresses trade preferences, another key trade policy issue for the agrifood sector in the Caribbean. While preferential trade agreements clash with the fundamental WTO principle of non-discrimination, they were conceived as a primary tool to integrate developing countries into the world trading system, to promote their growth and development, and above all to benefit smaller and less diversified economies. The chapter reviews the logic, structure and value of trade preferences, with reference to the main features of the current ACP preferential system and the threat of preference erosion. It discusses the role that preferential agreements might play in the future of the Caribbean region and provides framework elements to be taken into account for the definition of specific strategies. The gradual departure from ACP preferences requires private and public investment strategies directed at key products, such as sugar and bananas, aimed at reducing their dependency upon preferences. Investment plans for both traditional and new export products may gather resources from the partially eroded rents generated by preferential trade, from the WTO SDT approach, from the generalized system of preferences (GSP) and also from the European Partnership Agreements (EPAs).

Chapter 5 and 6 present more detailed analysis on two WTO negotiations themes of particular relevance to SVEs and already outlined in Chapter 2, Special Products (SPs) and the Special Safeguard Mechanism (SSM).

The concept and identification of Special Products is dealt with in **Chapter 5**, which also provides more general insights on the reason why developing countries argued extensively on this point in the Doha round. The chapter reinforces the importance of trade policy analysis capacity building as it demonstrates an approach and a methodology for identifying SPs. The indicators presented in this connection represent the criteria outlined in the WTO 2004 Framework: food security, livelihood security and rural development. These are employed to identify a list of possible special products and results from Belize are presented as a Caribbean case study. The chapter considers identification of special products at the regional level, with a view to promoting regional integration and agricultural development.

Vulnerability to import surges is of particular concern to developing countries that are endeavouring to develop their agricultural potential and diversify production in order to enhance their food security and alleviate poverty. A possible WTO Special Safeguard Mechanism (SSM) for dealing with import surges and depressed import prices in developing countries is analysed in **Chapter 6**. The concept of SSM has been accepted in the Doha Round negotiations as an effective trade remedy specific to developing countries and the chapter analyses alternative proposals in the negotiations with a view to identifying a simple and effective SSM. The main findings refer to: a) product eligibility for an SSM b) better and more appropriate options

for price and volume safeguards and their trigger and remedy levels; and c) empirical limitations in the identification of appropriate additional duties.

The following three chapters focus on trade policy related to three commodities, which formed the core of Caribbean trade in the context of the EU-ACP trade protocol : sugar, bananas and rice. These chapters partly follow up on Chapter 4 on preferences, as they also aim at identifying ways out of the situation of a gradual erosion of trade preferences.

Chapter 7 reviews the perspectives of the sugar sector in the Caribbean in relation to two major policy changes: the implementation of the Everything But Arms (EBA) initiative and the reform of the Common Market Organization for sugar in the EU which results in major price declines for ACP exporters of sugar to the EU. After a brief overview of the historical background and present organization of sugar trade between the Caribbean countries and the EU, the chapter discusses the expected outcomes of the ongoing policy changes towards a more market-oriented regime. These changes will deeply affect the position of the current exporters to the European market, and it places pressure on the Caribbean sugar industry to devise strategies to survive in a wider and more competitive environment. The future for the Caribbean sugar industry appears challenging for at least three reasons: a) the probable displacement of Caribbean sugar exports into the EU; b) the stagnant trend in the demand for sugar in developed countries; and c) the relatively limited opportunities for product differentiation (fair trade, organic, bio-fuel). Opportunities for minimizing negative social consequences and for building a long-term strategy for the sugar industry are analysed with reference to the regional market, the EU-ACP relations, the GSP framework and other forms of assistance.

The recent experience and future of the banana sector in the Caribbean is discussed in **Chapter 8**. Particular attention is paid to the steady erosion of the preferential market access, to the current precarious position of Caribbean countries in world markets, and to the employment and food security conditions of the rural population which depends on banana production and trade. The chapter addresses trade policy issues from a regional perspective, and draws mainly on production and trade experience within the Organisation of Eastern Caribbean States (OECS), where the banana industry is one of the main components of the economy. Several interventions and measures that seek to ensure a meaningful interface between changes in the current policy framework and food security are highlighted: the importance of both public and private sector investment at the national level; the need to target niche and specialty markets globally; and negotiating effectively within the WTO on development measures such as SPs and Aid for Trade.

Rice production, trade policy and the impact of market developments on rural development and food security in the Caribbean is the focus of **Chapter 9**. After a brief description of the world rice situation, the chapter turns

to the Caribbean rice market, which is considered from a trade and food security standpoint. For two countries of the region in particular, Guyana and Suriname, rice trade under the EU-ACP preference schemes has been an important source for government revenue that has been channelled into national development initiatives. The chapter reviews the recent changes in the EU rice support policy and how they have affected earnings and the ACP competitive position. It concludes with elements of a strategy for supporting rice industry development in the Caribbean, emphasising: a) the relevance of intraregional opportunities for the sector; b) the need for strengthening guarantees of a level playing field for Caribbean operators, who are often competing on international markets against strongly subsidized competitors; and c) the need to secure opportunities within EU-ACP EPAs.

The following two chapters deal with competitiveness of the Caribbean agrifood sector in the context of trade liberalization from different angles and emphasize some of the basic messages of the book: that trade liberalization would not result in growth and development in rural areas unless domestic producers and traders are able to increase production and marketing efficiencies, and achieve quality levels and standards necessary to access increased trading opportunities.

Chapter 10 provides an introduction to the conceptual framework of competitiveness, considering increased market access as an opportunity. It emphasises investment to develop supply-side capacity, enterprises and entrepreneurship as the major route to achieving competitiveness and sustainability. The chapter seeks to broaden the understanding of the determinants of competitiveness and addresses these in order to facilitate the transition of agricultural sectors from dependence on a few crops to greater levels of diversification and value-added. The competitive position of several Caribbean commodities is assessed with a qualitative approach and through indicators derived from a Policy Analysis Matrix. Recommendations for improving the competitiveness of the agricultural sector in the Caribbean based on product differentiation and on reducing production costs are made. Given the challenges to making the main traditional export products competitive, because they require mostly cost reductions while opportunities for product differentiation are limited, the promotion of non-traditional crops and livestock products is recommended. The chapter concludes emphasising the need for partnerships between the public and the private sectors to ensure that factors influencing competitiveness are adequately addressed, considering both the macroeconomic and microeconomic determinants.

Chapter 11 focuses on quality and safety standards as increasingly critical factors affecting competitiveness in agrifood trade. The chapter presents a description of various frameworks for addressing quality issues, and provides references for understanding features and implications of the most common food quality and safety regulations shielding developed markets. Specifically,

the chapter: a) introduces the link between quality and safety standards and supply management issues; b) discusses current features of the multilateral institutional framework providing technical and legal references for national legislation relevant to quality and safety of agrifood products; c) introduces the major private quality assurance and certification schemes and discusses their relationships with multilateral arrangements; and d) facilitates awareness among institutions and operators of the growing relevance of quality and safety standards, providing essential references for addressing them. The chapter suggests that Caribbean countries and operators are facing a complex set of public and private quality and safety rules, which pose serious organizational and technological challenges for them. It suggests that these challenges can be effectively faced by developing regional cooperation in the relevant areas, using international assistance for institutional building, and participating more effectively in international standard-setting organizations.

The last chapter, **Chapter 12**, aims at providing an introduction to the more common tools that can be used in the quantitative analysis of trade policies. An attempt is made to show how the linkages with food security, agricultural development and rural development can be addressed. Specifically, the chapter aims to: a) show the potentials of quantitative analysis, while highlighting the associated challenges and limitations; b) introduce different approaches and analytical frameworks; and c) facilitate awareness of the availability of databases and computer based tools that can be used as starting points for trade policy analysis. The overview of the major approaches is organized considering the two wide categories of *ex post* and *ex ante* policy analysis. *Ex post* approaches deepen some of the most common descriptive indicators used for food security, trade and trade policy analysis, while *ex ante* approaches introduce the main modelling frameworks available and the related policy representation issues. Partial and general equilibrium approaches are introduced, and reference is made to some of the more readily accessible international data sets.

Chapter 12 is most directly aimed at supporting capacity building in the area of trade policy analysis and food security linkages for the Caribbean. However, it is worth emphasizing that all the chapters of this book share this common goal – to provide agricultural trade policy analysts, trade negotiators, policy-makers and planners, professionals in both the public and private sectors, with current analytical approaches, frameworks and tools for evaluating agricultural trade policy and its potential effects on agricultural and rural development and food security. Attempting to provide effective, up-to-date and analytical insights on agricultural trade policy and food security in the Caribbean is, from our point of view, a valuable effort for supporting regional food security.