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Agricultural tariff policies of Caribbean countries and WTO negotiations

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Introduction

As the global trading arena is increasingly integrated, the influence of policies of the industrialized countries on the smaller economies becomes even more important. Often, external policies adversely impact the national objectives of smaller countries because these countries are not able to "freely" apply those policies best suited to the pursuit of their objectives. This chapter focuses on a group of small countries – countries in the Caribbean region – and 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.

Tariff policy management concerns the flexibility that countries have and the degree to which they modify (raise or lower) tariffs to pursue, for example, their food security objectives. Tariff policy is an integral part of a government's national economic policy framework and governments utilize it as one of several measures to pursue national development objectives that range from attaining self-reliance in food production to creating an enabling environment for nascent industries to develop and flourish. Furthermore, revenue from tariffs is an important component of the fiscal policies in many countries.

With the conclusion of the Uruguay Round of trade negotiations in the WTO the vast majority of the countries in the world committed themselves to disciplining their tariff policy. The discipline was in the form of legally binding tariffs (setting the maximum limit beyond which tariffs could not be increased). In principle, these bound tariffs would then be gradually reduced

in every subsequent round of negotiations, including the Uruguay Round, with the objective of achieving higher degrees of global trade liberalization.

While developing countries committed themselves to the process of opening their domestic markets through a gradual disciplining of their agricultural tariffs, there have been several challenges in implementing the tariff reductions. The opening by developing countries of their domestic agricultural markets has led to an inflow of production and export-subsidized commodities from OECD countries that have displaced domestic production in several countries. The reduction in tariffs also exposes fledgling domestic industries, including agroprocessing companies, to increased and sometimes unfair competition. The impact has often been to restrict the countries' diversification into and growth rate of high-income and value-added products. A reduction in tariffs also leads to a general decline in the government revenue that can be crucial for development in many small and vulnerable developing countries.

This chapter's point of departure is an investigation into tariff structure and policy management of tariff structures for use by developing countries to pursue food security objectives. It also examines how tariff structures and national policy objectives may be affected by further tariff reductions.

Section 3.1 underscores the importance of tariffs for the Caribbean countries, including the concept and significance of trade policy flexibility. Section 3.2 analyses the current agricultural tariff profiles of 12 Caribbean countries with a view to demonstrating the current policy treatment meted out to the sector in general, and to some commodities in particular. Section 3.3 applies the main tariff reduction formulae laid out in proposals tabled by some WTO Members to the tariff structure of Caribbean countries, with a view to evaluating the likely impact of further tariff reduction on the current policy flexibility. The final section draws conclusions on tariff management, policy flexibility and food security based on the analysis carried out in the chapter.

3.1 Importance of tariffs for agriculture in the Caribbean countries

Tariffs are critical as a policy tool for the Caribbean countries, both from a food security and developmental objective standpoint and as a source of government revenue.

When policy measures affecting agricultural trade were bought into the framework of the General Agreement on Tariffs and Trade (GATT) in 1986, the general consensus among Members was that some of these policies led to inefficient allocation of agricultural resources and distorted global trade. It was agreed that tariff policies should be gradually revised. Consequently, the Uruguay Round concluded in 1994 with commitments to reduce tariffs and

all forms of trade-distorting support and the Doha Round was launched to continue this process.

The length of the Uruguay Round and the subsequent missed deadlines for concluding aspects of the Doha Round indicate the complexity of the agricultural negotiations, especially those directed at reducing tariffs. The importance of tariffs stems from several viewpoints most of which involve developing countries.

In a majority of developing countries where agriculture and food production is the mainstay of rural livelihoods and food security, tariffs are seen as critical to stability and further development. Most of these developing countries do not have adequate resources to provide domestic support and other forms of protection to their farmers, making it difficult for them to compete with subsidized imports. Applying safeguards to protect their local agricultural producers from abnormal spurts in imports is administratively complex and expensive. Few developing countries have the resources and the institutional and legal capacity to apply such measures which, in addition, require proof of injury and involve a lengthy and costly legal process (FAO, 2002).

Thus, tariffs remain an important (and in most cases, the only) instrument for promoting agricultural development and food security. Even with the mitigating effect of a tariff, it is often difficult for the farmers in these countries to compete with products from developed countries that would have benefited from assistance at several stages of the production and marketing chain. Further, many OECD countries continue to provide export subsidies to their products often resulting in products being sold on the world market at prices below the cost of production. Provision of export subsidies by the United States, for example, meant that in 2003 wheat was exported at 28 percent below its cost of production, while cotton was dumped at 47 percent, rice was dumped at 26 percent, and soybeans and corn were sold at 10 percent below the cost of production (IATP, 2005).

The Caribbean countries share concerns with other developing countries about market access as these relate to food security and rural livelihood security of their smallholders and to maintaining a base for domestic supply of some food and agriculture commodities. While Caribbean countries have made good progress in overcoming poverty and undernutrition and have relatively higher levels of per capita income than some other developing countries, food insecurity still exists in the region, especially in countries where agriculture is an important income-generating sector for the rural poor. This is especially true in two large countries of the Caribbean Forum (CARIFORUM): 47 percent of the people in Haiti and 25 percent in the Dominican Republic are undernourished (FAO, 2005).

Caribbean countries have become increasingly more dependent on food imports while they have faced a gradual erosion of their trade preferences in the main exporting markets. The combined effect has a potential to reduce

TABLE 3.1
Approximate value of tariff revenue from agricultural imports and its share in total agricultural imports (2003)

	Tariff revenue (in million US$)	Share in total imports (%)
Antigua and Barbuda	13	18.9
Barbados	73	37.9
Belize	9	14
Dominica	63	10.2
Grenada	8	17.9
Guyana	17	19.5
Jamaica	83	17
Saint Kitts and Nevis	5	15
Saint Lucia	14	16.6
Saint Vincent and the Grenadines	6	14
Suriname	11	16.9
Trinidad and Tobago	60	16.3

Source: WITS, 2005; IMF, 2006, International Financial Statistics CD-ROM (March)

food security in these countries as both exports and imports become highly susceptible to changes in supply and prices in the world markets. In light of this, diverting some productive resources from export crops to produce foodstuffs efficiently will not only be a profitable activity but could also lead to increasing the degree of self-sufficiency and enhanced food security.[35] An appropriate level of import tariffs, especially on commodities produced by the country and by smallholders in the country, could assist in this process. It is a well-documented fact that countries rely on a range of policy interventions to improve rural area productivity and tariffs and tariff revenue are an important part of the policy package for the Caribbean region.

The importance of tariffs as a contribution to national budgets is shown in **Table 3.1**, which presents the approximate tariff revenue derived by Caribbean countries from imports of agricultural commodities. The revenue is computed using the applied tariff rates (most-favoured nation) and the import values for all agricultural commodities (HS 01–24) excluding fish.[36] Thus, for example, if the tariff for a particular commodity is 10 percent and value of imports of that commodity is US$100 000, the tariff revenue is US$10 000. For some countries this revenue is a high percentage of total government revenue. For example, it approaches ten percent for Barbados and six percent for Saint Vincent and the Grenadines.

[35] Although given the limited factor endowments (chiefly land and labour) in the Caribbean countries, there will be a limit to the extent to which these objectives can be successfully pursued.

[36] The revenue is calculated by averaging tariff percentages and value of imports at the 6-digit HS level. Furthermore, it does not take into account preferential tariff rates that may be imposed on imports from some countries. The results are therefore only indicative.

TABLE 3.2
Policy objectives and tariffs on commodities: the case of Barbados

Policy objective	Commodity	HS no.	Tariff (%)
Food security	Live poultry	0105	186
	Tomatoes	0702	224
	Pork	0203	206
	Poultry meat	0207	116
Rural development	Jams, jellies, marmalades, etc.	2007	145
	Other food preparations	2106	178
	Sausages and food prep. of meat	1601	183
Government revenue	Alcoholic beverages[1] (ethyl)	2207	211
	Beer from malt	2203	141
	Tobacco	2403	119

Source: Applied tariff data from WITS
[1] For Caribbean countries, high tariffs on alcoholic beverages are also to protect their domestic production.

For Barbados, more than one-third of the amount spent on imports of agricultural products goes to the government as revenue. Table 3.1 shows that countries like Jamaica, Dominica and Trinidad and Tobago also derive large amounts of revenue from imposing tariffs on agricultural imports. Although it is difficult to demonstrate that tariff revenue necessarily goes to the agricultural sector, nonetheless, in many countries where agriculture is the mainstay of economy, or where rural development is the top national priority, this is very likely the case. **Table 3.2** provides an example from Barbados' current tariffs on some commodities, linking them to the objectives the commodity tariffs could possibly assist in achieving.

3.2 Agricultural tariff profiles of Caribbean countries

An analysis of the current tariff profile of a country is useful for assisting policy-makers in framing appropriate national policies aimed at rural area development. The following analysis examines the existing tariff profiles of twelve countries in the CARICOM group. It takes into consideration the current trade policy treatment being accorded to the agricultural sector – and more specifically, to certain commodities – and looks at the likely impact of further tariff reductions.[37]

Table 3.3 presents the summary statistics of tariffs for the 12 countries. The first column shows the number of matched tariff lines (where both bound and applied tariffs existed) for each country.

[37] Three countries that are part of the CARICOM group are not included here: the Bahamas and Montserrat are not included because they are not WTO Members and thus have no legally binding tariffs, while tariff data on Haiti was not available for analysis.

TABLE 3.3
Summary of tariff statistics – Caribbean countries

	No. of matched lines	Simple average		Standard deviation		Minimum rate		Maximum rate	
		Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied
Antigua/Barbuda	603	106	16	16	14	100	0	220	45
Barbados	533	113	21	28	15	100	0	223	224
Belize	598	101	19	4	17	70	0	110	91
Dominica	608	113	21	22	25	100	0	150	135
Grenada	611	99	18	29	15	0	0	200	40
Guyana	613	100	21	0	21	100	0	100	100
Jamaica	611	97	17	15	17	0	0	100	75
St Kitts and Nevis	597	110	13	29	20	10	0	250	40
St Lucia	614	115	16	26	15	100	0	250	45
St Vincent/Gren.	596	116	17	27	15	100	0	250	40
Suriname	353	20	24	1	18	10	0	20	50
Trinidad/Tobago	612	91	17	27	16	0	0	156	60

Note: Data on tariffs was compiled from the World Integrated Trade Solution (WITS). Corresponding applied and bound tariff lines were matched using the SAS 9.1 software._

The analysis is based on tariffs lines corresponding to agricultural products at Harmonized System (HS) 6-digit level (aggregated using simple averages). The products selected corresponded to HS numbers 01–24 (excluding 03), 4201, 4202, 4203 and 5201. Since an important component of the analysis is a comparison between the bound and applied tariffs, the only tariff lines considered were those for which information on both types of tariffs was available. As a percentage of total tariff lines at the 6-digit level, depending on data availability for a country, this generally represents a range of 76 percent to 87 percent (the exception is Suriname, with its matched lines being 50 percent of its total lines). Thus, where the actual number of agricultural tariff lines for a country are more than the number of matched lines in the first column, the omission is due exclusively to lack of information.

The second column shows the simple averages of bound and applied tariffs for the matched tariff lines. The average for applied tariffs ranges from 11 percent to 36 percent. The range for bound tariffs is very wide, from a low of just 20 percent for Suriname[38] to a high of 116 percent in the case of Saint Vincent and the Grenadines. The simple average of applied tariffs for the Caribbean countries is 19 percent while the bound tariff average is close to five times that of the applied tariff average, at 90 percent. The agricultural-weighted average bound tariffs for developing countries globally are approximately 21 percent and for applied tariffs 48 percent (Anderson and

[38] Since complete information on a large number of tariffs for Suriname was not readily available, any analysis based on the results for this country should be considered with caution.

Martin, 2005). Thus, though the average bound tariffs of Caribbean countries are almost twice the average of developing countries, the applied tariffs lie closer to the developing-country average.

In the context of applied tariffs, the Caribbean countries considered in this chapter are all signatories to the CARICOM common external tariff (CET). The CET was designed to harmonize the external tariff for Member States, while giving preference to goods produced within the region. In principle, the maximum tariff levied on agricultural imports from extra-CARICOM sources under the CET is 40 percent. However, rules agreed under the CET permit suspension (waiver) of this maximum tariff rate for certain products.[39] In other words, Member States are free to apply rates lower than 40 percent on agreed products. The fact that average applied tariffs in the table are shown to be far below 40 percent for all countries points to the use of this rule of suspension by all Members on a large number of products.

The significance and continuing need for this policy flexibility for the Caribbean countries is brought out by the fact that while most Caribbean countries are signatories to the CET of the CARICOM and should apply a common tariff policy, there are commodities on which applied tariffs imposed by different countries are higher than the commonly-agreed tariff rates in the CET.

The standard deviation (SD) is used here to gauge the degree of spread or dispersion in the tariffs of the Caribbean countries. The standard deviation is a statistic that indicates how closely the various data points (tariffs, in our context) are clustered around the average (mean) in a set of data. In the case of a completely uniform tariff profile, the SD is zero. A high SD implies that there are a number of commodities whose relative importance to the country is being reflected through different tariff levels in the profile.

The results in **Table 3.3** show that the SD in bound tariffs ranges from 0 or very low in some countries, indicating the existence of a uniform tariff profile, to 26 and above for others, pointing to a relatively more skewed profile.[40] In the case of the latter, high SD coupled with high average tariffs indicates a large number of tariff lines with high tariff rates. The SD is a good indicator for evaluating the likely impact on a tariff profile of a tariff-cutting formula, as demonstrated in the next section of the chapter. **Box 3.1** shows the concentration of bound rates at 100 percent.

The last two columns of **Table 3.3** show the minimum and maximum rates for both bound and applied tariffs. Minimum applied rates for all countries are zero while minimum bound rates vary from 0 to 100 percent in some cases.

[39] The list of such items is contained in Annex A of the CET.

[40] For example, in Guyana, with a SD of 0, all tariff lines are set at 100 percent and in Belize, almost all bound tariff lines are close to 100 percent; whereas Saint Kitts and Nevis and Saint Lucia, for example, have SD of over 25, with more skewed profiles.

BOX 3.1
Concentration of bound tariff rates

The data below show that for most countries in the Caribbean, there is a high concentration of tariffs at the 100 percent rate. On average, more than 80 percent of all tariff lines are bound at over 100 percent. In the case of Guyana, all the agricultural tariff lines are uniformly bound at 100 percent.

The level of concentration in tariff rates is an important factor in a multilateral system approach to tariff-cutting based on tiers: a high level of concentration indicates in which tier most tariffs would fall, and thus to what level of cut most would be subject. In the context of the Caribbean countries, a tariff reduction formula that proposes higher levels of cuts in higher tariffs would lead to higher *level* of overall cuts (since most tariffs are bound at a high level of 100 percent), and would also affect a larger *number* of tariff lines (since there is a large concentration of high tariffs).

Bound rate tariff lines

	Bound rate equal to	% of tariff lines bound at that rate
Antigua and Barbuda	100%	84
Barbados	100%	80
Belize	100%	84
Dominica	100%	74
Grenada	100%	88
Guyana	100%	100
Jamaica	100%	98
Saint Kitts and Nevis	100%	76
Saint Lucia	100%	60
Saint Vincent and the Grenadines	100%	61
Suriname	20%	100
Trinidad and Tobago	100%	86

Source : data from WITS, 2005

With the exception of Suriname, all countries here have maximum bound rates 100 percent and over, while an equal number have maximum applied rates below 100 percent. Although the maximum tariff agreed to be levied on agricultural products under the CET is 40 percent several countries apply higher rates on some products. They are able to do so because the CET makes a provision for allowing exceptions to the rates under certain conditions.

Since the tariff profiles analysed above are based on average tariffs of all agricultural commodities, an examination of the trade policy treatment at

TABLE 3.4
Commodity groups and trade policy treatment in the Caribbean countries

	Commodities	Average tariff rate (%)
Commodities with high bound rates	Vegetable oils	110
	Edible vegetables, roots and tubers	102
	Tobacco products	100
Commodities with high applied rates	Cigars and cigarettes	45
	Vegetable oils	40
	Alcoholic beverages	40
	Citrus fruits	40
	Commodities	**Average tariff wedge (%)**
Commodities with high tariff flexibility (highest difference between applied and bound)	Products of animal origin	92
	Residues and waste from food industry	90
	Meats	84
	Cereals	81
Commodities with low tariff flexibility (lowest difference between applied and bound)	Sugar and sugar confectionary	66
	Cigars and cigarettes	66
	Alcoholic beverages	52

Source: data from WITS

the commodity level will assist in deepening this analysis. In addition to understanding the reasons for the type of policy treatment to a particular commodity/commodity group, such analysis also helps national policy-makers and negotiators in assessing the likely impact of tariff reduction formulae on individual commodities.

Table 3.4 presents commodities or commodity groups that attract high bound and applied tariffs in the Caribbean countries. [Note that since the tariff rates shown for each commodity group are averages for the 12 countries in the region, results may vary for individual countries.] The table shows that Caribbean countries declare high bound tariffs, and levy high applied tariffs, on vegetable oils and tobacco products. High tariffs on the latter are levied mainly as a source of government revenue. In the WTO agricultural negotiations, when Members agree on a tariff reduction formula that targets higher tariffs, it is the commodities shown here with high bound tariffs that are most affected.

The table also shows commodities with higher and lower flexibility[41] than others in the region. Further tariff reductions will affect those categories with lower flexibility (e.g. sugar, tobacco products and alcoholic beverages) more

[41] Flexibility here refers to the difference or wedge between the bound and applied tariffs in absolute terms.

than those with higher flexibility (e.g. animal products and cereals). Although tariff flexibility is a useful factor when assessing the likely impact of tariff reduction on a product, the bound rate of that product is also important: two products with the same low flexibility will be affected differently based on their bound rates. The product with higher bound rate will undergo a higher reduction under the tiered tariff reduction system than the product with a lower rate; how the flexibility of one or the other is affected depends on their respective applied rates.

3.3 Application of some key tariff-cutting proposals

The purpose of this section is to look at the main tariff-cutting proposals tabled during 2005 by WTO Members in the Doha Round and investigate the impact they are likely to have on some countries in the Caribbean region.[42] The formulae suggested in the proposals are applied on the tariff profiles of 12 Caribbean countries; the results are analysed in terms of their impact on the current bound tariffs of these countries.[43]

In an important sense, the proposals submitted can be seen to represent different agricultural trade situations of the proposing countries. **Table 3.5** clusters the proposing countries (or country groups) with their net trade position and tariff policies. Countries in more advanced stages of agricultural development, like the United States and the EU, have more open domestic markets when viewed from the standpoint of low tariffs; they seek markets in other countries. Agriculture in the G20 countries is characterized by a fairly advanced stage of development: most of these countries are self-reliant, have a positive net agricultural trade position and display competitive levels of domestic production. They provide a fair level of domestic protection in the form of tariffs, especially on products and their import substitutes. The ACP is a group of countries with a large agricultural sector with fairly low to modest levels of development, typically exporting tropical cash crops (dependent on preferential markets) and importing food (net importers as aggregate). They aim towards increased self-sufficiency and hence need to increase the rate of agricultural growth and diversification; consequently tariffs are bound at relatively high levels. The characteristics of most Caribbean countries would match the ACP group.

Net exporting countries with more open markets propose higher cuts in tariffs to take advantage of market access in currently protected markets. Net importing countries propose lower cuts in bound tariffs in order to protect

[42] This section draws heavily on a technical note prepared on the potential implications of some tariff-cutting formulae prepared by the Commodities and Trade Division (ESC) of the FAO.

[43] The proposals build on the common framework set out in the G20 proposal of July 2005, which had proposed values for some key elements of the tiered approach, as envisaged in the July 2004 WTO framework agreement. They can be viewed at http://www.ictsd.org/ministerial/hongkong.

TABLE 3.5
Agricultural trade situation and tariff policy

Country/ group	Stage of agricultural development	Net trade position	Average tariff structure
US	High levels of agricultural productivity, well established credit markets and institutions, high levels of government support, relatively open domestic markets, high private sector participation, etc.	Net exporting	Low tariffs
G20	Reasonably high levels of productivity, functioning credit markets and institutions, moderate levels of government support, relatively open domestic markets, enhanced private sector participation, etc.	Net exporting	Medium to high tariffs
EU	High levels of agricultural productivity, well established credit markets and institutions, high levels of government support, relatively open domestic markets, high private sector participation, etc.	Neutral	Low tariffs
ACP	Low levels of productivity, lack of established credit markets and institutions, low or negligible levels of government support, relatively closed domestic markets, poor private sector participation, dependence on few commodity exports and preferential markets, etc.	Net importing	High tariffs

Source: Authors

products for which they seek to be self-reliant (while products for which the country depends heavily on imports can be levied lower applied tariffs). Preference-dependent countries are worried about preference erosion in developed-country markets and would prefer lower cuts in tariffs in those markets.

Analysis of tariff-cutting proposals when viewed from the perspective discussed above provide a useful understanding of the linkages between differences in a country's national goals, stages of agricultural development and trade policies.

3.3.1 Summary of proposals

In this section proposals are analysed in terms of the threshold levels of tiers (range of bound tariffs falling in different tiers) and proposed reduction formulae coefficients in each tier. [The proposals are presented in more detail in **Appendix 3.1**.] The tiers set out the ranges for specific cuts on tariffs: for example, if there were only two tiers then all tariffs above a set level would have a certain cut and all tariffs below that level have a lesser cut. Below is a summary of the four proposals and a description of the small, vulnerable economies (SVE) proposal:

1) **United States:** Proposes the same four tiers for both developed and developing countries; the tariff cap and reduction coefficients are specified for developed, but not for developing, countries. An important feature

of this proposal is the availability of a range of linear cuts to Members in Tiers 1, 2 and 3. Members can choose reduction rates from within a given range as long as the specified average for the tier is attained, thereby giving them flexibility to subject different tariff lines to different tariff cuts.

2) **EU:** Proposes four different tiers for developed and developing countries; the tiers and cuts for developing countries are the same as proposed by the G20. The cuts for developed countries are less than for the G20 countries. Flexibility is provided in Tier 1. As in the United States proposal, this proposal provides flexibility in the form of a range of tariff cuts – albeit in Tier 1 (the lowest tier) alone.
3) **G20:** Proposes four different tiers for developed and developing countries; lower reduction coefficients and higher caps for developing countries are specified.
4) **ACP:** Proposes same number of tiers but different threshold levels for developed and developing countries; same linear reduction coefficients for both groups of countries. No tariff cap is proposed.

SVEs: Proposed market access modalities that include tariff-cutting but not in the tiered format of the four major proposals. Proposed that they undertake linear cuts not to exceed 15 percent, with a minimum of 10 percent per tariff line. It was also recommended that no tariff capping be applied to SVEs. The SVE proposal suggests a cut be applied to its countries that would be ten percentage points less than the ACP proposal (15 as opposed to 25).

3.3.2 Methodology of application

In order to see how implementation would affect the tiered approach to tariff cuts, the following steps were taken. First, the values of the current bound agricultural tariffs in each country were sorted in ascending order. Second, based on the threshold levels (or tariff range) set in each proposal, tariffs were assigned to different tiers, with the lowest tariff range in Tier 1 and the highest in Tier 5. Third, the tariffs were "cut" according to the proposed reduction coefficient for the tier in which they were placed.

In examining what the tariff reductions would be, some important assumptions were made. In the case of the United States proposal, since there is no indication of the extent of tariff cuts to be made in developing countries, it was assumed that developing countries will reduce their tariff by two-thirds of the reduction made by developed countries and that tariff caps for developing countries will be set at 100 percent. The United States proposal provides flexibility of tariff reduction coefficients in each tier by proposing a range for the tariff cut within the tier. For example, it proposes that in the case of developed countries, tariffs in Tier 1 can be cut within a range of 55 to 65 percent. In the case of developing countries this range could then be between 37 and 43 (two-thirds of 55 and 65 respectively). For the purposes of this scenario, it is assumed that where such flexibility is available, the higher

tariffs in every tier will be subjected to the lowest possible cut. Because this might not reflect countries' actual use of flexibility, the results are merely indicative of direction and relative magnitude.

No account is taken in any of the five proposals of the flexibility available to developing countries through designation of sensitive or special products, in large part because no clearly defined flexibility has been agreed to date.[44]

The average cut in bound tariffs is taken as the average of the reductions made to each tariff line. This is not the same concept as the cut in the average bound tariff, which is the percentage reduction in the average bound tariff (from what the average was before and after the cuts are applied to all tariffs).

3.3.3 Analysis of results

The results of the tariff-cutting exercise are analysed from two standpoints: 1) To what extent are the broad objectives of multilateral trade reforms met? 2) What is the impact on the difference between a country's bound and applied tariffs (referred to as the "overhang")?

Meeting the objectives of multilateral trade reforms

The Doha Round established these four broad objectives of multilateral trade reforms:

i. *Ambition:* Substantial reductions should be achieved in average tariff levels of countries.
ii. *Harmonization:* Steeper cuts should be achieved on higher tariffs, bringing a country's final tariffs closer together.
iii. *Proportionality:* The average cut in developing country tariffs should be significantly lower than that in developed country tariffs.
iv. *Flexibility:* Country-specific concerns, particularly relating to sensitive products and special products, should be accommodated.

Ambition is assessed in this chapter in terms of the level of *average cut* in the bound tariffs of the proposing country. It is assumed that if the average cut achieved exceeds the one agreed to in the Uruguay Round (24 percent cut for developing countries), then the proposed formula is ambitious; if it falls below this value it may be unambitious.

Harmonization can be measured in terms of the extent of reductions in higher tariffs as compared to lower tariffs. When higher tariffs are reduced more than lower tariffs, a formula is said to be achieving harmonization. The measure used here for assessing harmonization in a formula is the Standard Deviation (SD). The SD of the average bound tariffs resulting after the cuts is compared with the SD in the current average bound tariffs. The less the SD in the new bound tariffs (as compared to the current one), the more a formula will be considered to be comparatively more harmonizing.

[44] The aspect of flexibility is further addressed in Chapter 5.

TABLE 3.6
Summary statistics: tariffs before and after implementation of cuts

	Current	US proposal		EU proposal		G20 proposal		ACP proposal	
		New	% reduction	New	% reduction	New	% reduction	New	% reduction
Antigua/Barbuda									
Average	106	42	60	68	35	68	35	83	21
Maximum	220	88		132		132		154	
Minimum	100	40		65		65		80	
Barbados									
Average	113	46	60	72	36	72	36	88	22
Maximum	230	89		134		134		156	
Minimum	100	40		65		65		77	
Belize									
Average	101	41	60	66	35	66	35	80	21
Maximum	110	44		72		72		83	
Minimum	70	28		49		49		56	
Dominica									
Average	113	45	60	71	36	71	36	88	21
Maximum	150	60		90		90		113	
Minimum	100	40		65		65		80	
Grenada									
Average	99	40	60	64	35	64	35	79	20
Maximum	200	80		120		120		140	
Minimum	0	0		0		0		0	
Guyana									
Average	100	40	60	65	35	65	35	80	20
Maximum	100	40		65		65		80	
Minimum	100	40		65		65		80	
Jamaica									
Average	97	39	60	63	35	63	35	78	20
Maximum	100	40		65		65		80	
Minimum	0	0		0		0		0	
St Kitts & Nevis									
Average	110	44	60	71	35	71	35	85	21
Maximum	250	100		150		150		175	
Minimum	10	6		8		8		9	
St Lucia									
Average	115	46	60	75	35	75	35	89	22
Maximum	250	100		150		150		175	
Minimum	100	40		65		65		77	
St Vincent/Gren.									
Average	116	46	60	75	35	75	35	89	22
Maximum	250	100		150		150		175	
Minimum	100	40		65		65		77	
Suriname									
Average	20	11	46	15	25	14	29	17	15
Maximum	20	12		15		15		17	
Minimum	10	6		8		6		9	
Trinidad/Tobago									
Average	91	37	59	59	33	59	33	73	20
Maximum	156	62		94		94		109	
Minimum	0	0		0		0		0	

Proportionality is not dealt with in this chapter because it compares cuts across developed and developing countries and is not relevant to Caribbean countries alone.

Flexibility mainly concerns the recourse to sensitive or special products, and involves excluding certain number of lines declared as sensitive or special. It is thus not analysed below because guessing how countries will use their flexibility is highly speculative. However, clearly whatever is agreed on concerning sensitive and special products will affect all the objectives because it could be that the highest tariffs are removed via such flexibility.

Impact on the "overhang" in a country's bound and applied tariffs

The impact of tariff reduction formulae on a country's tariff profile is gauged here in terms of tariff "overhang", which is the difference between the bound and applied tariffs, also known as policy flexibility. Flexibility may be needed for many reasons including for raising tariff levels in response to changes in domestic demand–supply conditions or dynamics of international trade. Where a formula reduces this difference, there is a resulting loss in tariff flexibility.

How tariffs are cut and the resulting outcomes will be decided through complex negotiations that resolve many conflicting interests. For instance, the larger developing countries that are also net exporters will want an approach that reduces tariff peaks and tariff escalation in developed countries. The preference-dependent developing countries will want to prevent the erosion of the preferential tariffs in developed countries. On the other hand, the developed countries will want to accept a tariff-cutting approach that opens up market access opportunities for them in especially the larger developing countries. Many Members instead demand a comprehensive approach in which the extent of tariff cuts is based on the extent of cuts in export subsidies and domestic support.

In addition, any agreement on the extent of flexibility available to Members through the use of sensitive and special products (e.g. the number of tariff lines that can be so designated) will also have an important bearing on the final outcome. Given that tariff structures differ so widely among Members, it will be difficult to satisfy all the main objectives with one formula or set of parameters.

Because this exercise includes just 12 countries, the aim is not to draw *general* conclusions on the effectiveness of the different proposals, but rather to demonstrate their effects on a set of countries that exhibit similar characteristics and whose trade policies are largely shaped by the regional trading agreement of which they are a part. It aims to showcase the range of impacts on tariff profiles of the different levels of cuts being discussed in the negotiations.

Table 3.6 presents what would result from the application of the different proposals to each of the 12 Caribbean countries. The SVE proposal is not

included here because its outcome is relatively predictable. It proposes a maximum linear cut of 15 percent across all tariff lines; because Caribbean countries display similar features of uniform bound tariffs and high concentration around the same rate (100 percent), most new bound tariff rates under the SVE proposal would be around the 85 percent level.

Analysis of results in terms of the main objectives in cutting tariffs

Based on the results shown in **Table 3.6**, below we discuss the impact of the proposals on the tariff profiles of the Caribbean countries in the context of the two parameters of ambition and harmonization.

i) Ambition. The United States proposal would reduce the average tariffs of each country the most (on average by 59 percent) and the ACP proposal would reduce them the least (on average by 20 percent). In fact, there is an almost three-fold difference between the average reductions when the two formulae are applied and the new bound rates are compared. (Again, the SVE proposal would result in the least ambitious reduction, a 15 percent cut.)

Similarly, when compared with the Uruguay Round average reduction for developing countries (24 percent), the United States, the EU and the G20 would satisfy greater ambition while the ACP (and the SVE) proposals would be less ambitious: the high threshold of the lowest cut of the United States and the G20 guarantee this outcome, because they are effectively higher than the highest cuts proposed by the ACP proposal. In the context of the Caribbean countries as a developing country group, these results correspond with results of the informal note prepared by FAO (Sharma, 2006) which included the following eight developing countries: Brazil, Egypt, India, Indonesia, Pakistan, Philippines, Sri Lanka and Turkey.

ii) Harmonization. In terms of harmonization, or the principle of reducing higher tariffs more than the lower tariffs, the four proposals (United States, EU G20, ACP) would achieve this principle. For instance, in the G20 proposal, an average tariff of 100 percent in the case of Guyana is reduced by 35 percent while Suriname's relatively low average tariff of 20 percent is reduced by 25 percent. The United States proposal is more harmonizing than the other three proposals when differences in new tariff levels for different countries are compared. Using the same example, the United States proposal reduces Guyana's tariff by 60 percent and Suriname's by 46 percent (a difference of 14 percentage points), while the ACP proposal reduces the average tariffs of Guyana by 20 percent and Suriname's by 15 percent (a difference of 5 percentage points). (The SVE proposal would not promote harmonization of Caribbean tariff structures.)

Another aspect of harmonization is the reduction in maximum tariffs or tariff peaks as compared to low or minimum tariffs (within a country). This

TABLE 3.7
Standard deviation of bound tariffs, current and new (after implementation of four proposals)

	Current bound	New Bound			
		US proposal	EU proposal	G20 proposal	ACP proposal
Antigua and Barbuda	16	6	9	9	10
Barbados	28	11	15	15	16
Belize	4	1	2	2	1
Dominica	22	9	11	11	14
Grenada	29	11	17	17	20
Guyana	0	0	0	0	0
Jamaica	15	6	10	10	12
St Kitts and Nevis	29	11	16	16	18
St Lucia	26	11	15	15	16
St Vincent and the Gren.	27	11	15	15	16
Suriname	1	0	1	1	1
Trinidad and Tobago	27	10	17	17	21

Source: Authors' calculations

factor is addressed by the four proposals, although the degree of proposed reduction differs. For example, in the case of Barbados, the United States proposal reduces the maximum tariff of 220 percent to 88 percent and reduces Suriname's maximum tariff from 20 to 12 percent (in absolute terms, a reduction of 132 and 18 percentage points, respectively).

Finally, harmonization is also assessed by the extent of tariff dispersion, or standard deviation (SD) of tariffs from their mean, as discussed earlier. Lower tariff dispersion or SD in the new bound tariffs (as compared to the current ones) means a formula is harmonizing. **Table 3.7** presents the current and new SD after application of the four proposals. The table shows that the SD in new tariffs is lower in the case of the United States proposal, implying that the United States proposal is most harmonizing.

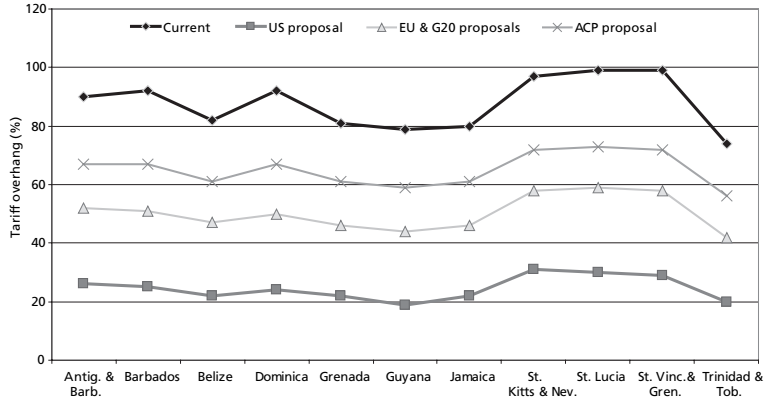
iii) *Proportionality.* While proportionality is not assessed in this chapter, if can be assumed that with developing countries reducing their tariffs by no more than two-thirds of the average tariff reduction in the developed countries (as was done in the Uruguay Round), the G20 formula comes closer to meeting this objective than the EU and United States proposals do.[45]

Analysis of results in terms of the overhang in tariffs

The impact of a tariff reduction formula on a country can also be gauged by the extent to which the difference between its bound and applied tariffs are

[45] This conclusion is based on an informal note prepared by FAO (Sharma, 2006), which applied the EU, United States and G20 proposals to a set of eight developing and three developed countries.

FIGURE 3.1
Tariff overhang (percentage) currently and after applying proposed tariff cuts



Note: The above figure excludes results for Suriname, since its tariff profile shows a negative overhang, i.e. applied tariffs are more than bound tariffs (most likely due to a difference in the reporting years of these two types of tariffs).

affected. **Figure 3.1** depicts the current level of average overhang in the tariff profiles of the Caribbean countries and the new overhang after application of the proposals (the values on the X axis reflect the absolute difference between bound and applied tariffs for each country).

The application of the United States proposal results in substantial reductions in the overhang levels of the Caribbean countries while the ACP and SVE proposals affect the overhang the least. The impact of the EU and G20 proposals falls in between the ACP and the United States.

Since the above figure only shows the reduction in the *average* overhang levels of each country, it does not reveal the fact that the tariff overhang levels for some tariff lines are reduced further than others. Identifying the tariff lines that are reduced the most would provide useful insights into the type of commodities that are more affected by a particular formula. This exercise was conducted to identify commodities in every country that are most severely affected by each of the four proposals. The results are presented in two ways: as a graphical representation of the tariff profiles at the HS Chapter level for each country, including both current and new bound rates (**Appendix 3.2**); and as a tabular representation at the detailed commodity level (**Appendix 3.3**). The commodities in **Appendix 3.3** are taken to be the ones whose overhang levels are reduced to zero or less by the proposals i.e. where new

bound tariffs are equal to, or lesser than, the current applied tariffs, implying absolute loss of policy flexibility.

The results of the exercise show that for every country the United States proposal results in the highest percentage of tariff lines/commodities most severely affected, which mirrors the ambitious nature of the United States tariff-cutting proposal. The number of lines most severely affected range from 4 percent (in Saint Kitts and Nevis) to almost 31 percent (in Guyana). The average for the Caribbean countries is nearly 20 percent. As expected, the other formulae affect relatively fewer tariff lines severely.

Although the types of commodities severely affected by these proposals differ by country, there are some commodities that are commonly affected across the Caribbean region. These include fruit and vegetables, meats (lamb and pig), spices, vegetable oils, fruit juices, coffee, sugar (excluding refined sugar), alcoholic beverages, tobacco products, nuts and cut flowers. One reason is that many of these commodities (e.g. fruit and vegetables) are bound at 100 percent and the applied tariffs are 40 percent. As a result, the 60 percent reduction suggested in the United States proposal lowers their bound tariffs to the levels of their current applied tariffs. Similarly, some commodities (e.g. alcoholic beverages and tobacco products) that have high bound tariffs also have high applied tariffs (as exceptions to the CET). Such low overhang levels invariably are affected even by a more modest tariff cut.

3.4 Summary and conclusions of results of tariff-cutting formulae

The analysis of tariff profiles and proposals in this chapter shows the importance of tariff policy and how the 12 countries in the group can be affected differently by the proposals. Among the proposals, the United States proposal resulted in "deepest" cuts for the Caribbean countries, while the ACP (and the SVE) proposal would be the most "lenient".

The tariff policy proposals of the different groups and countries clearly reflect their level of development and national goals. For instance, the United States is a net agricultural exporter with low tariffs. It seeks market access in other countries and therefore its proposal advances this objective; at the same time, a low tariff structure in its own country ensures that the degree of cuts will be much lower than in some other countries (potential markets) with higher tariffs. At the other end, the ACP group (of which the Caribbean countries are a part) suggests moderate tariff cuts in order to ensure trade policy space that may be needed in future to initiate or strengthen the process of sectoral growth. The EU and the G20 group of countries share a common ground in that they propose less ambitious tariff reductions as compared to the United States. Particularly for the G20 countries, this reflects intent to maintain appropriate levels of protection in the form of tariffs. The focus

of the G20 group is more on a drastic reduction in the two other pillars of the Agreement on Agriculture, domestic support and export subsidies, since they view these as the principal impediments for getting their exports into developed countries.

Tariff policy management is thus an important component of national policies aimed at achieving their food security objectives. Tariffs enable the local producers of agricultural commodities to produce food with a lower threat of subsidized imports displacing their products in the market and create an enabling environment for diversification into value added commodities. In addition, revenue generated through tariffs is a much needed source of funds for national development.

A very crucial aspect of tariffs in the context of the Caribbean region is the development of a common external tariff structure that promotes regional trade among Caribbean countries. This is an important policy given the structural and economic disadvantages inherent in their economies. However, since they are also members of multilateral trading entities like the WTO, they are faced with many rules and obligations that influence the framework of national and regional policy-making. This is so particularly with respect to tariff policy which is the main measure in the context of the WTO that is used by the Caribbean countries. As seen in the WTO negotiations under the Doha Round a gradual reduction (disciplining) of tariffs is promoted and this will lead to a reduction in the policy flexibility that the Caribbean countries currently have to pursue their food security objectives.

Caribbean countries face the task of negotiating in the WTO framework a tariff policy that does not undermine their food security. From the analysis of the major proposals in this chapter it appears the gap between the United States on one hand and the ACP (and SVE) on the other is too wide for an agreement that would meet the purposes of both groups. Thus, one approach is for Caribbean countries to negotiate their interests through SDT measures. This is underway through features such as special products (SPs) and the special safeguard mechanism (SSM). Through SPs, negotiators could negotiate for being able to declare *all* their important (food security, rural development, tariff revenue) commodities affected by tariff cutting as special and sensitive products. This would ensure minimum reduction in tariffs on commodities critical to their national development goals. Further, they could use the option to implement the Special Safeguard Mechanism on these commodities (depending on what is agreed in the final round of negotiations). These measures would enable further tariff reductions as pursued by the entire multilateral trade framework without necessarily undermining food security and national development goals of small and vulnerable economies.

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Appendix 3.1
The proposed reduction formulae

United States proposal

Although the United States proposal of 10 October 2005 is much more explicit than the other proposals, there are still a few unknowns, notably the percentage reduction and level of tariff caps for developing countries. In this chapter it is assumed that developing countries will reduce their tariff by two-thirds of the reduction made by developed countries. Furthermore it is assumed that tariff caps for developing countries will be set at 100 percent. In the (last) highest tiers, the United States proposes to reduce the tariffs in the range of 75 percent to 90 percent, but in this chapter and to be consistent across countries, each tariff line will be subject to a 90 percent reduction in this tier. Table A1 provides a summary the United States proposal for tariff reduction, with the assumptions added here for developing countries.

APPENDIX TABLE A1
United States proposal

DEVELOPED COUNTRIES				DEVELOPING COUNTRIES			
Threshold	**Cuts at**		**Average cut of %**	**Threshold**	**Cuts at**		**Average cut of %**
	Lowest end	**Highest end**			**Lowest end**	**Highest end**	
< 20	55	65	60	< 20	*36.67*	*43.33*	*40*
20 ≤…< 40	65	75	70	20 ≤…< 40	*43.33*	*50*	*46.67*
40 ≤…< 60	75	85	80	40 ≤…< 60	*50*	*56.67*	*53.3*
….> 60	90		*90*	…> 60			*60*
Tariff CAP: 75 percent				Tariff CAP: 100 percent			

Note: Assumed parameters are in italics.

EU proposal

The cuts for developing countries are the same as in the G20 proposal, with the exception of additional flexibility in the first tier where an average tariff cut of 35 percent is sought, but flexibility to impose cuts of between 20 and 45 percent is allowed.

The simulated cuts to individual tariffs falling in the first tier is determined in such a way as to achieve an average cut of 35 percent with the objective of maximizing flexibility by subjecting the higher tariffs to lower cuts.

The total number of lines is first categorized into two groups: the lowest N*0.7 lines are to be subject to the highest cuts and the remaining N*0.3 lines are to be subject to the lower cuts. The N*0.7 lines are further divided by 14

to give the number of lines to be cut by 45 percent, 44 percent .....32 percent respectively. The N*0.3 lines are further subdivided by 12 to give the number of lines to be cut by 31 percent, 30 percent.....20 percent respectively.

For example, if a country has 1200 non zero bound tariff lines:

For the lowest value tariffs N*0.7 = 840. Then 840/14 = 60. The lowest 60 lines are cut by 45 percent, the next lowest 60 lines by 44 percent and so on until the 781st -840th lines have been cut by 32 percent.

For the higher value tariffs N*0.3 = 360. Then 360/12 = 30. The 841st to 870th lowest lines are cut by 31 percent, the next 30 by 30 percent and so on until the 1171st to 1200th lines have been cut by 20 percent.

The effect of this approach is to achieve the average 35 percent reduction, but with a larger proportion of lower level lines being cut the most, thus reducing the effect on the average tariff level.

APPENDIX TABLE A2

EU proposal

DEVELOPED COUNTRIES		DEVELOPING COUNTRIES	
Thresholds	**Linear cuts %**	**Thresholds**	**Linear cuts %**
…≤30	35 (20 – 45)	….≤30	25 (10 – 40)
30 <….≤60	45	30<…≤80	30
60<….≤90	50	80<….≤130	35
….>90	60	…>130	40
Tariffs Cap: 100 percent		Tariffs Cap: 150 percent	

G 20 proposal

The G20 proposal has four thresholds for both developed and developing countries. Both the threshold range and reduction percentages differ. For developed countries the size of the tiers is smaller than those for developing countries. In developed countries the lowest threshold (0…≤20) will be subject to 45 percent cut whereas the lowest threshold in the case of developing countries (0…≤30) will be subject to 25 percent cut. For developed countries bound tariffs will be capped at 100 percent and for developing countries tariff will be capped at 150 percent. Table A3 summaries the G20 proposal.

ACP proposal

The ACP proposal suggests four tiers for both developed and developing countries and the tariff reduction will be based on linear cuts. No percentages for linear cuts are indicated for developed countries, although the text mentions that proportionality will be achieved by guaranteeing that the overall outcome of tariff reduction commitments by developing countries is lower than that required from developed countries. The proposal also states that the overall average reduction of tariffs by developing countries shall not

APPENDIX TABLE A3
G20 proposal

DEVELOPED COUNTRIES		DEVELOPING COUNTRIES	
Thresholds	**Linear cuts %**	**Thresholds**	**Linear cuts %**
…≤20	45	….≤30	25
20 <….≤50	55	30<…≤80	30
50<….≤75	65	80<….≤130	35
….>75	75	…>130	40
Tariffs Cap: 100 percent		Tariffs Cap: 150 percent	

APPENDIX TABLE A4
ACP proposal

DEVELOPED COUNTRIES	DEVELOPING COUNTRIES	
Thresholds	**Thresholds**	**Linear cuts (%)**
> 80	> 150	30
> 50 ≤ 80	> 100 ≤ 150	25
> 20 ≤ 50	> 50 ≤ 100	20
0 ≤ 20	0 ≤ 50	15

exceed 24 percent (perhaps the choice of linear cut percentages is intended to reflect this point). No tariff capping is proposed.

The proposal recommends specific modalities for countries with tariff ceilings and homogeneous low bindings. It states that these Members will be subject to the overall average reduction only, will distribute their tariff lines across the lower tiers of the formula on the basis of their own assessment of sensitivities and will not be expected to undertake the level of cuts required in the highest tiers.

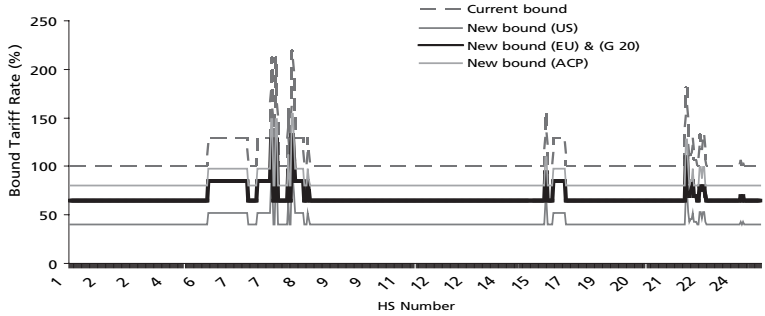
Small, vulnerable economies' proposal

The small vulnerable economies presented a proposal on market access modalities that included a tariff cutting proposal but not in the tiered format of the four major proposals. Eventually, SVEs proposed that they undertake linear cuts not exceeding 15 percent with a minimum of 10 percent per tariff line. Further, it was recommended that no tariff capping be applied to SVEs. The SVE proposal is to cut about ten percent points less than the ACP proposal (15 as opposed to 25 percent).

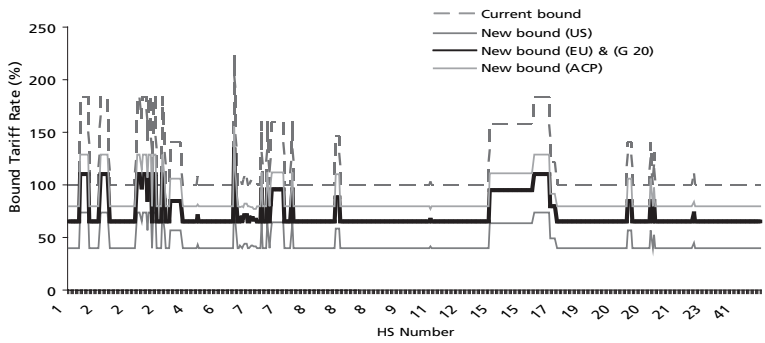
Appendix 3.2

Results of tariff reduction formulae for Caribbean countries – graphical representation

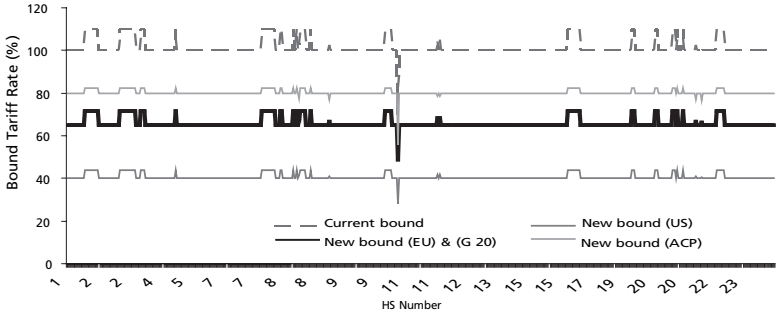
Antigua and Barbuda



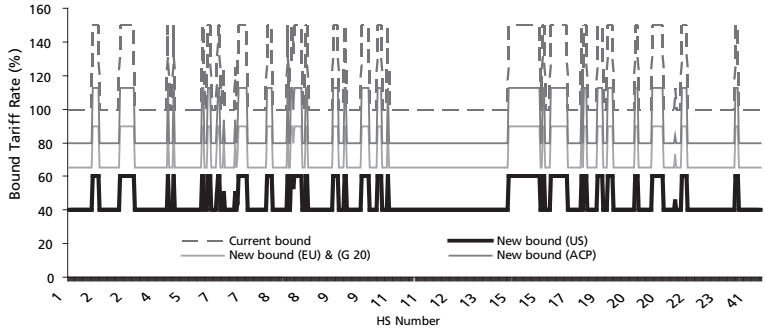
Barbados



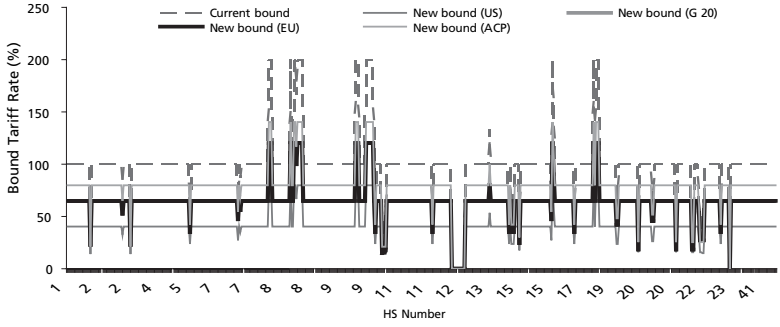
Belize



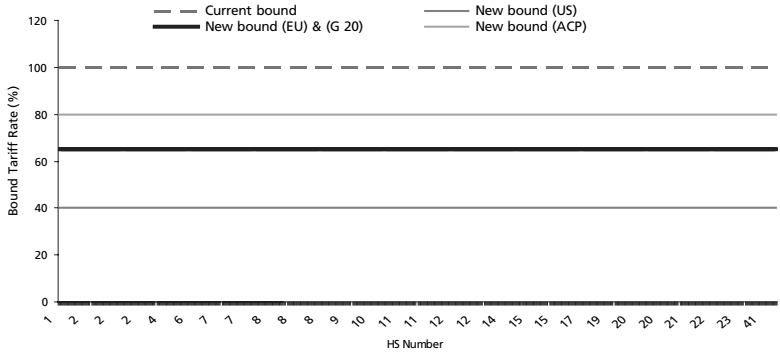
Dominica



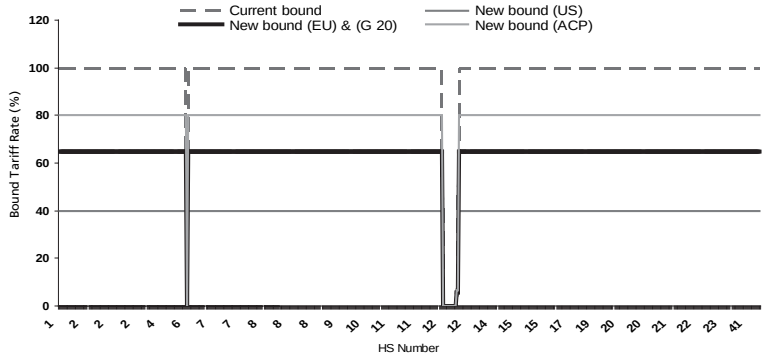
Grenada



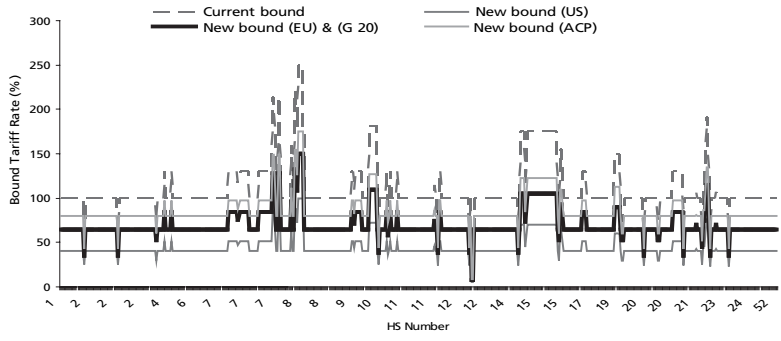
Guyana



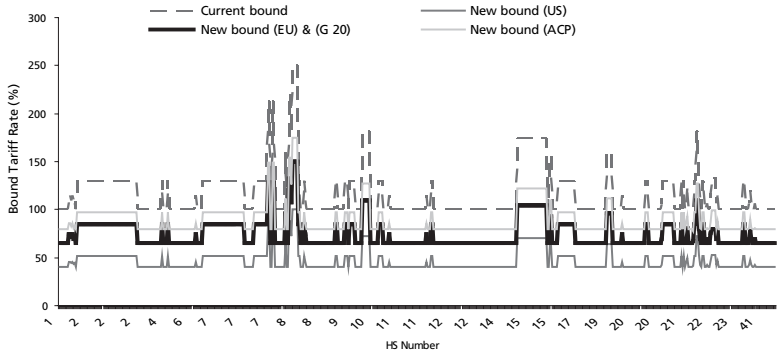
Jamaica



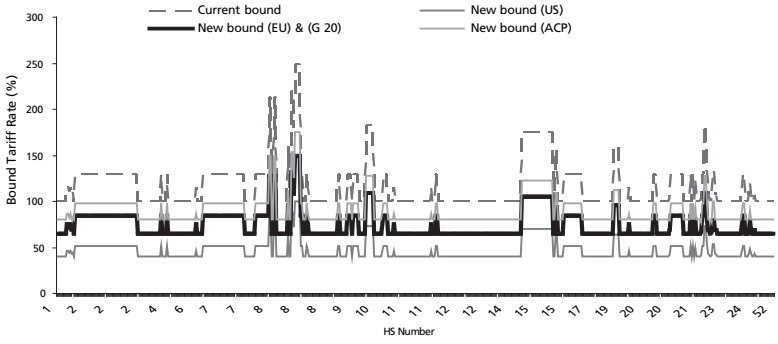
Saint Kitts and Nevis



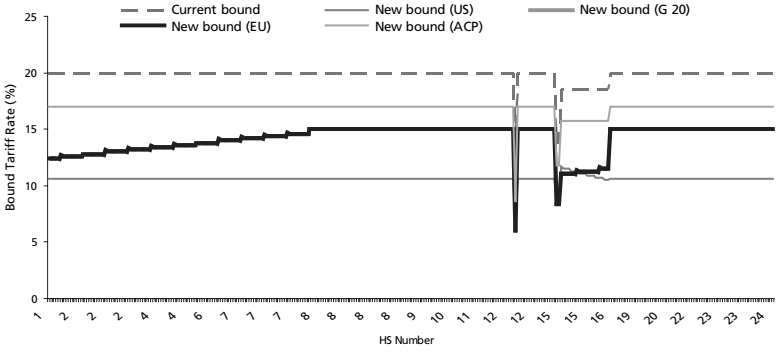
Saint Lucia



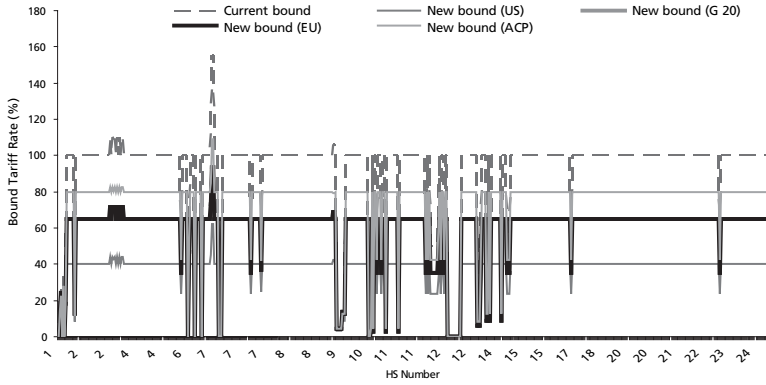
Saint Vincent and the Grenadines



Suriname



Trinidad and Tobago



Appendix 3.3

Percentage of HS tariff lines and corresponding commodities severely affected (resulting bound rate = or < than current applied rate) by the four tariff cutting proposals

US proposal		
	% of lines	**Commodities**
Antigua/Barbuda	10	Fruits, honey, raw sugar, vegetable oils, spices, groundnuts, bird eggs, cut flowers
Barbados	20	Bird eggs, honey, cut flowers, vegetables, beans, nuts (all types), fruits (all types), coffee, spices
Belize	17	Alcoholic beverages*, sausages*, lamb & goat meat, bird eggs, cut flowers, nuts (all types), fruits, spices, groundnuts, vegetable oils, raw sugar
Dominica	22	Coffee*, fruit juices*, citrus fruits*, alcoholic beverages*, tobacco prds*, birds eggs, vegetables, nuts, fruits, vegetable oils
Grenada	22	Soyabean oil*, alcoholic beverages*, rice (milled/broken)*, seeds for sowing, bird eggs, cut flowers, soyacake, vegetables, nuts, fruits, coffee, spices, vegetable oils (excl. soyabean), sugar & sugar prds. (excl. refined)
Guyana	31	Alcholic beverages*, tobacco prds*, meat(pig, bovine, lamb, poultry), bird eggs, vegetables, nuts, fruits, coffee, spices,vegetable oils, groundnuts, sugar & sugar prods (excl. refined)
Jamaica	29	Fresh milk*, meat (bovine, pig & poultry), bird eggs, honey,cut flowers, vegetables, nuts, fruits, coffee, spices,seeds for sowing, vegetable oils, sugar *& sugar prods (excl. refined)
St Kitts and Nevis	4	Cinnamon*, veg. fats*, wine (small containers)*, animal fats, maple sugar
St Lucia	6	Liquers*, cigarettes*, bird eggs, cut flowers, fruits, soyabean oil, vegetable & animal fats
St Vincent/Gren.	7	Bird eggs, cut flowers,nuts, fruits, soyabean oil, animal & veg. fats
Suriname*		Meat* (pig, swine, poultry, lamb), fruits*, sorghum*, vegetable and food prep., citrus juice*, rice*, sorghum
Trinidad/Tobago	25	Alcoholic beverages*, tea*, groundnuts*, meat (pig, lamb), fresh milk, bird eggs, honey, cut flowers, vegetables, nuts, fruits, spices, wheat, seeds for sowing, vegetable oils, sugar & sugar prods (excl. refined)

* Since most applied tariff rates in Suriname's tariff structure are above bound, results were used only for those tariff lines in which opposite was the case. Also, since this approach would not yield.

	EU proposal	
	% of lines	**Commodities**
Antigua/Barbuda	-	
Barbados	-	
Belize	1	Alcoholic beverages*
Dominica	3	Coffee*, fruit juices*, citrus fruits, coconuts
Grenada	4	Soyabean oil*, alcoholic beverages*, rice (milled/broken)*, mixture of juices*,food prep. (n.e.s.)*, seeds for sowing, soyacake.
Guyana	4	Alcholic beverages*, tobacco prds*
Jamaica	3	Fresh milk*, seeds for sowing
St Kitts and Nevis	0	Cinnamon*
St Lucia		
St Vincent/Gren.		
Suriname*		Meat* (pig, swine, poultry, lamb), sorghum*, fruits, vegetable and food prep.
Trinidad/Tobago	3	Wheat, seeds for sowing

	G20 proposal		ACP proposal	
	% of lines	**Commodities**	**% of lines**	**Commodities**
Antigua/ Barbuda	-		-	
Barbados	-		-	
Belize			1	Alcoholic beverages*
Dominica			1	Coffee*, citrus juice*,aerated water*
Grenada	4	Soyabean oil*, alcoholic beverages*, rice (milled/ broken)*, seeds for sowing, soyacake.	4	Soyabean oil*, alcoholic beverages*, rice (milled/ broken)*, seeds for sowing, soyacake.
Guyana	4	Alcholic beverages*, tobacco prds*	4	Alcholic beverages*, tobacco prds*
Jamaica	3	Fresh milk*, seeds for sowing	3	Fresh milk*, seeds for sowing
St Kitts/Nevis	0	Cinnamon*	0.2	Cinnamon*
St Lucia	-		-	
St Vincent/Gren.	-		-	
Suriname*		Meat* (pig, swine, poultry, lamb), sorghum*, fruits, vegetable & food prep.,		Meat*, sorghum*
Trinidad/Tob.	5	Tea*, wheat, seeds for sowing	5	Tea*, wheat, seeds for sowing

4

Addressing trade preferences and their erosion in the Caribbean

Piero Conforti and J.R. Deep Ford

Introduction

Preferential trade agreements are discriminatory policies, entailing partial or total trade liberalization for a subset of trading partners. The reality of the world trading system is characterized by a wide variety of such agreements, whose discriminatory nature tends to clash with the principle of non-discrimination, which is one of the cornerstones of the multilateral trading system. At the same time, preferential trade has been conceived as a primary tool to integrate developing countries into the world trading system, thereby promoting their economic growth and development. Preferential trade constitutes, therefore, a significant share of the world markets, particularly for some agricultural products.

The multilateral trade liberalization processes, such as the General Agreement on Tariffs and Trade (GATT) negotiations and the subsequent World Trade Organization (WTO) rounds, have sought to ensure compatibility with the existing preferential trade regimes through a set of exemptions and waivers to the most-favoured nation (MFN) rule. In particular, the so-called Enabling Clause[46] created a permanent legal basis for trade preferences, both generally for developing countries, under generalized system of preferences (GSP) regimes, and also for more specific preferential treatment of the least-developed countries (LDCs). Individual developed countries sometimes grant specific preferences for limited groups of developing countries which include non-LDCs, such as those that the European Union (EU) grants to the African, Caribbean and Pacific Group of States (ACP). These latter

[46] Decision on Differential and More Favourable Treatment, Reciprocity, and Fuller Participation of Developing Countries. GATT Document L/4903, 28 November 1979, BISD 26S/203.

preferences, which have been the object of a waiver, are among the more controversial in the current debate on preferences.

Preferences have certainly existed for a long time and taken different forms, but their long-term effect has been questioned, especially with respect to their ability to promote development and the economic integration of the recipient countries. Hoekman and Özden (2005) provide a review of the theoretical frameworks and available empirical evidence concerning developing countries, focusing on the 79 Members of the ACP group.

For ACP countries, and especially for the smaller and less diversified economies within this group, preferences are a key element of the economy. They have provided considerable incentives to develop local industries, which have become essential for the livelihood of local communities. In some countries, production promoted by the European preferences is among the few economic activities undertaken. In fact, a matter of concern is the extent to which preferences have provided incentives that prevented diversification, in those countries where existing resources could have allowed different activities.

During the latest WTO rounds, preferences were framed as part of the special and differential treatment (SDT) for developing countries. Due to the single undertaking practice introduced with the Uruguay Round – by which WTO Members subscribe to all the elements of the agreements – SDT has become the means through which countries seek recognition of the differences in their capacities to implement the undertakings. The application of the SDT is relatively simple in the area of tariff reduction, as commitments can be smaller and more diluted through time for certain countries. Preferences still can and do openly contradict the basic non-discriminatory principles of the WTO – even if for very good reasons. Moreover, their effectiveness is proportional to the size of trade barriers faced by other countries, and is therefore reduced by the multilateral liberalization process, a phenomenon commonly called preference erosion. In fact, within the Doha Round negotiation, preferences were mentioned mostly with reference to their likely erosion, and to the need of addressing the associated negative consequences.

The empirical evidence of the effect of trade preferences is not fully conclusive. It makes clear that although the global effect might have been marginal in terms of trade and welfare, the effect is significant on a number of specific countries, which are now likely to be deeply affected by the erosion phenomenon (Low *et al.*, 2006). Several ACP countries have certainly been severely affected.

This chapter reviews the logic, structure and value of trade preferences as they stand today, with special reference to the ACP regime (the one most important to the Caribbean countries), with the aim of providing insights into the role that preferential agreements may or may not play in the future.

Particularly, the chapter aims at responding to the following questions: What is the logic and functioning of preferences in place in the Caribbean? Can such a system constitute a viable perspective for the future of the region? And, if not, along which lines should the present preferential regime evolve in order to effectively support the sustainable economic development of these countries? Section 4.1 looks at the main features of the current preferential system and its value, while Section 4.2 considers its importance and the threat of erosion. Section 4.3 builds on the previous two to discuss elements and present conclusions that may inform the strategy of countries in which preferences are more important today, and for which erosion may have serious consequences.

4.1 The logic and value of ACP preferences

In the Caribbean region, the ACP–EU preferential regime is the most important. The formation of the European Communities, which started in the late 1950s, largely coincided with de-colonization. Many trade and economic relations set up in the colonial period survived during that difficult process, allowing the newly-formed states to maintain their role as suppliers of primary agricultural goods in the European market. At that time, these trade relations constituted the backbone of many such economies, and hence of de-colonization itself.

When the founder Members of the EU started to move towards the creation of a single market in agriculture and other primary products, the maintenance of such consolidated economic relations became an obvious requirement, both from the European perspective, given the need to secure the supply of primary goods, and for the fragile economies of the newly independent countries. This led to the Yaundé Conventions in the 1960s, and later to the Lomé conventions from the mid-1970s. The system of relations was inherently asymmetric. In the 1960s, this was an extension of the ending colonial status; in the 1970s, the asymmetry was reinforced by, among other considerations, the European fears about the instability of the commodity markets, which had been following from the oil crises and scarcity in the world cereal market (both of which occurred a few years before the signature of the Lomé Convention). It was not by chance, therefore that that Convention also included stabilization schemes for the exports of mineral and manufactured goods.

For agricultural goods, the logic that shaped the preferential trade relations between the EU and the ACP was similar to that which had been inspiring the newborn Common Agricultural Policy (CAP). The idea was that, by controlling output and (major) input prices in agriculture and the related basic processing industries, the level and stability of rural incomes would

increase, while prices to consumers would remain stable. Trade preferences for the ACP were to some extent part of the system; the stability of their role as supplementary suppliers was indirectly promoted within the CAP for sugar, and for bananas, whose imports were secured by preferential imports. For sugar, a guaranteed price level was linked to the guaranteed producer price operated in the domestic market.

Despite their far more limited scope, ACP trade preferences provided for some kind of broad and non-selective support that shielded producers from competition in the open market. By the same token, preferences were possibly distorting the economies and slowing down the adjustment that competition might have brought about. Exactly as the CAP was partly insulating European producers from the world market – as far as imports were not required – ACP preferences took the form of quasi-guaranteed trade flows. These would be marginally affected by changing world market conditions, and not be affected by competition over production costs, because the setting of prohibitive out-of-quota tariffs discouraged non-ACP competitor from interfering with the system. This was the case for important Caribbean products like sugar and bananas.

Thus preferences generated a rent, and to the extent to which such rent effectively accrued to ACP countries, the regime resulted in an injection of resources, equivalent to a financial transfer. Possible uses of such transfers included anything from the generation of private wealth, which could provide disincentives to invest and innovate, to the promotion of investment where structural, institutional and natural conditions allowed doing so. The relative importance of either of these two phenomena is an empirical matter, which has contributed to shaping the structure of the economies and the degree of development of the countries in the region.

4.1.1 The value of preferences

What has been and what is today the absolute value of the benefit associated to the preferential regime? The answer to this question is not straightforward. Ideally one should compare the actual situation in which preferences exist with a counterfactual scenario in which preferences do not exist. This requires a credible simulation, capable of indicating what trade would have looked like should the existing preference not been in place, and what resource allocation would have looked like in the involved countries under such a scenario – including, for instance, the effects on the labour market, on investment, or on the balance of payments.

The comparison of the economies with and without preferences should also be based on a credible *numeraire*. Economic welfare may play this role, but other measures of well-being may be taken into account, including those related to income level and its distribution. In any case, the choice

TABLE 4.1
Value of preferences under the EU/ACP trade regime

	Values in 000 US$							
	1990/91	1992/93	1994/95	1996/97	1998/99	2000	2001	2002
Antigua and Barbuda	90	40	1 789	175	874	128	95	115
Bahamas	538	745	3 716	4 759	4 491	8 043	5 653	10 934
Barbados	18 487	21 403	15 248	23 212	21 313	16 296	14 708	14 109
Belize	16 767	24 850	30 110	33 170	38 318	28 532	30 598	22 790
Dominica	5 134	5 520	3 684	3 560	2 478	2 116	1 351	1 443
Dominican Republic	8 230	16 477	16 291	17 320	16 491	11 648	15 416	19 121
Grenada	1 277	891	765	518	495	137	168	184
Guyana	50 351	82 104	64 855	89 991	99 514	76 195	67 368	72 917
Haiti	993	795	920	1 007	513	185	135	159
Jamaica	54 720	66 003	63 836	68 651	72 308	51 934	48 665	53 692
Saint Kitts and Nevis	5 899	8 684	6 740	7 489	6 687	5 165	6 294	7 320
Saint Lucia	10 895	11 049	9 232	8 253	5 687	5 067	2 404	3 549
Saint Vincent and the Grenadines	7 347	6 380	3 963	4 348	3 646	3 160	2 198	2 360
Suriname	3 633	4 100	5 231	8 761	10 152	8 239	7 613	8 625
Trinidad and Tobago	17 043	22 096	20 622	22 741	20 682	18 546	14 547	19 132
Total Caribbean	201 404	271 137	247 002	293 955	303 649	235 391	217 213	236 450

Source: EUROSTAT

of the indicator would not be neutral with respect to the outcome. Finally, the simulation should be accurate enough to show which economic agents are receiving the rent associated with the existence of the preferences. Depending on the actual organization of trade across importers and exporters, and depending on their relative market power, the rents generated by a preferential regime can be captured by either side of the market and translate into different pricing. Given these requirements, good candidates for this type of evaluation are general equilibrium models, which notoriously entail huge costs in terms of data and assumptions and yield complex results. Many such evaluations are in fact available in the literature (Hoekman and Ozden, 2005); they indicate that benefits are small in global terms, while significant for certain countries, among which the small ACPs feature prominently.

For the purpose of this chapter, however, it is sufficient to compute the simple nominal value of the preferential margin, as reported in **Table 4.1**. Many studies have computed similar values, including Yamazaki (1996), Tangermann (2000) and FAO (2003). It is useful to recall briefly the many limitations of this measure: it uses actual trade patterns as a benchmark to assess the advantage generated by the preferences; it does not tell who is capturing the benefit, whatever its value; and it does not indicate what are

TABLE 4.2
Importance of preferences in selected countries

	Value of preferences as a % of agricultural exports	Value of preferences as a % of GDP
Antigua and Barbuda	7.5	0.0
Bahamas	3.9	0.2
Barbados	21.3	-
Belize	16.3	4.5
Dominica	8.3	0.6
Dominican Republic	2.7	0.1
Grenada	0.7	0.0
Guyana	29.8	14.1
Haiti	0.6	-
Jamaica	19.9	1.1
Saint Kitts and Nevis	71.1	2.7
Saint Lucia	8.6	0.5
Saint Vincent and the Grenadines	7.8	0.8
Suriname	12.9	1.0
Trinidad and Tobago	7.3	0.3
Average	11.6	1.7

Source: FAO, 2004

the broader costs and/or benefits spread throughout the economy and how they are distributed.[47]

The margins show the importance of Guyana and Jamaica in absolute terms among the top beneficiary countries, followed by Belize, Trinidad and Tobago and the Dominican Republic (DR). The total value has declined over the last few years, even in nominal terms.

A more size-independent measure is considered in **Table 4.2**, where the values are divided by the value of agricultural exports and gross domestic product (GDP). This shows the potential importance of the trade regime not only for all the agricultural exports from the region, but also for the entire economies of a number of small countries, such as Saint Kitts and Nevis, and of a number of relatively larger ones, such as Belize, Guyana, Suriname and Jamaica. This is a broader indication of importance, since part or all of

[47] In more detail, for *ad valorem* tariff lines, the computation is the multiplication of the preference margin by the value of exports for the preference-receiving commodity. If the tariff line consists of both a specific tariff and an *ad valorem* tariff, the above method is used for the *ad valorem* component while the preference margin for the specific tariff is computed and multiplied by the volume of exports. The summation of the two then gives the value of the tariff preference. When the preferred tariff is a seasonal *ad valorem* or specific tariff, it is assumed that the exports occurred during the specified season because no trade would occur post- or pre-season as the tariffs would be exorbitantly high. Table 4.1 reports the value/rent of trade preferences for the period 1990 to 2002 for the Caribbean countries under the EU/ACP trade protocol.

this advantage may not accrue to the country, but, for instance, to some EU importers of products from the ACP.

4.1.2. The products involved

In order to better understand the effective advantages of preferential trade schemes in individual countries, it is necessary to look at how preference margins are organized and distributed in fact, considering in particular: the policy tools upon which they are based; the products which are involved in such schemes; the transaction costs involved in the use of the preferences; and the distribution of the tariff preference among the different points on the commodity chain.

In terms of policy tools, the ACP preferences are organized mostly on the basis of duty-free access granted to individual countries, coupled with the price guarantees that were granted to domestic production under the CAP. For some products – notably sugar and bananas – the system would not imply quantitative limitations until the 1970s, while after that period the preferences took the form of an export quota allotted to individual countries based more or less on their production and export capacity. Price guarantees would continue to apply within that quota.

In terms of products, the concentration of preferences and the key role played by sugar and bananas is immediately evident. **Tables 4. 3 and 4.4** show how the specific margins for these products account for a very significant share of the overall nominal value of the preferences granted by the EU.

A recent study looked in detail at the particular organization of preferential trade for a number of ACP countries with reference to the specific case of the sugar industry (Garside *et al.,* 2005). Qualitative indicators show that the ownership of the supply chains is mostly on the export side, and mostly domestic in this case, implying that the benefits arising from the existence of the preferences should have remained mostly with the ACP. At the same time,

TABLE 4.3

Direct economic importance of sugar exported to the EU for selected countries

	Value of exports to EU				Value of preferences			
	000 US$		% of GDP		000 US$		% of GDP	
	1997/99	2000/02	1997/99	2000/02	1997/99	2000/02	1997/99	2000/02
Barbados	26 406	22 057	1.1	0.9	21 686	14 801	0.6	0.6
Belize	26 167	25 325	4.1	3.1	21 000	14 562	2.7	2.1
Guyana	98 985	96 649	13.7	13.5	79 137	62 317	9.3	9.3
Jamaica	76 207	76 412	1.0	1.0	61 330	46 492	0.7	0.7
Saint Kitts and Nevis	9 180	10 406	3.2	3.0	7 325	6 243	2.5	2.1
Trinidad	24 339	27 224	0.4	0.3	19 404	17 054	0.3	0.2

Source: FAO

TABLE 4.4
Direct economic importance of bananas exported to the EU for selected countries

	Value of exports to EU				Value of preferences			
	000 US$		% of GDP		000 US$		% of GDP	
	1997/99	2000/02	1997/99	2000/02	1997/99	2000/02	1997/99	2000/02
Dominican Rep.	28 135	46 107	0.3	0.4	3 410	6 640	0.0	0.1
Jamaica	54 936	29 662	1.3	1.2	4 406	2 803	0.1	0.1
Saint Lucia	54 345	33 977	14.3	9.1	4 779	2 647	1.3	0.7
Saint Vincent and the Gren.	28 370	22 938	14.3	11.3	2 466	1 909	1.2	0.9

Source: FAO

the fact that trade is concentrated on very few products, that it accounts for a small share of global trade in such products, and that exports from the ACP are destined to a limited number of foreign markets – mainly the EU – clearly contributes to the weakness of the trading system created by the preferences, particularly in terms of the dependency of some of the ACP countries upon that system.

The importance of these two products was recognized by the WTO in a recent paper (Low *et al.*, 2006), which makes clear that the erosion of non-reciprocal preferences in agriculture is concentrated in few products. Of the likely losses – defined in terms of percentage of agricultural exports in the most-affected WTO Member countries – 85 percent arise in the sugar and fruits and vegetables sectors (with this latter group dominated by bananas). The same study also qualifies the problem in terms of the more-affected countries, by looking at those in which the estimated losses from preference erosion exceeds 4 percent of total agricultural exports to the Quad countries (EU, United States, Canada and Japan); six out of twelve countries in which this is the case are Caribbean countries (Saint Lucia, Saint Vincent and the Grenadines, Belize, Dominica, Saint Kitts and Nevis and Guyana). The list of countries – which includes Botswana, Namibia, Mauritius, Cameroon, Swaziland, and Fiji together with the Caribbean countries cited above – does not overlap with the poorest or more vulnerable countries.

4.2 Preference erosion

How has the policy environment been evolving through time? The lowering of MFN agricultural tariffs (started by the Uruguay Round of the GATT), the (perspective) extension of EU preference beyond the ACP countries (brought about by the Everything But Arms (EBA) initiative) and the CAP reform in the EU in key sectors like sugar and bananas, are all factors that will bring about an erosion of ACP preferences. In the background, the negotiations held within the Doha Round until its collapse in 2006 have also

contributed to creating expectations of further erosion, and fuelled useful discussions about the future of such measures.

In the Doha Round, the discussion largely reflected the inherent contradiction between the commitments to multilateral liberalization process and to addressing the problem of preference erosion. In August 2004, the General Council approved a statement in which it "fully recognized" the need to take into account long-standing preferences and to address preference erosion. However, the provision did not indicate how this was meant to be achieved. Reference was made to a part of the so-called Harbinson text – prepared in 2003 but never approved – which indicated both the possibility of delaying the application of MFN tariff reduction (in those cases in which a significant share of a Member State's exports would be affected by the erosion of preference), and the possibility of addressing the issue through technical assistance to the affected Member. The first provision, given the trigger conditions hypothesized,[48] would have applied very little to the poorer and more vulnerable Members. The second dimension was more prevalent in the subsequent debate, although without direct linkage to preference erosion.

A direct comparison of the values of preferences computed for the period 1994/95 – before the implementation of the 1994 WTO Uruguay Agreement – and the latest information available shows that the value has decreased in at least 7 of the 15 countries over the last years (**Table 4.1**), while no country shows a consistent increase over the same period. Individual cases can be explained by particular events; for instance, in the case of Jamaica the decline at the end of the 1990s can be explained by the devaluation of the dollar against the euro, which reduced the value of trade, combined with the decline of world sugar prices. In Saint Lucia, the reduction in the volume and unit value of bananas can explain part of the observed decline.

There are a number of studies in the literature that have looked at preference erosion in specific industries, and particularly in the sugar market (Stevens and Kennan, 2001; UNCTAD, 2005; van Berkum, Roza and van Tongeren (2005); Garside *et al*., 2005). More specifically, van Berkum, Roza and van Tongeren (2005) utilize a general equilibrium model to investigate the impact of the EU sugar policy reform on the world prices and conduct case studies on the impact of the reform on the Sugar Protocol signatories (Mauritius), the LDCs (Ethiopia) and the developing countries (Brazil). Garside *et al.* (2005) collected detailed country-specific value chain information through surveys and personal interviews, and show that there are a number of countries that are likely to compete in the open market despite the erosion of preferences. For instance, in two Caribbean countries – Belize and Guyana – there appears to be room for reducing production costs and increasing the scale

[48] It was stated that "products concerned shall account for at least [20] percent of the total merchandise exports of any beneficiary concerned on a three-year average out of the most recent five-year period".

TABLE 4.5
Evolution of preferences as a share of GDP for selected countries (percentages)

	1961/62	1971/72	1990/92	2000/02
Barbados	16.8	3.0	1.2	6.0
Saint Lucia		0.8	2.3	0.5
Jamaica	3.5	0.9	1.8	0.7
Belize		6.5	3.7	0.3
Grenada		0.9	0.4	0.0
Haiti	0.4	0.1	0.1	0.0
Saint Kitts and Nevis		7.3	3.8	1.8
Suriname		1.7	0.7	1.0
Trinidad and Tobago	1.1	0.3	0.4	1.2

Source: calculations on FAOSTAT and IMF data

of production, thereby allowing them to compete in the market beyond the preference regime.

Other studies have analysed the erosion of preferences from the perspective of the EU reform under the EBA initiative. Conforti and Rapsomanikis (2006) looked at the erosion in the value of preferences to sugar-producing countries arising from trade and domestic policy reform of the EU sugar sector, considering trade costs as constraints in the growth of the exports from the LDCs to the EU under the EBA initiative. Results indicate that the expected policy developments are likely to significantly affect a number of Caribbean countries, both due to the reduction in the EU price and the increased competition from LDCs under the EBA initiative.

For bananas, which are the other most important and contentious product after sugar, data show that non-ACP exporters have been expanding their export share in the EU market. Actually, the share supplied by ACP countries has been declining. So, ACP exports have hardly been a hindrance to the growth in exports of other countries to the EU market in these products. In fact the growth rate of imports from non-ACP suppliers has far exceeded the growth rate of ACP suppliers. The data further shows that the growth rates of imports by the EU from Latin America and Asia for both bananas and sugar have been increasing over the past three years. The increased growth rate in exports of ACP bananas is accounted for largely by the expansion in exports from the African ACP exporters and the increased exports from the Dominican Republic. The small exporters from the eastern Caribbean have experienced a major decline in their banana exports since the early 1990s. One of the key issues of concern for the Caribbean countries in this sector is the mechanism through which country quotas are allocated, as this becomes a major determinant of market access.

TABLE 4.6
Value of preferences in 2000/02 (000 US$ per year)

	Actual	Projected as a share of GDP	
		in 1961/62	in 1971/72
Barbados	15 038	418 641	77 342
Saint Lucia	3 673		5 603
Jamaica	51 430	267 402	73 339
Belize	27 307		58 636
Grenada	163		3 680
Haiti	160	8 765	3 000
Saint Kitts and Nevis	6 260		25 361
Suriname	8 159		13 310
Trinidad and Tobago	17 408	97 689	24 824

Source: calculations on FAOSTAT and IMF data

In general terms, the extent to which trade preferences have been diminishing in importance becomes evident if we project their value on the basis of past data. If we consider the value of preferences as a share of trade – as computed in **Table 4.2** – with reference to the ACP countries preferences in the EU, and we project the shares back on the trade data of the early 1960s and early 1970s, we observe that in the past the economic importance of preferences, however crudely assessed, was far higher than today. ACP preferences in that period were probably generating a larger rent compared to what is happening today.

For example, in the early 1960s the value of preferences would account for almost 17 percent of GDP for Barbados, and for 1 percent of GDP in Trinidad and Tobago; in the early 1970s, preferences would account for up to 7 percent in Saint Kitts and Nevis, and for 6 percent in Belize (**Table 4.5**).

If we apply these percentage shares of GDP computed in **Table 4.5** for the early 1960s and 1970s to today's GDP values, we can observe that the order of magnitude is quite different from the estimates provided for the later years.

If preferences for Barbados accounted today for the share of GDP that they accounted for in the early 1970s, their absolute value would be around US$77 million per year, as opposed to the approximately US$15 million estimated for 2000/02 (**Table 4.6**). For Jamaica, the early 1960s share of GDP would result today in a value of about US$267 million, rather than US$51 million; for Belize, applying the 1970s GDP share would result today in a value of the preferences which is about twice as much the actual estimates for 2000/02.

The change in relative importance, however, depends also on the extent to which GDP has grown thanks to the growth of economic activities that are independent from the existence of preferences. In fact, the more diversified economies, such as Trinidad and Tobago and Barbados, show the widest differences. But in some of the less diversified economies, where the sectors

to which preferences are important are major activities in the economy (such as in Saint Kitts and Saint Lucia), the difference is significant.

4.3 Conclusions

Trade preferences for the Caribbean countries have constituted an important injection of fungible resources through trade and an opportunity to market products under particular conditions, especially for those agricultural products covered by the ACP regime in the EU. In Europe, preferences have implied and still imply to some extent the establishment of fairly predictable and organized trade flows, whose management has been consistent with the organization of the domestic market for some agricultural products.

From the 1980s onward, the growth of agricultural trade flows and the increasing economic integration in agricultural commodity markets has translated into mounting pressure on countries to switch toward more open trade regimes, characterized by a multilateral coordination of policies within the WTO and progressive trade liberalization. In the Doha Round, where non-discrimination was an objective, this process has clashed with the discriminatory nature of trade preferences.

The role of ACP preferences, as they were conceived by the EU in the 1960s, seems to be losing ground, as shown both by the figures and by the likely effects of the envisaged policy changes. Against this background, and given the importance of preferences in the economy of the Caribbean countries, an important question to be addressed is how to devise a viable economic strategy by building upon the existing trade relations. The specific actions to be undertaken need to be defined at the national level, on the basis of more detailed information. However, it can be useful to highlight here a number of framework elements that may be taken into account for the definition of the specific strategies.

Particularly, two groups of actions may be undertaken. On the one hand, private and public institutions in the countries may plan medium- to long-term investments with the aim of competing in an environment in which preferences play a smaller role. In practical terms this implies assessing, in terms of cost and quality characteristics, the potentials of the key production processes (such as sugar and bananas in the case of agricultural products), and deciding whether it is possible and worthwhile to improve such activities to the point that they can be economically viable without depending upon preferences.

On the other hand, once investment plans identify alternatives independent from preferences, countries may consider the opportunities for financing such plans through the means available within the national and international policy framework, including the current (maybe partially eroded) rents generated by preferential trade. In practical terms, this implies considering the

opportunities given within the WTO, the generalized system of preferences (GSP) system and the Economic Partnership Agreements (EPAs).

The extent to which preference erosion can be addressed through special and differential treatment appears questionable, at least if one considers the interpretation of this principle in the Uruguay Round Agreement. Preference erosion does not depend upon the tariffs of the country that suffers from it, but rather upon the tariffs of the country granting the preferences. Nor does it seem straightforward to address preference erosion within the special or sensitive product definition, for the same reason; the only case where it might apply would be sugar in the United States (Low *et al.*, 2006).

One way out of this problem was indicated in the proposal of devising a specific Aid for Trade mechanism (Stiglitz and Charlton, 2006), which builds simultaneously on the ideas of: (i) compensating countries that suffer a loss so that they achieve the collective advantage associated with trade liberalization; (ii) increasing the equitability of the WTO process; and (iii) providing developing countries with additional opportunities to remove those obstacles that prevent them from benefiting from a more liberalized trade policy environment. In the case of the Caribbean, given the importance of preferences in the economy, this type of support may be conceived as support for an overall growth strategy, and not just as aid aimed at supporting trade. In other words, at least some of the countries more affected by preference erosion may be willing to reconsider their overall economic medium- to long-run strategy, rather than just improving the trade infrastructure.

Moreover, any coordinated effort toward agricultural trade liberalization in the WTO has so far produced only relatively moderate reductions in the tariffs. This leaves the Caribbean countries with some preferential margins, which may even persist over the medium run, given the recent collapse of multilateral negotiations. These could also be employed to finance plans aimed at reducing the degree of dependency upon preferences.

The GSP scheme offers opportunities, although in a more selective fashion, given the graduation mechanism that it involves by which benefits are reduced when the exporter reaches a given size in the market. In the GSP framework, moreover, recent initiatives have adopted formulas that cover a wide range (virtually all) of products, as in the case of the EBA. This approach reduces the degree of distortion in the beneficiary countries, whose production patterns would be thus less affected by the preference.

As for the Economic Partnership Agreements, it should be recalled that from an economic point of view ACP producers find themselves in exactly the same position as some European farmers, whose levels of market and price guarantees have been reduced. However, the important difference between the EU and ACP farmers is their position in terms of political economy, since the former have a far stronger voice than the latter in demanding compensation for the reduction of the market guarantees. This

has translated into much higher levels of compensation: European farmers are provided a compensation accounting for about 60 percent of their likely loss; the amount or resources indicated so far for restructuring aid to the ACP countries in the EPAs would have to more than triple in order to reach the same level of compensation (Chaplin and Matthews, 2006).

It appears that Caribbean countries still have some time to adjust. However, they have been at the threshold of losing preferences for a long time. Therefore it is important that all mechanisms available for promoting the competitiveness of traditional local products are used where this seems possible; and in all cases resources should be used to rapidly reduce the degree of dependency on preferences, and to increase product and market diversification.

Preferences have been important for achieving relatively high levels of human development in most of the Caribbean countries benefiting from them, mainly in sugar- and banana-producing countries. The promotion of agricultural trade liberalization – which started with the structural adjustment programmes promoted by the World Bank and the International Monetary Fund and was continued with the Uruguay Round and the formation of the WTO – has led to an increasing number of questions about the continuing usefulness of preferences and as tariff reductions have been negotiated, the value of preferences has eroded.

In this new and worsening situation it is crucial that Caribbean countries work together with development partners to identify and implement new strategies for their continued development. These opportunities appear to fall into four general areas:

- strengthening regional ties and maximizing the development of regional markets: this would limit production decline and create additional opportunities;
- mainstreaming the strong historical, political and economic ties with Europe and the strategies to establish a sustainable extension of the Lome and Cotonou agreements through the EPAs;
- pursuing greater linkages with the multilateral system as a whole and using the Aid for Trade proposal in connection with specific investments; and
- using market opportunities to establish strategic alliances aimed at extending the resource capacity of the Caribbean countries.

Benefits from surviving preferences should be employed together with regional market opportunities to promote overall development plans that use available resources more effectively. (One option to consider is to tie the Aid for Trade provision to the Agricultural Modernization Fund being pursued by the Caribbean.) There are Caribbean countries that efficiently utilized the extensive resources available in the 1960s and 1970s to diversify

their economies, which allowed them to become far less dependent upon preferences. Any available resources should be put to similar use.

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5

Special products: developing country flexibility in the WTO Doha round

J. R. Deep Ford and Hansdeep Khaira

Introduction

The World Trade Organization (WTO) Ministerial Declaration launching the Doha Development Agenda in 2001 made several commitments to foster development among poorer developing countries. Paragraph 3 committed to "addressing the marginalization of least-developed countries in international trade". Paragraph 13 stated that special and differential treatment (SDT) measures "shall be an integral part of all elements in the negotiations on agriculture" and these measures should be "operationally effective and enable developing countries to take account of their development needs, including food security and rural development".[49] The WTO thereby committed its trade rules to achieve development results. The 2004 'July package' reiterated the commitment "to fulfilling the development dimension of the Doha Development Agenda, which places the interests of developing and least-developed countries at the heart of the Doha Work Programme".[50]

This chapter focuses on the identification and treatment of "special products" based on the modality agreed by WTO Members in the 'July package' document (paragraph 41) and extended in the 2005 Hong Kong Ministerial Declaration (paragraph 7) as follows:

> *"Developing country Members will have the flexibility to* **designate** *an appropriate number of products as special products,* **based on criteria** *of food security, livelihood security and rural development* **needs***. These products will be eligible for more flexible treatment. The criteria and treatment of these products will be*

[49] WTO. 2001, Doha Ministerial Declaration, 20 November. (WT/MIN(01)/Dec/1)

[50] WTO. 2004. Doha Work Programme, Decision adopted by the General Council on 1 August. (WT/L/579)

further specified during the negotiation phase and will recognize the fundamental importance of special products to developing countries."

'July package' (2004), paragraph 41 *(emphasis added)*

"Developing country Members will have the flexibility to **self-designate** *an appropriate number of* **tariff lines** *as special products* **guided by indicators based on** *criteria of food security, livelihood security and rural development.*

Hong Kong Ministerial declaration (2005), paragraph 7 *(emphasis added)*

The main differences between the July 2004 package and the December 2005 Hong Kong Ministerial declaration document is that the latter provides greater flexibility (self designation), specificity (number of tariff lines) and makes reference to indicators.

This chapter has three main goals. One, to advance the understanding of special products by demonstrating an approach and methodology for identifying special products. Two, to identify a list of possible special products in the context of a Caribbean case study using the methodology demonstrated. Three, to extend the concept of special products to a regional setting in order to promote regional integration and agriculture sector development. The authors hope that the chapter will assist countries in the Caribbean region in conducting the analysis necessary for identifying special products, thus strengthening their national capacities in trade policy analysis related specifically to negotiations and more generally to sector development. The analysis can also serve to identify products that can be developed on a regional basis as channels for attaining common economic objectives, including agriculture-related self-sufficiency and self-reliance goals[51]. Many of the indicators cited for identifying a country's special products are also important from the viewpoint of regional food security and rural development.

The rest of the chapter is structured as follows. Section 5.1 provides reasons why developing countries argue for special products in the negotiations. Section 5.2 offers a conceptual approach for identifying special products and describes the indicator analysis used to evaluate the criteria set out for identifying special products. Section 5.3 presents results from the analysis of one country in the Caribbean region, Belize[52]. Section 5.4 argues the case for

[51] CARICOM (a customs union with 15 Caribbean countries as Members) is in the process of integrating and establishing a Caribbean Single Market Economy (CSME) based on harmonization of the economic, monetary and fiscal policies of its Members.

[52] Belize is one of four Caribbean region country case studies completed by the authors under an FAO project on special products; a summary of the results are presented here to demonstrate an application of the methodology and provide an example of typical results. Some of the conclusions in this chapter draw on the experience from all four case studies. Additional FAO special product case studies are published in a FAO Commodity and Trade Division technical note on special products, available at http://www.fao.org/es/esc.

regional special products, identifies these products and proposes options for developing them in a regional context. The final section draws general lessons from the analysis with regard to the identification of special products.

5.1 The case for special products

Special products remain a controversial area, despite the clear commitment made by WTO Members in the 'July package' to according greater flexibility to countries in their pursuit of development. The controversy is especially evident regarding the purposes that special products are meant to achieve. This is because some developing and developed countries that would want greater market access in the negotiations see the purpose of special products as mainly a means of providing more flexibility on some limited number of products to achieve greater ambition through higher tariff reductions on most products.

But the usefulness of special products goes beyond just achieving flexibility in WTO negotiations; they foster achievement of goals and objectives within a country and within a region. Following the effects of the Uruguay Round developing countries are skeptical about gains from liberalization and their own capacities to benefit from it, and effective liberalization may not be achieved given the national interests of WTO member countries. Most developing countries need time to introduce policies and provide the opportunity to previously poor and marginalized rural areas to transform and produce competitively.

WTO Uruguay Round experience

Differences of goals, endowments and capacities led some countries to win and others to lose as a result of Uruguay Round liberalization. Many countries saw their export market opportunities decrease (through WTO dispute panel rulings, unilateral reform and bilateral agreements) and their food imports increase (through the removal of restrictions and lower levels of applied tariffs). Their agricultural trade surpluses shrank and their imports of cereals and livestock products rose rapidly. While liberalization produced some aggregate gains in welfare these were clearly skewed towards developed countries and towards those developing countries with the greatest domestic supply response capacity. Countries sought accommodation through special products to mitigate some of the negative impacts of liberalization on their economies, especially related to import surges that undermined some livelihood systems.

Low levels of liberalization on key products

The levels of liberalization are still limited. Critical products for both export and domestic consumption in developing countries – rice, sugar, milk and

maize – are subject to the greatest distortions in the international trading environment. High levels of subsidies and tariff protection are provided to these and other products, especially in developed countries, and they are not expected to decline considerably. Almost all countries have national goals that require the maintenance of some level of agricultural production for food security and rural area activity, for what is referred to as "non-trade concerns". They will not agree to full liberalization where that would undermine these national goals. The ability to identify and designate special products is thus an important accommodation.

Rural area development strategies

Domestic markets in developing countries are critical initial outlets for products produced by poor small farmers. These producers do not operate in an environment that enables them to compete on export markets or against imported products given that the public investment in communication, education, rural roads and technology development that has generally been afforded the competing products has not yet been available to them. It is by and large recognized that rural area public investment with liberalization has the potential to increase returns more than without liberalization; but this can be better achieved with a phased rural development strategy that allows time to increase agricultural sector production capacity and competitiveness. A special products modality provides necessary investment and policy flexibility.

National policy-makers can formulate programmes and strategies that focus on development of specific crop and livestock subsectors, identified through the special products approach. They would involve building supply-side capacities and raising competitiveness levels in identified products in order to achieve national food security and rural development objectives.

5.2 Identification of special products through conceptual approach and analytical framework

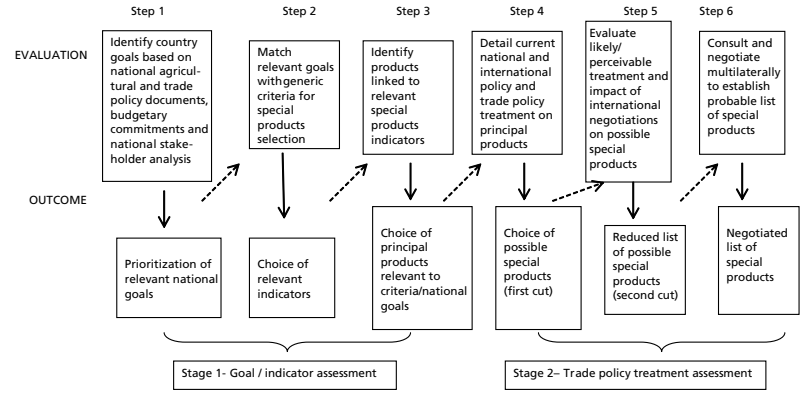
Conceptual approach

This section presents a process for designating special products with three criteria that represent a fundamental link between trade negotiation outcomes and development goals. A critical point of departure for the analysis is to understand the role of the country's goals and strategies in designating special products.

The following questions represent steps in a process (presented schematically in **Figure 5.1**) designed to identify special products:

1. What are the **country's goals and strategies**, including relative priorities and weights, for achieving food security, livelihood security and rural development?

FIGURE 5.1
Conceptual approach to identification of special products



2. What **definition and indicators** of food security, livelihood security and rural development best match national goals and policy commitments related to the criteria for choosing special products?
3. What **products are the main contributors** to the achievement of these goals and strategies? How are these products ranked in terms of the criteria indicators and goals?
4. What national and international **policies exist or are needed** to promote achievement of the goals related to the three criteria? Do they **conform to or violate** WTO regulations on market access?
5. Which of the **products need flexibility most** and why? (At this point the list of principal products is reduced to those needing flexibility.)
6. What are the policy/product combinations that do not conform to WTO regulations and **what policy flexibility** is needed (for both the product itself and substitutes). (At this point **possible treatment** of special products is addressed.)
7. What are the current levels of disciplines in WTO and **ambition** in the Doha Negotiations and how can the needed flexibility for possible special products be **accommodated** in the modalities to be negotiated? (At this point probable special products and needed flexibility are identified.)
8. What **adjustments** can be made in the **probable list** of special products in order to negotiate a multilateral agreement that is beneficial to all the participating countries? (At this point, the probable special products and associated flexibility for negotiation are established.)

The above approach is actually an iterative and dynamic process: countries change goals and policies as national and international conditions change and

are better understood. The criteria set as the basis for identifying the special products will underpin the framework for analysing them. The application of this is approach is presented below.

Analytical framework: indicators linked to development criteria

Some WTO Members view the special products initiative as motivated by simple protectionism or opposition to liberalization. The opposing view stresses the need for policy flexibility to address the crucial non-trade concerns of food security, livelihood security and rural development. It recognizes the need to cope with unstable agricultural markets and to counteract the negative effects of trade liberalization, which can be especially damaging to poor and vulnerable developing economies. This section provides indicators that help to analyse the three non-trade concerns used as criteria for selecting special products. **Box 5.1** provides working definitions of the criteria applied.

Food security indicators[53]

Four dimensions are widely considered critical to a comprehensive analysis of food security:

- availability (production and supply side issues related to physical access and sufficient food);
- accessibility (market demand, income, and trade issues related to economic access);
- stability (including vulnerability of both groups and situations); and
- use (food safety, nutrition and food choice issues).

Some of the indicators considered most relevant for linking products to food security dimensions are:

a) **Contribution of product to nutrition.** This indicator measures the product's share of calories per capita. The suggested ratio is:
   – *calories per capita per day derived from the product / calories per capita per day derived from all products.*

b) **Self-sufficiency or import dependency of the product**[54]. These indicators measure the share of domestic consumption in domestic production, or the proportion of consumption of the product that is imported. The suggested ratios are:
   – *total of product consumed / total of product produced; and*
   – *total of product imported / total of product consumed.*

c) **Stability in access of the product.** This indicator reflects the production and/or price variability of the main products consumed. The production

[53] Data for most of the indictors described here are available from FAOSTAT and the WTO.

[54] These indicators can be used interchangeably, since a low share of production in consumption would imply a high share of imports in consumption.

BOX 5.1
Working definitions of special product criteria

Food security. According to FAO, "Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life."

Livelihood security. The adequate and sustainable access to income and other resources to enable households to meet basic needs. This includes adequate access to food, potable water, health facilities, educational opportunities, housing, and time for community participation and social integration.

Rural development. A process that affects the well-being of rural populations, including the provision of basic needs and services, i.e. access to food, health services, water supply, basic infrastructure (roads, etc.) and the development of human capital through education. It also refers to activities that reduce the vulnerability of the agricultural sector to adverse natural and socio-economic factors and other risks and strengthen self-reliance.

variability is focused mainly on products produced within the country. The price variability measure covers all important food products, whether supplied domestically or imported. The suggested measures are:
- *standard deviation/coefficient of variation of production and price of product;*
- *degree of price transmission (international vs domestic) of product;*
- *variability in (export) revenue generated by product activity.*

d) Product consumption expenditure. This indicator reflects the share of expenditure incurred on the purchase of product 'x' in the total expenditure on all food products. The ratio used can be:
- *expenditure on the individual food basket item / total expenditure on food basket.*

Livelihood security indicators

Livelihood security is a broader concept than food security and encompasses many of its dimensions. The indicators used here stress aspects of employment and household income derived from the product.

a) Level of employment in product/sector. This indicator reflects the product's share of employment in total employment in a specific area

and/or industry, including vulnerable sectors of the labour force linked to the project. Some measures are:
- *share of employment of the product in total agricultural labour force or in total rural employment;*
- *share of labour force employed in product industry in total labour force; and*
- *gender/age distribution of labour force employed by the product.*

b) Household income from product. This indicator reflects the product share of income in household income and can be measured as:
- *income from product industry/total household income.*

c) Product share of agricultural land/rural assets. This indicator reflects the product share of the agricultural land, holdings and assets under cultivation in the country or in rural areas. This can be measured as:
- *land acreage planted with product/total land under cultivation; and*
- *farm holdings growing the products/total number of land holdings.*

d) Incidence of surge/displacement by imports. This indicator is a more defensive and dynamic indicator, measuring the extent to which some livelihood systems may be under threat by imports coming into the country. It can be measured as:
- *correlation between imports and domestic production of product; and*
- *growth rate of import substitutes/growth rate of competing domestic product.*

Rural development indicators

The linkages between rural area development and increased levels of overall economic development are well documented. Special products related to rural development criteria are to be selected based on their potential as growth and development poles:

a) **Importance of product in rural agricultural economy.** This indicator measures the share of the product in total rural agricultural production, thus:
- *product economic activity share in total rural agricultural output.*

b) **Product and rural area growth.** This indicator seeks to capture the importance of a particular product to growth taking place in a given rural area, using:
- *product growth rates relative to rural area growth rates.*

c) **Domestic value-added potential of product.** This indicator captures the value linkages of the product as a catalyst and contributor to rural development and is measured as:
- *degree to which the product can be transformed into other products/ uses.*

d) **Tariff revenue from product import/export.** This indicator recognizes the role of some products as critical suppliers of revenue for rural

development investment in areas such as infrastructure, utility services and social services and is measured as:
– *tariff revenue generated by the product.*

Issues related to implementation of the indicator analysis
The indicators above facilitate the identification of special products based on the criteria of food security, livelihood security and rural development. One of the main considerations in presenting them is to have quantifiable measures on which to base consideration of special products. This facilitates comparison across commodities and countries, but most importantly in the context of the on-going WTO negotiations, it ensures objectivity. However, the process may have shortcomings, including:

- The indicators may not capture all the products, especially those from small and remote areas.
- Some important dimensions of the three criteria are difficult to quantify.
- Data for some indicators may be difficult to obtain from both national and international sources.
- There is a strong level of interdependency among indicators, both within the same criteria and between different criteria.
- It may prove difficult in some circumstances to accurately identify substitute products and the degree of value addition for them.

Nonetheless, the indicators provide a sound basis for identifying special products and are applied in the next section of this chapter.

Application of the special products identification methodology
This section discusses application of the methodology for identification of special products (described in the preceding section). There are two stages to identifying special products (see **Figure 5.1**). Stage 1 involves a review of national goals and use of criteria indicators to identify an initial set of products as possible special products. Stage 2 involves consideration of the country's trade policy treatment related to these products. The policy dimension is critical since in many countries ongoing development programmes have had goals similar to those that justify special products and have supported certain agricultural products. The analysis also addresses the current treatment of these products, which is necessary for achieving national goals.

STAGE 1
The analysis in Stage 1 covers:

National goals. Country goals and policies that relate to food security, livelihood security and rural development objectives are identified based on national, agricultural and trade policy documents and budgetary

TABLE 5.1
Summary of indicators used in identification **of special products**

Criteria	Indicator Name	Measure
Food security	Product share in calorie consumption	Daily per capita calorie intake from product/Daily per capita calorie intake from all products
	Product import as a share of domestic consumption	Volume of product imported/Volume of product consumption (%)
	Ratio of domestic consumption of product in domestic production of product	Volume of product consumed/Volume of product produced (%)
	Coefficient of variation of domestic production	Coefficient of variation of domestic production of product[1]
Livelihood security	Import growth rate	Exponential growth rate of product import volume[1]
	Share in area harvested	Land area utilized for cultivation of crop/Total land area under cultivation for all crops (%)
	Coeffient of correlation (prodn & import)	Coeffient of correlation between product production and product import volumes[1]
Rural development	Share in production (vol)	Volume of product produced/Total volume of all products produced (%)
	Production (vol) growth rate	Exponential growth rate of product production volume[1] (%)

[1] For the period 1985–2002

commitments. Although it can be difficult to establish clear links between national policies or goals and specific products, selected rural areas are often characterized by certain productsv implying how important these products might be to achieving goals of the particular geographical area.

Criteria indicators. **Table 5.1** provides a summary of indicators related to the three criteria under discussion. These indicators are described in the section above. Where available, additional indicators appropriate to the specific context of a country can be included in the identification process.

Local level analysis. In order to capture information at a more disaggregated level, household surveys and stakeholder meetings may be conducted. These may, for example, identify the main products in a particular district that are linked to the criteria. This method can help provide geographical specificity to national-level data (which might otherwise be masked within national averages). Stakeholder surveys can also be used to indicate which of the three criteria they consider to be a priority for the country; results can be used to justify the special products chosen for the country.

Stage 1 yields a list of suggested products that could serve as special products, based on national goals and objectives, indicators and survey results.

STAGE 2

Stage 2 evaluates products mainly in the context of trade and trade policy treatment (levels of tariff flexibility and the impact of further tariff reduction on products). The list compiled from Stage 1 is compared with already-established national lists of "protected" products i.e. sensitive products as declared in trading agreements, products for which agreed levels of duties could not be waived due to the context of regional trading arrangements, etc. The national lists of "sensitive products" are assumed to generally reflect trade policy treatment (associated with products) aimed at promoting achievement of the goals related to the three criteria. Thus, these products will have been included in the analysis towards identifying a list of possible special products.[55]

Shortlisting of special products. Trade agreements are a process of deliberation whereby the final agreement does not usually accommodate all demands of the negotiating parties. If the number of special products in the lists devised at Stages 1 and 2 are to be negotiated to a smaller number of products, it is useful for a country to have prioritized its products by creating its own shortlist[56]. This process of prioritization for shortlisted products can be done by assigning certain threshold levels to each indicator; products qualifying under those thresholds are then analysed further. A product's trade policy flexibility[57] may also be taken into account: analysis may be done of those products with low levels of current tariff flexibility, which may be affected by further tariff reductions being discussed in the negotiations.

It is important to note that the above is a general template of the methodology followed for identifying possible special products for a country. Specific aspects of the methodology will differ between countries.

5.3 Case study: Belize

This section presents the results of the special products identification process for Belize. It analyses the country's peculiar needs for special products, summarizes its process for special products identification and presents the results. It outlines possible flexibility for choice in the special products identification process and considers treatment of special products in relation

[55] The indicator data is usually collected at a product level (as described in FAOSTAT), while trade policy information (mainly tariffs) is expressed at the HS tariff line level. Therefore the indicator data are converted into associated tariff lines (using the description contained in the HS nomenclature), before their trade policy treatment is assessed.

[56] The prioritization here is limited by the dimensions of the analysis. Products that are not short-listed at this stage may still be considered as special products if additional variables are used or some of the information is interpreted differently.

[57] Used here to mean mainly the difference between bound and applied tariff rates in absolute terms.

to issues from the WTO Doha Round negotiations and national development objectives.

5.3.1 Role of special products

The special products dimension of the WTO Doha Round is important for the agricultural sector in Belize for several reasons, including:

i) The production and trade of agricultural products is the most important socio-economic activity in Belize; almost one-third of the total labour force is employed in the agricultural sector while over 70 per cent of the country's total foreign exchange earnings accrue from this sector.
ii) Importantly, the sector has the capacity to become a large regional supplier of basic foodstuffs like rice, beans and high-quality beef and pork. It also has the capacity to supply the region with high-quality processed agricultural products such as fruit juices and pepper sauces.
iii) The policies of the government are very supportive of the sector and value-added agricultural products are recognized as one of the pillars of national export and development strategy. The aim is to achieve broad-based economic growth through the sector's key role in poverty reduction and rural development.
iv) Agriculture is the main source of income for the poorest sections of the society; crop and livestock production is the main economic activity of small, resource-poor producers; in the poorest districts of the country (e.g. Toledo), agriculture-related activities are the only source of livelihood and food security for the poor in most villages.
v) Although Belize currently produces enough food and in sufficient variety to ensure nutritious diets for all its citizens, more than 35 percent of the Belizean population is estimated to be at risk of food insecurity.[58]

Given that agriculture plays an important role in serving the food security and livelihood security objectives of the country and has a huge growth potential, some form of policy protection is needed for products that contribute significantly towards this end. It is important that special products identified by Belize be those that will assist in achievement of its national objectives.

5.3.2 Special product analysis[59]

The approach adopted for analysis made use of the two stages detailed earlier. As a part of Stage 1, national policy documents including the Medium-Term Economic Strategy 2002–2005, the National Food and Agricultural Policy 2002–2020 and Trade Policy Reviews were evaluated for food security,

[58] As cited in the Food and Nutrition Security Policy, February 2001, Belize.

[59] This section is based on a report prepared by the national consultant, Mr Jose Castellanos, as a part of the special products national study for Belize.

livelihood security and rural development objectives. Links were made to rural areas, communities and products. Information was gathered nationally and from global databases, much of it to match the nine indicators in **Table 5.1**. Additional indicators included: i) contribution to tariff revenue (associated with rural development); ii) price difference between imports and domestic products after incorporating the applied import duty (associated with livelihood security); and iii) level of domestic support received by products[60] (associated with livelihood security). A stakeholder survey for ranking criteria and indicators, and a household survey (covering 99 households across 23 villages/towns in 6 districts), were also conducted.

As part of Stage 2, information regarding trade policy was assessed using the country's agricultural tariff profile, list of sensitive products, bilateral trade agreements and Trade Policy Review. Products with low tariff flexibility which could be affected through further tariff cuts were also evaluated.

Based on indicator and survey results assessing 250 products[61] on the three special products criteria, a total of 122 products qualified for evaluation as possible special products. In order to assure a more robust analysis, and given that there was a degree of correlation between some indicators, further analysis was conducted to verify the list. Products that scored significantly on two or more indicators, or scored significantly on one indicator, were retained on the list, which narrowed it to 67 possible special products (122 tariff lines at the International Harmonized Commodity Coding and Classification System (HS) level).

Table 5.2 presents a synopsis of the results for the main product categories, the number of corresponding HS tariff lines, the key criteria and the indicators under which each qualified as possible special products.

The product groups evaluated reflect a balanced mix of the three qualifying criteria. The table reflects the main criteria under which *most* products in a group have qualified. Some products (or tariff lines) may have qualified (also) under a different criterion. The table shows that fruits, vegetables, rice and poultry have the highest number of tariff lines qualifying as possible special products.

Fruits, vegetables, sugar and cereals are important from the standpoint of all three criteria. More than 98 percent of the total area harvested in Belize is devoted to the production of these products. Maize, rice and red kidney beans are particularly important to the food security and livelihoods of the rural poor. Dairy products, eggs, maize, rice and sugar together contribute 43 percent to the daily calorie intake of Belizeans. The anticipated increase in production of bovine and pig meat is intended to boost rural development

[60] Exceeding the 5 percent *de minimis* provision in Belize's major competing markets.

[61] These products were produced/consumed in some form (food/feed) by Belize in the year 2003 as per information contained in the FAOSTAT database.

TABLE 5.2
Possible special product groups for Belize

Product group	No. of tariff lines	Main qualifying criterion(a)	Main qualifying indicator(s)
Bovine meat	6	RD	Production growth rate
Pig meat	6	RD	Correlation between imports and production
Poultry meat	12	FS	Contribution to nutrition
Dairy products	8	FS	Contribution to nutrition
Eggs	2	FS	Domestic consumption; production self-sufficiency
Vegetables	17	LS	Production self-sufficiency; share in total area harvested
Fruits	19	LS	Production self-sufficiency; share in total area harvested
Coffee	8	LS	Contribution to income; share in production
Maize	1	FS, LS	Production self-sufficiency ; share in total area harvested
Rice	11	FS, LS	Contribution to nutrition; production self-sufficiency ; share in total area harvested
Sugar	2	FS, LS	Contribution to nutrition; production self-sufficiency; share in total area harvested
Soybeans	3	RD	Production growth rate
Cereal preparations	3	RD	Contribution to income; production growth rate
Food preparations	5	RD	Contribution to income; production growth rate
Beverages (alcoholic and non-alcoholic)	7	RD	Contribution to tariff revenue

through an increase in rural incomes. Value-added agricultural products like cereal- based preparations, jams, jellies and soups are also high-income products with a potential for rural area growth.

In terms of the national trade policy treatment for agricultural products, Belize has 238 tariff lines in its list of sensitive products, 108 of which were also part of the special products list; clearly the sensitive and special products are linked to similar criteria. Most bound agricultural products in Belize have a ceiling rate of 100 percent, although some are set at 110 or 70 percent.

Most of Belize's applied tariffs are levied at a maximum of 40 percent rate, including for most special products. The exceptions are rice, black eye peas, small red beans and black beans which have 5 to 25 percent lower tariffs for reasons related mainly to food security. Although Belize grants duty-free access to most imports from other CARICOM Members, some special products from CARICOM Members are subject to most-favoured nation (MFN) tariff rates. These include wheat flour, biscuits, alcoholic beverages (beer, stout, ale, gin, rum, whisky, vodka) and preserved fruits and fruit preparations (except frozen citrus concentrates and citrus segments).

After applying the most ambitious proposed tariff cuts[62] on special products, almost all these products would have their bound rates equal to or

[62] The most ambitious tariff-cutting formula considered here was the United States proposal.

above the applied rates. Nine tariff lines (mainly from HS chapter 22) are an exception in that their new bound rates (under any proposal) would be lower than their current applied rates. In consideration of the likely loss of tariff flexibility for these, they were also added to the possible special products list for Belize

There were 131 possible special products (tariff lines) for Belize. **Appendix 5.1** presents the full list of possible special products with the main product categories, main criteria and their current trade policy treatment (in terms of tariffs and the country's list of sensitive products). The percentage of special products in the total number of tariff lines is calculated at 18.5 percent[63]. This is below the *at least 20 percent level* for special products specified in the G33 group proposal during the Doha Round.

5.3.3 Options for possible special products

There can be variation in the number of tariff lines designated as special products depending on the threshold level used for evaluating them. If the threshold level were changed to include products qualifying under one rather than three indicators), the number of *products* selected would jump from 22 to 148. If the threshold level for tariff revenue was decreased from US$100 000 to US$50 000, the number of tariff lines selected under that indicator would increase from 19 to 39.

Variation in terms of *percentage* of tariff lines designated as special products depends on the level of aggregation at which these are declared. In this case study, the HS level of special products tariff lines is assumed to be 6 digits. The total number of lines at that level in Belize's tariff structure is measured to be 705, resulting in 18.5 percent. However, the WTO negotiations could agree on a lower percentage of special products and a different HS level. If the agreement is at the HS 6-digit level, there is adequate room for designating special products as the majority of its special products tariff lines are declared at the 8-digit level and converting these to 6 digits would lead to a lower number and smaller percentage.

In the 2004 WTO "July package" it was agreed that flexibility in terms of special products treatment may be exercised only within the market access framework, in terms of ambition in tariff cuts on special products and number of special products permitted for each country. In the case of Belize, even after applying the highest possible cuts on possible special products, very few tariff lines are affected. This is because its current tariff structure allows for sufficient space between bound and applied tariffs. Therefore,

[63] The 131 tariff lines correspond to HS digit levels as follows: 78 tariff lines at 8-digit level, 51 tariff lines at 6-digit level and 2 tariff lines at 4-digit level. Assuming all 131 tariff lines at the 6-digit level, with 705 as the total number of 6-digit lines; thus the percentage of special products in the total number of tariff lines is calculated at 18.5 percent.

the kind of flexibility that Belize might argue for is deeper cuts on non-special products in return for higher number of products permitted as special products (possibly with lower cuts).

Some crop and livestock sectors in Belize have huge potential to increase their supply capacity and thus promote rural area growth. From a development perspective, then, there is a need for Belize to adopt a more flexible and comprehensive approach to special products. The country should strive to increase the scope of treatment of special products beyond the market-access framework to include the domestic support and export competition pillars of the Agreement on Agriculture, the Sanitary and Phytosanitary Measures (SPS) agreement, etc. In order for them to be produced more competitively products such as rice and red kidney beans, which can be produced in large quantities, may be treated even more flexibly through such areas as *de minimis* support or subsidy support under Article 6.2[64]. Enhancing trade in bovine meat (which currently suffers from trade-related quality-control issues) may require financial and technical assistance from donors and international agencies specializing in the area of SPS standards.

5.3.4 Conclusions of Belize case study

The process used in the Belize case study identified several products (including rice, maize, meats, fruits, vegetables and sugar) as possible special products. That most of these products were also on Belize's list of sensitive products helped confirm the validity of the analytical process and their importance for Belize's development goals. The analysis used data-based indicators to demonstrate the products' links to the criteria of food security, livelihood security and rural development.

From the perspective of WTO negotiations, if the choice is between greater ambition in tariff cuts on non-special products and higher number of special products – as opposed to lower cuts on non-special products and lower number of special products – Belize may prefer to choose the former, given that it has sufficient levels of tariff flexibility. However, should the agreement settle on the latter, Belize would have to prioritize its choice of products. It might focus on products which, in the absence of a protective tariff, could be dumped in the country; examples include poultry, dairy and eggs.

If loss of complete tariff flexibility (after application of tariff reduction proposals) is taken as a criterion for selecting products for special products consideration, then under the United States proposal 9 tariff lines would have their new bound levels *lower* than their current applied level and 40 tariff lines would have their new bound levels *equal to* their current applied tariff

[64] Article 6.2 of the Agreement on Agriculture under the domestic support pillar states that "investment subsidies which are generally available to agriculture in developing country Members and agricultural input subsidies generally available to low-income or resource-poor producers are exempted from the calculation of aggregate measures of support".

levels. The latter products include most vegetables, some fruits, coffee and some food preparations. Thus, a total of 49 tariff lines would face a complete loss of tariff flexibility under the United States proposal. This analysis is useful in terms of prioritizing selection of special products based on the criterion of likely impact of tariff reduction.

Although the case study made use of both national-level and district-level data to identify special products, each country can decide what level of data disaggregation to use. If the goal is to develop agriculture in a particular region then the region or product may be given greater emphasis in the analysis; for example, red kidney beans and maize produced in the Toledo district. If the goal is national then it would probably be necessary to give equal weight to all the districts.

Some products that are on Belize's list of sensitive products but did not feature on the list of possible special products include live animals, mutton and lamb, dried and smoked meat, soybean oil, some food preparations (pasta), fruit juices and tobacco products. On the other hand, 12 products on the special products list but not on the sensitive list are milk powder, sweet corn, cassava, soursop, mineral water, biscuits, packaged vegetables, soups, prepared food, tea, swine meat (salted or in brine) and sugar confectionery. This suggests some weaknesses in the indicators in capturing substitutes and luxury products.

Treatment for some of the possible special products needs more than just trade policy support. Budget support, infrastructure, technology, credit and market development assistance could make several of the special products important rural area growth poles for Belize. special products policy should be linked to supply-side capacity- building measures at the national level and as part of international institutions' development programmes, especially in terms of investment and human development.

5.4. The case for regional special products

The previous section presented a list of special products for Belize. In the other case studies in the Caribbean region most special products were also on each country's list of sensitive product. This suggests a common logic between the analysis used for national-level sensitive products lists and that used here for special products, which reinforces the soundness and objectivity of the results. This is important from the standpoint of WTO negotiations. While individual countries will choose to identify special products on the basis of their national policies and socio-economic goals, their choice will also be influenced by the policies of their trading partners and competitors. This aspect is particularly significant for countries that are part of regional trade agreements (RTA), where the objectives and the architecture of the regional arrangement shape (or dictate) the choice of a Member's national policies,

especially those concerning trade. The importance of RTAs in the trade arena is underscored by the rapid growth in their number since the late 1980s. As many new RTAs have been formed since the WTO was established in 1995 as during the preceding 37 years (SOCO, 2004).

Two other reasons point to the need to consider the regional context in the choice of special products. First, for many countries, especially smaller and less developed economies, preferential trade arrangements account for most of their exports. Continuing trade liberalization puts pressure on existing preferential regimes and it becomes increasingly difficult to maintain current levels of preferential margins. Further, WTO Members have challenged preferential trade in specific commodities. Brazil, Thailand and Australia challenged the EU's sugar regime, which was in part responsible for the EU slashing guaranteed prices paid to its internal producers and the ACP group of countries by 36 percent over four years (beginning in 2006). The challenge by some Latin American banana-producing countries to the EU's banana trade regime favouring ACP countries compelled the EU to propose replacing its current banana import rules, moving from a system of tariffs and quotas on MFN suppliers to a tariff-only system as of 1 January 2006. Countries will have to look more and more to regional arrangements, both for expanding trade and as sources of supply.

Second, an important feature of a customs union is a common external tariff structure: all goods entering the customs territory of any member country are assessed the same rate of applied tariff. Because applied tariffs of all Members move together (unless there is a waiver on the common tariff for a particular product), if a member country cuts its bound tariffs and the new rates are lower than the applied tariff rates, to maintain other Members will have to bring down their rates to the new level. WTO multilateral negotiations may affect a country directly or through the policy framework of the RTA of which that country is a Member.

The CARICOM could choose to devise a regional special products list whereby all Members would designate those agreed special products in their individual submissions to the WTO. The reasons for this choice might include:

- The Caribbean region is moving towards a single market and economy under the aegis of the CARICOM Single Market and Economy (CSME). This represents a harmonization of policies at the regional level that, for example, promotes free movement of labour. This may help the agricultural sector, which in many countries in the region faces severe labour shortages. In addition, harmonization of customs procedures will introduce simplicity and transparency in movement of goods. A larger market with harmonized policies will enhance price competitiveness in selected important agricultural products by creating enabling conditions for greater capital investment (in areas of product research and development, technology adoption and dissemination, etc.),

lower administrative costs and economies of scale, among other factors.

- A process of identifying regional special products can help policy-makers focus on options for developing those products to promote regional integration and contribute to the region's common economic objectives, including increased self-reliance in agriculture. Many of the indicators used in this chapter for special products analysis are relevant in this regard because they are linked to products that are important from the perspective of regional food security and rural development.
- The region has long recognized the importance of regional integration efforts through the adoption of common policies and programmes. In the 1970s a Regional Food Plan was developed and the Caribbean Food Corporation was established to implement it. That initial plan was based largely on public sector productive investment and became difficult to implement as the global policy framework changed, but the foundations exist for continued regional cooperation.
- A number of initiatives and programmes in the Caribbean region have been conceptualized recently that aim to facilitate a smoother transition of the Caribbean economies in general and the agricultural sector in particular towards regional and global integration. It would help for the programmes to be coherent among themselves in a number of areas, and regional special products could act as facilitators of integration. For example, regional special products could help advance the Jagdeo Initiative, which visualizes a Caribbean region agricultural sector capable of achieving higher levels of food security, of transforming its processes and products and of stimulating the innovative entrepreneurial capacity of agricultural and rural communities. The Regional Special Programme for Food Security and any expansion of it should be linked to regional special products.
- Regional special products could assist in promoting and advancing current and potential levels of intraregional trade, thereby increasing revenue to countries within the region. An average of 20 percent of total agricultural imports of CARICOM Members is sourced from within the group (see **Table 5.3**). Notably, the share of intraregional imports is highest for processed product groups, which generate higher income, rather than for primary commodities (except rice and raw sugar). There is a potential trading opportunity for member countries to supply an increased proportion of regional agricultural imports.

5.4.1 Proposing a regional special products list

We prepared a shortlist of products that could serve as possible regional special products for the Caribbean region, based on the three considerations described here:

1) ***Products important for food security, livelihood security and rural development objectives.*** Products under this category were identified on

TABLE 5.3
CARICOM agricultural intraregional imports under main HS chapters and products, and their share in total imports from world (2001)

HS chapter	Product name	Inntraregional import value (US$ million)	Intraregional imports' share in total imports from world (%)
2	Meat and edible meat offal	0	0
	Bovine meat – boneless	0	
4	Dairy prod; birds' eggs; natural honey	8	4
	Powdered milk	4	
7	Edible vegetables and certain roots	4	5
	Beans	3	
8	Edible fruit and nuts	4	9
	Bananas	2	
10	Cereals	34	21
	Rice	33	
11	Products of milling industry; malts/starches	12	22
	Wheat flour	12	
15	Animal/veg fats & oils	13	21
	Margarine and soybean oil	10	
17	Sugars and sugar confectionery.	22	22
	Raw sugar and confectionary	18	
18	Cocoa and cocoa preparations.	4	18
	Chocolate products	3	
19	Preparations of cereal, flour, starch/milk	38	29
20	Preparations of vegetable, fruit, nuts	23	20
	Juice of orange and apple, preparations of potatoes and nuts	18	
21	Food preparations	23	16
	Other sauces, including of tomatoes	18	
22	Beverages, spirits and vinegar.	64	34
	Mineral water, beer and rum	54	
24	Tobacco and manufactured tobacco products	8	34
	Cigarettes	7	

Source: WITS, 2006
Note: The rows in Table 5.3 are aggregated over several tariff lines and so it is not clear where CARICOM supplies 50 percent and more of a particular product.

the basis of the results of the Caribbean case studies and analysis of other Caribbean countries. Products that are important contributors to the nourishment of large sections of the region's population, provide livelihood security and are potential growth poles for rural area development deserve consideration as potential regional special products. These were identified through the special products case studies and information from national and regional agricultural policy documents.

TABLE 5.4
Daily calorie consumption (per capita) and imports of selected products for Haiti and Dominican Republic (average 2001–2003)

	Haiti		Dominican Republic	
	Calories/day/capita (share in total)	Imports (million US$)	Calories/day/capita (share in total)	Imports (million US$)
Rice	22	98	18	13
Wheat	15	63	7	58
Sugar	15	37	19	4
Maize	11	0.2	4	112
Soybeans	6	0	11	0.1
Beans, dry	4	15	2	12
Milk	2	31	5	25

Source: FAOSTAT, 2006

Products most consumed and/or imported by the Dominican Republic and Haiti were also considered for analysis. These two countries together account for more than 70 percent of the total population of the Caribbean Forum (CARIFORUM)[65] and therefore products consumed on a large scale by these two countries are especially relevant for the overall food security of the region. **Table 5.4** shows the main products that contribute to per capita daily calorie consumption of these two countries. There is a lack of data on main trading partner shares in these imports. However, rice, sugar and dry beans (which are imported in large volumes) are produced and exported by other Caribbean countries, indicating potential intraregional trade in these products.

2) ***Products that Caribbean countries produce or could produce competitively and supply to the region.*** Agricultural trade is an important component of regional food security and development; its potential role in regional integration efforts cannot be overstated. For a number of individual products in the Caribbean region almost all trade is intraregional while for several others it is a considerable part (more than 50 percent). **Table5.5** shows the main product categories with more than 50 percent share in CARICOM intraregional trade. With the formation of the CSME, which aims at harmonization of regional policies and administrative procedures, the existing regional trade levels are expected to increase. The regional special products list also includes products that represent a share of 50 percent and above in the imports from within the region.

[65] Includes 15 member countries of the CARICOM and Dominican Republic.

TABLE 5.5
Main product categories with more than 50 percent share in CARICOM intraregional trade

Vegetables, roots and tubers	Cereal preparations
Fruits and nuts	Preparations of vegetables, fruits and nuts
Rice	Food preparations
Oilseeds and flour/meal of oilseeds	Beverages, alcoholic and non-alcoholic
Vegetable oils and vegetable and animal fats	Food wastes and residues, including feed
Sugar and sugar confectionary	Tobacco products

Source: COMTRADE (2006). The United Nations COMTRADE database is available publicly through the World Bank's WITS software.

3) ***Products that can be produced in reasonable quantities within the region but need protective tariffs to prevent dumping from extra-regional sources.*** This category considers products that are part of the "ineligible for duty exemption" list agreed by CARICOM Members[66]. CARICOM has sufficient production capacity to meet 60 percent or more of the common market needs of the products on the list and their direct substitutes; thus the products are extremely sensitive products for the region.

Regional trading agreements are conducted by member countries within the framework of a common set of policies. These policies encompass several dimensions of trade including tariffs, product quality and standards, customs procedures, rules of origin, etc. The policy dimension of the region's common external tariff may include different treatment for different products depending on regional/national objectives and needs. For example, products not produced in sufficient volumes, desired quality, etc. by the regional producers but are important from food security and rural development viewpoints may be exempted from the common tariff rates to allow for extra-regional imports. On the other hand, products that can be sourced from within the region and whose production is important for food security and rural development needs may be ineligible for exemption.

A total of 186 tariff lines at the 6-digit level of the HS were identified as possible regional special products. **Table 5.6** categorizes the tariff lines into main product groups and also shows the numbers of tariff lines corresponding to each group evaluated. The importance of fruit and vegetables in both primary and processed forms for the Caribbean region is underscored by the high number of associated tariff lines evaluated as possible special products. Meats and cereals are the other two product groups that appear in a high number of tariff lines in both primary and processed forms.

[66] Under the revised Treaty of Chaguaramas, a CARICOM member state may suspend import duty on an agricultural product coming from outside the Common Market, unless it is on the *List of commodities ineligible for conditional duty exemption.*

TABLE 5.6
Possible regional special products categories and number of tariff lines

Product categories	Number of tariff lines
Meat and parts thereof (bovine, pig, lamb and mutton, poultry)	25
Dairy products (milk fresh and powdered and yoghurt)	7
Vegetables and roots and tubers	25
Fruits and nuts	15
Spices	9
Rice	4
Oilseeds and flour/meal of oilseeds	8
Vegetable oils and vegetable and animal fats	10
Sausages and other similar meat products	7
Sugar and sugar confectionary	6
Cereal preparations	10
Preparations of vegetables, fruits and nuts	32
Food preparations	5
Beverages (alcoholic and non-alcoholic)	9
Food residues, including for feed	6

The tariff lines are associated with the three categories as follows: 1) food security, livelihood security and rural development objectives: 109 lines; 2) intraregional trade of more than US$1 million by value or more than 50 percent by share in total trade from all sources: 49 lines; and 3) ineligible for duty exemption list: 101 lines. Eleven tariff lines are common to all three categories: roots and tubers, bananas, husked rice, semi-milled/milled rice, copra, raw sugar, biscuits and other bakery products, orange juice (frozen) and mineral water. There were 45 tariff lines identified using the three special products criteria that are also on CARICOM's "ineligible for duty exemption" list (into the regional market), suggesting that for those products there is potential for regional self-sufficiency.

These 186 lines form almost 27 percent of the total 6-digit HS nomenclature lines for the Caribbean countries[67], and there could be additional lines that individual countries may wish to evaluate as special products. The negotiating proposals on special products tabled by different Members during the WTO Doha Round vary in their assessment of the flexibility allowed in the percentage of lines designated as special products. The United States proposal suggests five tariff lines while the G33[68] proposal (whose Members include

[67] Assuming that total to be 705.

[68] The G33 countries include Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Congo, Côte d'Ivoire, Cuba, Dominican Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Mauritius, Madagascar, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Trinidad and Tobago, Turkey, Uganda, United Republic of Tanzania, Venezuela (Bolivarian Republic of), Zambia and Zimbabwe.

13 CARICOM countries), recommends *at least 20 percent* of the total lines. In the event that the flexibility agreed in the negotiations is lower than the 27 percent arrived at in this analysis, it would be necessary for the Caribbean region to reduce the number of special products they declare.

Thailand and Malaysia also introduced proposals in the context of the agricultural negotiations to influence the selection of special products. The proposals differ in their threshold levels. The Malaysia proposal is that *a product of which more than **75 percent** of world trade is represented by developing countries' exports should not be designated as a special product*. The Thailand proposal is that *product exported by developing countries that cumulatively constitutes more than **50 percent** of world export of that product shall not be designated as special products.* Our analysis showed that the Thailand proposal's lower threshold level (which would eliminate a greater number of special products) would eliminate 42 of the 186 possible special products tariff lines from special products consideration, or almost 23 percent. These include a number of important products in the categories of fruit and vegetables, spices, rice, sugar, oilseeds and flour/meal of oilseeds, vegetable oils and vegetable and animal fats.

5.4.2 Issues and policy options for regional special products

This section explores some special products options for the region from policy and strategy standpoints, including aspects of agricultural trade negotiations and regional trade. The regional options envision developing these products as engines for attaining the region's common economic objectives, including self-sufficiency in agriculture and self-reliance through increased production and trade.

1. The Caribbean countries may choose to negotiate for an appropriate number of tariff lines to be designated as special products. The methodology used in this chapter resulted in 27 percent of tariff lines at the 6-digit level as possible special products for the countries in the region. In case an agreement is reached that allows only a lower number of special products, Caribbean countries could consider excluding from the special products list regularly traded products for which third-country substitutes are not easily obtained, including tropical perishable products such as a range of fruits (pineapples, mangoes, oranges, avocadoes, plantains, golden apples, watermelon), vegetables (bora, eschallot, thyme) and root crops (yams, tannia, dasheen, eddo) that are unlikely to be imported from other countries (or if they were to be imported would be expensive). Processed products should be prioritized when evaluating special products, whether at the country or regional level. Our case studies and analysis, including of intra-regional trading patterns, made clear the greater potential of these products.

2. Given their tariff structures, these countries could argue for a higher number of special products (possibly with lower tariff cuts), as a trade-off for more ambitious tariff cuts on non-special products. Since the tariff structures of most other CARICOM Members are similar to the three countries studied [see Chapter 3], the region as a whole could argue for this treatment. The final lists of special products proposed for the case study countries and others represented less than 20 percent of the total number of products in their tariff profiles. This result means they could be congruent with the G33 group proposal of "at least 20 percent of lines as special products".
3. Given the opportunity of designating both sensitive (all Members) and special (only developing- country Members) products and although the basis of and the number of products that can be selected as sensitive products is also not yet agreed, there is mention made that these products will receive more favourable treatment under the market access framework. Thus, developing countries are given two categories of products receiving favourable treatment. Depending on agreements made for the type of treatment and number of permissible tariff lines under each category, Caribbean countries could choose to allocate their possible special products in both of these categories.
4. Special products could also be included within the region's other negotiating arenas, including the Free Trade of the Americas (FTAA) and the EU Economic Partnership Agreement (EPA). Trading arrangements with extra-regional partners can have a negative impact on the regional production of some commodities. For example, it is argued that when the price of EU milk powder imports undercut the local price of fresh milk in Dominican Republic by 25 percent, partly due to the EU export subsidies, around 10 000 farmers were forced out of business despite considerable investment in the dairy sector by the government and the industry (Third World Network, 2006). The heavily subsidized European exports made it difficult for local milk producers to compete. Extending the concept of special products (more favourable treatment for some products) to other negotiating platforms will help serve coherency of trade policy related to these products.
5. At the regional level, strategies for developing regional special products should focus on providing policy, technical and financial support to these products. One way is to segment products based on their production and trade patterns and then target forms of support to them. The regularly traded products for which there are third-country substitutes (which can be potentially competitive) and the regularly traded products for which third-country substitutes are not easily obtained (differentiated Caribbean products) are products that CARICOM governments may need to

support in order to get them to an acceptable level of competitiveness and productivity. In the case of new products (products not currently traded but for which technology for expanding trade exists in the region, products that are possible substitutes for current imports, value-added and niche market products), development funds may be required to help achieve the transition. Technical and investment needs ought to be resourced from both private and public sectors.

6. Suspension of CET has been granted by the CARICOM for an indefinite period on imports of several products identified in this chapter as regional special products; these are products that are regularly not available from within the region. Access to lower rates may serve as a disincentive for intraregional trade: for example, while both Belize and Guyana have well-developed beef industries, bovine items are currently on the list of CET exempted products. It is important to emphasize that the basis of suspension of duties on some potential special products may need to be revisited if they are to serve the objective of enhanced regional trade. Reasons for tariff rate suspension have often involved poor quality and sanitation. Thus, regional quality standard-setting bodies need to review the current regulations that may serve as impediments to regional trade. Recognizing the competitive nature of the current trade environment, countries with production and export potential should devise specific plans of action to first segmenting the target market and then moving to supply specific components of that market within a given time frame.
7. For products with competitive potential, efforts should focus on support to both production and marketing. On the supply side, regional coordination efforts could deal with the technological innovation and dissemination aspects of agricultural systems. Marketing efforts for regional special products should provide better extension and market information and services. Efforts to encourage regional production of meats should focus on providing technical and financial assistance related to SPS standards. A Regional Agricultural Development Fund for special products could be established with funds from donors and key trading partners; it would require clear guidelines for utilization of the funds.
8. Regional special products may be used as channels to attract investment vital for the agricultural sector's growth and development. Governments in countries with supply potential may need to devise policies and domestic conditions that attract foreign entrepreneurs in certain product sectors. Countries can take advantage of several windows of opportunity currently being proposed by donors and international institutions, including adjustment assistance under CAP reform and the Aid for Trade endeavour mandated in paragraph 57 of the WTO Hong Kong Ministerial Declaration.

5.5. Conclusions

Analysis in this chapter was based on a methodological approach that made use of several indicators for evaluating the special products, which were linked to the three criteria outlined in the WTO July Package: food security, livelihood security and rural development. From a negotiations viewpoint, the purpose of the indicators was to make the special products identification process both objective and transparent. From a national/regional standpoint, the purpose was to have the process reflect national policies, developmental goals and objectives.

Countries in the Caribbean region were evaluated in a trade and development context to draw lessons related to designation of special products in the WTO agricultural negotiations. The process of special product evaluation in the case study countries presented a wide range of results related to number of special products and percentage of special products (as a share of the total tariff lines in a country's schedule) ranging from 122 tariff lines (or 17 percent of the total) in the case of Belize to 55 tariff lines (or 8 percent of the total) for Suriname.

The chapter proposed options countries can explore in relation to the number or percentage of tariff lines that could be evaluated as special products. One way is to change the number of indicators used for special products qualification. Another way is to use a different digit level of the HS nomenclature. For example, Suriname had a high number of lines at the 8-digit HS level. If the final negotiated agreement of the Doha Round for designating special products is at the 6-digit level, Suriname could declare a greater number of special products than would be the case if most of the declared lines were at the 6-digit level.

The chapter also explored the concept of identifying and developing regional special products, using the Caribbean region as a case study. The aim was not to introduce an additional concept into the WTO context, but rather to argue for advancing the concept in all regional negotiating arenas and to assist regional integration efforts that foster increased trade. This is very much in keeping with the EU/ACP development cooperation framework, which establishes Economic Partnership Agreements. Three categories of products were considered for the Caribbean regional special products list: products important from food security, livelihood security and rural development objectives; products which some countries in the region are producing or can produce competitively and supply to the region; and products that can be produced in reasonable quantities within the region but need protective tariffs to prevent subsidized imports from extra-regional sources.

The results showed that almost 27 percent of the total tariff lines at the 6-digit HS level could be considered as potential regional special products

based on the above considerations. Most tariff lines showed up as possible special products for more than one of the case study countries, especially those related to rice, meat, fruits and vegetables, sugar, prepared food and food preparations and beverages. This highlights the fact that products serving national objectives can also be used to advance regional goals.

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Appendix 5.1
List of possible special products for Belize

Sr No	Tariff line	Product group	Products	Main qualifying indicator	Sensitive list	Applied rate	Bound rate
1	202.1	Beef	Carcass & half-carcass	RD	x	40	110
2	202.201		Brisket	RD	x	40	110
3	202.209		Other	RD	x	40	110
4	202.301		Tenderloin	RD	x	40	110
5	202.302		Sirloin	RD	x	40	110
6	202.303		Minced (ground)	RD	x	40	110
7	202.309		Other	RD	x	40	110
8	203.11	Pig meat	Carcass & half-carcass	RD	x	40	110
9	203.12		Hams, shoulders & cuts thereof, with bone in	RD	x	40	110
10	203.19		Other	RD	x	40	110
11	203.21		Carcass & half-carcass	RD	x	40	110
12	203.22		Hams, shoulders and cuts thereof, with bone in	RD	x	40	110
13	203.29		Other	FS	x	40	110
14	207.11	Poultry	Not cut in pieces, fresh or chilled	FS	x	40	110
15	207.12		Not cut in pieces, frozen	FS	x	40	110
16	207.13		Cuts and offal, fresh or chilled	FS	x	40	110
17	207.141		Backs and necks	FS	x	40	110
18	207.142		Wings	FS	x	40	110
19	207.143		Livers	FS	x	40	110
20	207.149		Other (assuming that it includes seasoned poultry)	FS	x	40	110
21	207.24		Not cut in pieces, fresh or chilled	FS	x	40	110
22	207.25		Not cut in pieces, frozen	FS	x	40	110
23	207.26		Cuts and offal, fresh or chilled	FS	x	40	110
24	207.271		Backs & necks	FS	x	40	110
25	207.279		Other	FS	x	40	110

Sr No	Tariff line	Product group	Products	Main qualifying indicator	Sensitive list	Applied rate	Bound rate
26	401.1	Dairy	Of a fat content, by weight, not exceeding 1%	FS	x	0	100
27	401.2		Of a fat content, by weight, exceeding 1% but not exceeding 6%	FS	x	0	100
28	401.3		Of a fat content, by weight, exceeding 6%	FS	x	0	100
29	402.1		Milk powder	FS		0	100
30	402.21		Milk powder	FS		0	100
31	402.29		Milk powder	FS		0	100
32	4063000		Processed cheese, not grated or powdered	RD	x	0	100
33	4069000		Other cheese	RD	x	0	100
34	407.002	Eggs	Hatching eggs, not for breeder flock	FS	x	0	100
35	407.003		Other fresh eggs (not for hatching or breeder stock)	FS	x	40	100
36	409		Honey	LS	x	40	110
37	701.9	Vegetables, roots and tubers	Irish potato	FS	x	$0.42/ 100 lbs	100
38	702		Tomatoes	FS	x	40	100
39	703.101		Onions	LS	x	40	100
40	704.901		Cabbage	LS	x	40	100
41	706.101		Carrots	LS	x	40	100
42	707.001		Cucumber	LS	x	40	100
43	709.902		Okra	FS	x	40	100
44	709.903		Pumpkin	LS	x	40	100
45	709.904		Sweet pepper	LS	x	40	100
46	710.8		Sweet corn	FS		40	100
47	713.103		Black-eyed peas	FS	x	15	100
48	713.32		Small red beans	FS	x	5	100
49	713.331		RK beans	FS	x	40	100
50	713.339		Black beans (other beans)	FS	x	5	100
51	714.1		Cassava	FS		40	100
52	714.2		Sweet potato	FS	x	40	100
53	714.903		Coco-yam	FS	x	40	100

Sr No	Tariff line	Product group	Products	Main qualifying indicator	Sensitive list	Applied rate	Bound rate
54	801.11	Fruits and nuts	Coconut, desiccated	LS	x	40	100
55	801.191		In shell	LS	x	40	100
56	801.199		Other	LS	x	40	100
57	801.31		Cashew nut: In shells	LS	x	40	110
58	801.32		Shelled	LS	x	40	110
59	803.001		Bananas, fresh	FS, LS	x	40	110
60	803.002		Plantains, fresh	FS	x	40	110
61	803.003		Bananas & plantains, dried	LS	x	40	110
62	804.3		Pineapple	LS	x	40	110
63	804.4		Avocado	LS	x	40	100
64	804.502		Mangoes	LS	x	40	110
65	805.1		Oranges	LS	x	40	110
66	805.302		Lime	LS	x	40	110
67	805.303		Grapefruit+C38	LS	x	40	110
68	807.191		Cantaloupe	LS	x	40	110
69	807.11		Watermelon	LS	x	40	110
70	807.2		Papayas	LS	x	40	110
71	810.904		Soursop	FS		40	100
72	810.909		Craboo	FS		40	100
73	901.111	Coffee	Beans for blending (unroasted & not decaffeinated)	LS		5	100
74	901.1199		Other (unroasted & not decaffeinated)	LS		40	100
75	901.121		Beans for blending (decaffeinated)	LS		5	100
76	901.129		Other (decaffeinated)	LS		40	100
77	901.21		Roasted coffee not decaffeinated	LS		40	100
78	901.22		Roasted decaffeinated	LS		40	100
79	904.11	Spices	Neither crushed nor ground	LS	x	40	100
80	904.12		Crushed or ground	LS	x	40	100
81	910.1		Ginger	LS	x	40	100
82	1005.9		Corn (Maize)	FS, LS	x	40	110

Sr No	Tariff line	Product group	Products	Main qualifying indicator	Sensitive list	Applied rate	Bound rate
83	1006.109	Rice	Other (not for sowing)	FS, LS	x	25	110
84	1006.201		White rice, in packages for retail sale	FS, LS	x	25	110
85	1006.202		Other white rice	FS, LS	x	25	110
86	1006.301		Semi-milled white rice in packages of not more than 10 kg	FS, LS	x	25	110
87	1006.302		Other semi-milled white rice	FS, LS	x	25	110
88	1006.303		Semi-milled parboiled rice, in packages of not more than 10 kg	FS, LS	x	25	110
89	1006.304		Other semi-milled parboiled rice	FS, LS	x	25	110
90	1006.305		Wholly white rice, in packages of not more than 10 kg	FS, LS	x	25	110
91	1006.306		Other wholly milled white rice	FS, LS	x	25	110
92	1006.401		In packages for retail	FS, LS	x	25	110
93	1006.409		Other broken rice	FS, LS	x	25	110
94	1007.009		Sorghum	FS	x	40	100
95	1101.009		Wheat flour	FS	x	25	70
96	1201.009		Soybeans	LS	x	10	110
97	1202.1		In shell	LS	x	40	110
98	1202.209		Other	LS	x	40	110
99	1212.92		Sugar cane	LS	x	10	100
100	1404.103		Annatto	LS	x	5	100
101	1601.002	Meat preparations	Other chicken sausages (not canned)	RD	x	20	100
102	1601.003		Salami sausages	RD	x	20	100
103	1601.009		Others sausages (not canned)	RD	x	20	100
104	16010020		Other chicken sausages	RD	x	20	100
105	1701.1		Sugar	FS, LS	x	40	110
106	17049000		Other sugar confectionery	RD	x	20	100
107	1801.001		Cocoa	LS	x	5	100
108	2101910		Meat of swine: salted or in brine	RD	x	5	110
109	19041000	Cereal preparations	Prepared foods obtained by the swelling or roasting of cereals	RD	x	20	100
110	19053010		Sweet biscuits	RD	x	35	100
111	19059090		Cucumbers and gherkins in packages not less than 50 kg	RD	x	35	100
112	200560		Asparagus	RD		45	100

Sr No	Tariff line	Product group	Products	Main qualifying indicator	Sensitive list	Applied rate	Bound rate
113	21011200	Food preparations	Extracts, essences, and concentrates of tea or mate	RD	x	20	100
114	21039090		Soups and broths and preparations thereof in liquid form*	RD	x	20	110
115	21041020		Homogenized composite food prep for infant use put up for retail	RD	x	20	100
116	21050010		Other ice cream & other edible ice, whether or not with cocoa	RD	x	35	100
117	21069090		Mineral waters	RD	x	20	100
118	22021010	Beverages	Other waters, including mineral waters & aerated waters cont. sugar	RD	x	20	100
119	22021090		Beverages containing cocoa	RD	x	20	100
120	22030010		Stout	RD	x	40	110
121	22042100		Grape must with fermentation prevented/arrested by adding alcohol	RD	x	40	100
122	22060090		Undenatured ethyl alcohol of alcohol strength by volume of 80% or higher	RD	x	40	100
123	23091000		Mixed bird seed	RD	x	20	100
124	220410		Sparkling wine	RD		51	100
125	220830		Whiskies	RD		90	110
126	220840		Rum and tafia	RD		90	110
127	220850		Gin and Geneva	RD		90	110
128	220820		Spirits obtained by distilling grape	RD		91	110
129	220860		(1996-) Vodka	RD		91	110
130	220870		(1996-) Liqueurs and cordials	RD		91	110
131	220890		Other	RD		91	110