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EPA, Agriculture and Development - The Case of CARIFORUM

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Abstract

The CARIFORUM and the EU agreed in December 2007 on an EPA which replaced the preferential trade treatment granted by the EU under the Lomé convention and Cotonou agreement. In the EPA the EU agreed to open up their markets to 100% for goods coming from the CARIFORUM (rice and sugar have shorter transition periods) and the CARIFORUM has 25 years to liberalize 86,9% of imports coming from the EU. The EPA also contains a clause in which the EU has offered to assist the CARIFORUM in their tax reform processes as well as to diversify their industries.

My purpose of this thesis is to present the EPA between the EU and the CARIFORUM, to evaluate whether the EPA will be trade creating or trade diverting and finally to study the impact of the EPA on the sugar and banana sectors. My conclusions are that the EPA might be trade creating for the CARIFORUM and that the sugar and banana sectors will meet difficulties but will still be profitable under the new trade agreement. There is however need for the CARIFORUM to become more efficient producers of sugar and bananas in order to handle the competition from third countries.

Key words: EPA, CARIFORUM, sugar, bananas

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List of Abbreviations:

ACP – Africa, Caribbean and Pacific
CARICOM – Caribbean Community
CARIFORUM – Caribbean Forum
CAP – Common Agricultural Policy
CBRERA – Caribbean Basin Economic Recovery Act
CET – Common External Tariff
CMO – Common Market Organization
CSM – CARICOM Single Market
CMSE – CARICOM Single Market and Economy
DFQF – Duty Free Quota Free
DR-CAFTA – Dominican Republic-Central America Free Trade Agreement
EBA – Everything But Arms
EEC – European Economic Community
EIB – European Investment Bank
EPA – Economic Partnership Agreement
EU – European Union
FTA – Free Trade Agreement
GATT – General Agreement on Tariffs and Trade
GDP – Gross Domestic Product
GSP – Generalized System of Preferences
LDC – Least Developed Countries
MFN – Most Favored Nation
OECS – Organization of Eastern Caribbean States
QR – Quantitative Restrictions
SADC – Southern African Development Community
US – United States
USD – United States Dollar
VAT – Value Added Tax
WTO – World Trade Organization

1. Introduction

The unilateral trade preferences for the Africa, Caribbean and Pacific (ACP) countries granted by the European Union (EU) through the Cotonou agreement and Lomé convention ceased to exist on January 1, 2008. The EU and seventy six of the seventy nine member states of the ACP group have since 2002 negotiated on new agreements on the topic of trade in goods and services which will replace the one way trade preferences that have existed since 1975. These negotiations are the ground for the Economic Partnership Agreements (EPA) between the EU and the ACP countries. The ACP countries are divided into six groups depending on geographical location and already existing free trade agreements within the ACP countries. Africa is divided into four groups, the Pacific states make up one group and finally the Caribbean countries comprise one group. The EU is negotiating with each group separately. By December 31, 2007 the CARIFORUM, which consist of the Caribbean Community (CARICOM) and the Dominican Republic, was the only ACP group which had come to a full partnership agreement.

I will in this paper focus on the partnership agreement between the EU and the CARIFORUM and what effects it is likely to have on the agricultural sector. The trade agreements concerning agricultural goods are among the most complex agreements of the EU. The main reason is that the EU has its own policy regarding agriculture: Common Agricultural Policy (CAP). The CAP aims to protect the domestic producers of the European Union, to provide farmers with a stable income and to offer European consumers fair prices. In 2008 the CAP and agriculture related affaires will receive some 43% of the total EU budget. Even though the EU is keen in protecting its own producers it is still the worlds' biggest importer of agrofood.¹

As of January 1st, 2008 the terms changed for many of the developing countries as they no longer will be granted the non-reciprocal trade preferences. The ACP countries will have to progressively open up their domestic markets for the EU. Since agriculture in many cases is the largest source of income for the ACP countries this will most likely affect them quite seriously.

¹ European Commission Directorate-General for Agriculture and Rural Development, 2007, page 2

1.1 Purpose of study

The purpose of this study is to present and analyse the EPA between the EU and the CARIFORUM. I will focus on the possible outcomes on the sugar and banana sector once the EPA is entered into force. The main questions are:

- Will the new trade regime enable the CARIFORUM exports within these sectors to increase or will the competition from third countries be too great?
- As prices on both sugar and bananas drop, will it still be profitable for the CARIFORUM to stay in business?

Furthermore I will discuss whether the EPA will be more trade diverting or trade creating for the CARIFORUM.

1.2 Outline of thesis

I will in the second chapter present the history of the ACP and EU relationship, how the situation is after January 1st, 2008 and I will do a short presentation of the CAP. In chapter three I will talk about CARIFORUM and the different organizations and FTAs within CARIFORUM. In chapter three there is also a section which presents the CARIFORUM trade relations. With this background information about the CARIFORUM, EPA and the EU I will now in chapter four discuss theoretical effects of an EPA. In section 4.2 I will present the EPA between the CARIFORUM and the EU and what they have agreed upon. In chapter five I focus on the sugar and banana sectors. I will present a background on trade agreements in these goods and how the trade has developed. Chapter six contains my conclusions of the study and I will answer my questions presented in 1.1.

2. EPA, WTO and ACP

2.1 History of trade agreements and relations between the EU and the ACP

The European Union and the Africa Caribbean and Pacific states have had a special relationship for a long time. The EU – ACP cooperation dates back to the treaty of Rome which was signed in 1957. At that time signers of the treaty were feeling obliged to cooperate with the former and contemporary colonies and territories overseas and were also devoted to help the colonies and territories reach economic prosperity. Meanwhile, the recipients of aid and trade preferences were at this time mostly African countries since most of the former colonies of France, Belgium and the other founder states of the EEC were in Africa. Since the treaty of Rome, the economic and political ties between the EU and the ACP states have remained strong. In 1975 an aid and trade agreement between the EU and seventy one ACP states, called the Lomé convention, was signed.²

The Lomé convention is hitherto the most ambitious and most extensive North-South agreement ever signed. The Lomé convention has enabled other ACP states than African to also achieve preferential trade accords, aid and further beneficial treatment. The Lomé convention was based on:

- *Equal Partnership.* The ACP countries were responsible for their own development and the resources given to them through the Lomé convention. The EU was only playing a supporting role.
- *Aid and Trade.* The financial cornerstone of the convention. The Lomé convention provided the ACP countries with aid flows as well as non-reciprocal trade benefits such as unlimited access to the EU market for almost 99% of industrial goods.
- *Commodities* The Lomé convention initiated the so-called Stabex scheme in order to help stabilize export receipts from the agricultural sector such as coffee, cocoa and groundnuts. There was also a similar system called the Sysmin which helped stabilize countries which were dependant on a mining sector.³

² ECDPM, 2002

³ <http://www.acpsec.org/>, 2008-05-01

- *Protocols* These have especially been helpful for the CARIFORUM since it allowed for instance a specific quota of bananas duty-free entry to the EU market. The sugar protocol is also known for allowing the EU to buy a fixed quantity of sugar from ACP producers for a price higher than the price on the world market.
- *Mutual Obligation* A part of the Lomé convention that included a human rights clause and also an agreement on structural adjustment.
- *Joint Administration* A constant dialogue and joint administration of the content of the Lomé convention.⁴

The Lomé convention was reviewed and updated every five years. Since one of the Lomé convention key features were non-reciprocal trade preferences and protocols, allowing the ACP states to sell commodities such as sugar to the EU for a price which was higher than the world market price, the Lomé convention received a lot of criticism. When the World Trade Organization (WTO) replaced the General Agreement of Trade and Tariffs (GATT) in 1995 it was clear that the Lomé Convention was not compatible with the WTO regulations on trade. A new agreement was signed in 2000 in Cotonou, Benin and the agreement was therefore called the Cotonou agreement. This agreement has similarities with the Lomé convention. However it puts more emphasis on integrating the ACP states into the world economy. It also focuses on reducing poverty and attaining sustainable development. Furthermore the Cotonou agreement recognizes the private sector as one of the most important actors in order to reach sustainable development and economic prosperity. The Cotonou agreement allows the private sector access the European Investment Bank (EIB) for help with funding without requiring a State guarantee.⁵

Most importantly was however the implication of the Cotonou agreement to prepare the ACP states for a new trade regime. The non-reciprocal trade tariff preferences from the Lomé convention were maintained under the Cotonou agreement but only as far as until December 31, 2007. In January 2008 the new EPAs has replaced the old non-reciprocal agreements and these EPAs are WTO-compatible. Several countries are exempted from being transferred from the Lomé convention of non-reciprocal trade agreement to the new WTO-compatible EPAs. These countries are the Least Developed Countries (LDCs) they are thus not required to reciprocate and can trade under the Everything But Arms (EBA) initiative. The EBA allows

⁴ www.caricom.org, 2007-12-10

⁵ ECDPM, 2002

them duty-free access to the EU market for all goods and commodities except arms, ammunition, sugar, rice and bananas. Sugar, rice and bananas are considered sensitive goods and are therefore also on the list. Sensitive goods are products which are economically and politically important for the EU, and for which the domestic production of these goods are threatened if the protection from imports of the same goods is reduced. The CAP is important for the EU and hence most of the agricultural products are considered as sensitive goods.

2.2 Situation after January 1st, 2008

The ACP countries which do not belong to the LDCs criteria and which have not signed an EPA with the EU before January 1st 2008 have been transferred to the EUs Generalised System of Preferences (GSP). The exception however is if the countries and the EU have settled on an interim EPA deal. The GSP is a non-reciprocal, less generous preferential trade agreement and offers preferential access to the EU market in a non-discriminatory way. It is hence considered WTO-compatible. All developing countries outside the ACP group have been trading under the GSP. The GSP, in contrast to the Lomé convention and Cotonou agreement, only allows certain products duty-free access to the EU. A tariff is imposed to all other products. In particular agricultural goods will be affected by the transfer from the generous Cotonou agreement to the GSP since agricultural goods often are considered sensible goods and therefore subject to a tariff. The CARIFORUM has agreed to liberalize 50% of the number of tariff lines within agriculture. Furthermore the liberalization of the tariffs will be met by an elimination of the export subsidies given by the EU for the same products.⁶

2.3 The EU and the CAP

The EU is the worlds most important importer of agricultural goods⁷ despite the fact that it is the sector for which the EU has the highest and most complex tariffs.⁸ The idea of a common agricultural policy came up partly as a result of a risk for food shortage after the Second World War and the member states of the EEC wanted to be independent in the case of wars.⁹ The CAP has been in force since 1962 and is based on three principles: A single market,

⁶ Lodge, 2008

⁷ Jordbruksverket, 2007

⁸ Kasteng, 2006, page 3

⁹ European Commission for Agriculture and Rural Development, 2007, page 3

Community preference and Financial solidarity between the Member States of the Community.¹⁰ The CAP has since its creation been reformed and modernized but has always played a key roll in the EU and received up to 70% of the total EU budget in the 1970s. In 2008 the CAPs budget represented 43% of the total EU budget.

The CAP aims to:

- increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labor;
- ensure a fair standard of living for farmers;
- stabilize markets;
- assure the availability of supplies;
- secure reasonable prices for consumers.¹¹

The CAP has been criticized throughout the years and some consider it the heart of the EU while others consider it a waste of money. The CAP still receives almost half of EUs total budget while only 5% of the EU population works in agriculture. Furthermore the agricultural sector only generates 1,6% of the EUs GDP.¹²

Under the Cotonou Agreement manufactured and processed products have been exempted from duties and certain non tariff barriers. To be able to be exempted from these duties and restrictions the ACP countries have to guarantee that no more than 15% of the finished product raw material originate from a non-ACP country. Within the agricultural sector the rules have been a lot more complicated. Agricultural goods originating from an ACP country have received benefits in forms of duty-free and quota-free entry to the EU. However to protect their own producers the EU has maintained some restrictions and the agricultural products have entered under two different schemes:

- Tropical products which do not compete with EU products. Coffee and cocoa are examples of tropical products which enter duty free. The margins on these products are however often very low since they compete with products from WTO countries which trade under the MFN regime.

¹⁰ <http://www.ena.lu/>, 2007-12-11

¹¹ http://www.europarl.europa.eu/factsheets/4_1_1_en.htm, 2007-12-11

¹² <http://news.bbc.co.uk/2/hi/europe/4407792.stm#howmany>, 2007-12-14

- Temperate products are the other type of agricultural products. These are products that the EU also produces. The ACP countries have under the Cotonou Agreement had an advantage over other third country exporters to the EU but yet a disadvantage in relation to EUs domestic producers.¹³

In conclusion, the EU and the ACP countries have for long had a economical and political relationship and the EPAs are important in order for countries not classified as LDCs to get preferential access to the EU market. The CAP is one of the cornerstones of the EU and agricultural products are delicate when discussing a trade agreement. In the following chapter I will show that the trade preferences granted to the CARIFORUM by the EU in the past has been important for CARIFORUM exports. I will first present the CARIFORUM, the CARICOM and how the different organs and organizations are related.

¹³ ECDPM, 2002

3. CARIFORUM

The CARIFORUM consists of the CARICOM states, the Dominican Republic and Cuba. Cuba does not participate in the EPA between the EU and the CARIFORUM. Thus the CARIFORUM – EU EPA consists of fifteen member states of the CARICOM and the Dominican Republic, which entered a free trade agreement with the CARICOM which entered into force in 2001.¹⁴ The population of the CARIFORUM is around 25 million people and the average GDP per capita in the region is USD 8690.¹⁵

3.1 CARICOM

The Caribbean Community was established by the Treaty of Chaguaramas which came into force on August 1, 1973. At this time the member states were only four and the community has since grown to fifteen. Twelve of the CARICOM member states have also signed a reformed treaty which goal is to transform the CARICOM into a common market. The CARICOM Single Market (CSM) has been signed and established but the CARICOM Single Market and Economy (CSME) is not expected to be fully implemented until 2008. Within the CSME trade in goods flows free in terms of tariffs and most of the members have applied a Common External Tariff (CET) on goods originating from non-CARICOM countries. However, obstacles such as lack of harmonization of the economic policy and non-technical barriers to trade hinder the free movement of goods within the CSME that the member states have to agree upon.¹⁶

The members of CARICOM is step by step deepening their dependence on each other and becoming more and more integrated.¹⁷ The degree of integration within the CARICOM varies however. There is deep integration between the member states of the Organisation of Eastern Caribbean States (OECS) and somewhat shallow integration with Haiti which was a recent accession to the CARICOM. The OECS took form in 1981 when seven of the former British colonies signed a treaty agreeing to collaborate with each other and to encourage unity and

¹⁴ <http://www.mfaft.gov.jm/?q=trade-agreements-to-which-jamaica-is-a-party>, 2008-01-30

¹⁵ South Centre, 2008, page 4-5

¹⁶ South Centre, 2008, page 6

¹⁷ www.caricom.org, 2008-05-01

solidarity among the members.¹⁸ Some of the clauses of the OECS treaty are covered by the CSME and others are duplicates of what is covered by the CSME. OECS leaders and the Declaration of Intent state however that the OECS Economic Union would not hinder the CARICOM integration. The OECS have since 1983 a common central bank and also a common currency, the eastern Caribbean dollar. The eastern Caribbean dollar replaced the British West Indian Dollar which had existed since 1965.

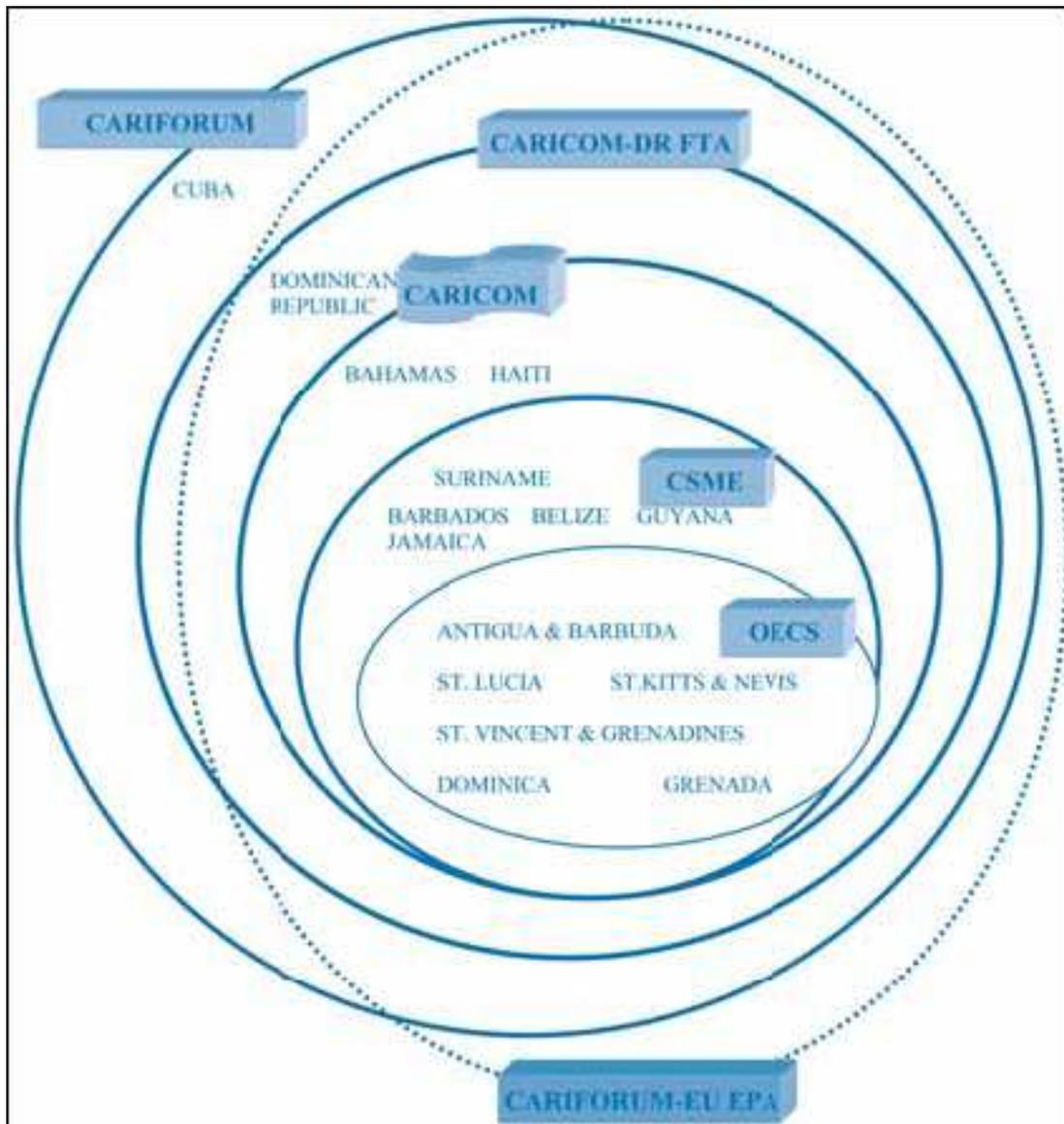
The objectives of the Caribbean Community are:

- Improve standards of living and working conditions
- Full employment of labour and other factors of production
- Accelerated, co-ordinated and sustained economic development and convergence
- Expansion of trade and economic relations with third states
- Enhanced levels of international competitiveness
- Organization for increased production and productivity
- Enhanced co-ordination of the member states' foreign and economic policies¹⁹

¹⁸ http://www.oecs.org/about_origin.html, 2008-05-16

¹⁹ www.caricom.org, 2008-05-01

Table 3.1



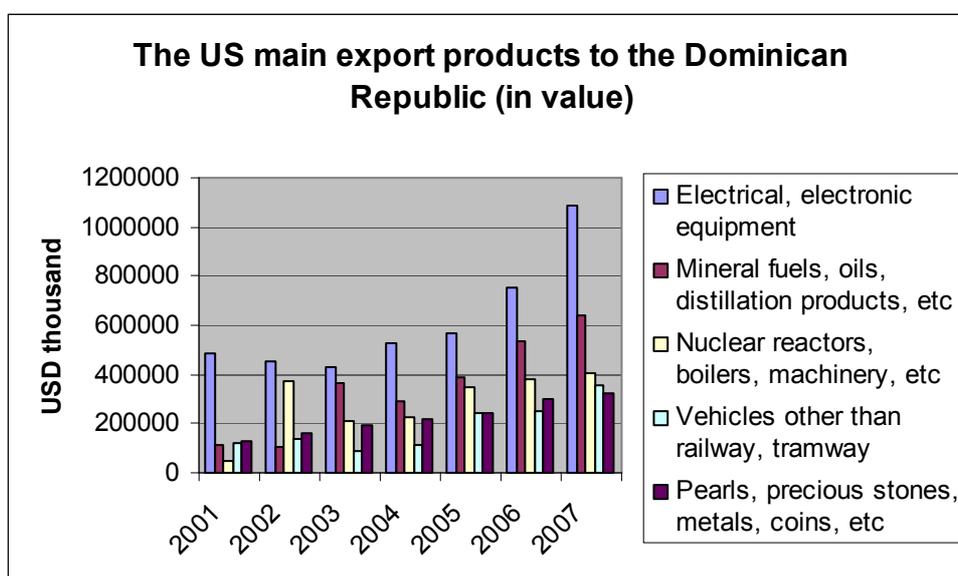
Source: ECDPM, 2006

Table 3.1 illustrates the different organizations and initiatives of the CARIFORUM and which countries that belongs to each organization and initiative.

3.2 DR-CAFTA

The Dominican Republic joined the Central America Free Trade Agreement in 2004 and the agreement is since then called the DR-CAFTA. The DR-CAFTA is a multilateral free trade agreement which includes the US, the Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and finally the Caribbean country of the Dominican Republic. The DR-CAFTA together with other US programs such as GSP and Caribbean Basin Economic Recovery Act (CBERA) allows 80% of US imports from the DR-CAFTA region to enter duty free.²⁰ Main products imported from the DR-CAFTA region were in 2003 cotton sweaters, pullovers, trousers and other clothes made out of cotton. The leading US exports to DR-CAFTA in 2003 included petroleum oils and light oils and digital integrated circuits.

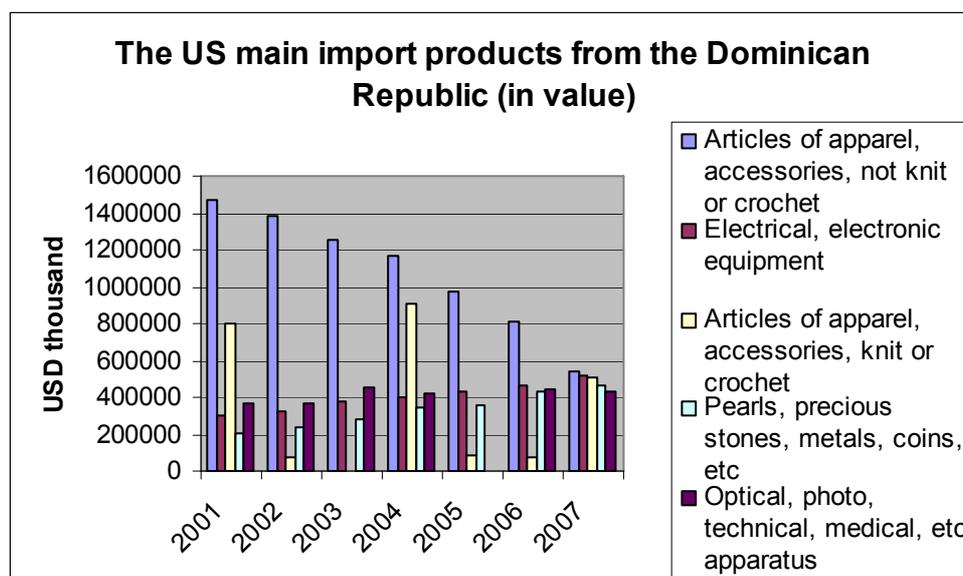
Table 3.2



Source: Own calculations based on statistics from <http://beta.trademap.net> by ITC

²⁰ U.S. International Trade Commission, 2004, page 12-13

Table 3.3



Source: Own calculations based on statistics from <http://beta.trademap.net> by ITC

The Free Trade Agreement between the Dominican Republic and the CARICOM has been into force since 2001 and is a reciprocal FTA giving the CARICOM exporters access to a market larger than the whole CARICOM market. The Dominican Republic is by far the largest economy among the regions ACP. The Dominican Republics GDP was in 2007 USD 85 billion PPP and the second largest economy is Trinidad and Tobago with a GDP in 2007 in PPP terms of USD 23 billion.²¹ The Dominican Republic economy and the Trinidad and Tobago economy combined comprise 56% of the CARIFORUM GDP.²²

The FTA with the Dominican Republic is very important for the CARICOM countries since it gives the areas exporters access to eight million consumers.²³

The FTA with the Dominican Republic is a bilateral agreement based on reciprocity (with the exception of Haiti because of its status as an LDC) meaning that both parties are reducing tariffs on each others exports. The FTA consists of rules regarding market access, tariff reduction, rules of origin, government procurement and a list of agricultural goods subject to

²¹ <https://www.cia.gov/library/publications/the-world-factbook/geos/dr.html>, 2008-04-20

²² South Centre, 2008, page 6

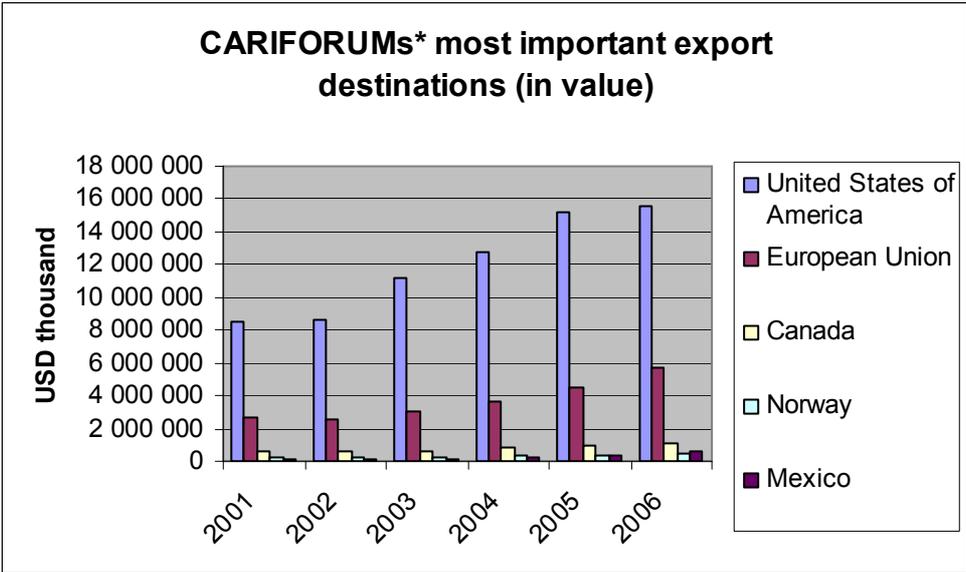
²³ CRNM, 2006

special arrangements. There are also certain goods which are exempted from the trade liberalization process which include chocolate products and certain agricultural goods.

3.3 The CARIFORUM trade partners

The CARIFORUM, as many of the ACP countries, are highly dependant on trade in their economies. Unlike many other ACP regions the EU is not the CARIFORUMS most important trading partner. The US is the most important trading partner in both exports and imports and makes up 55% of the regions exports and 38% of its imports. The trade with the EU represents 11% of the CARIFORUM exports and almost 6% of their imports. Furthermore, the CARIFORUMS share of intra-regional trade, around 6% of the regions trade, is fairly high compared to other ACP regions.²⁴

Table 3.4



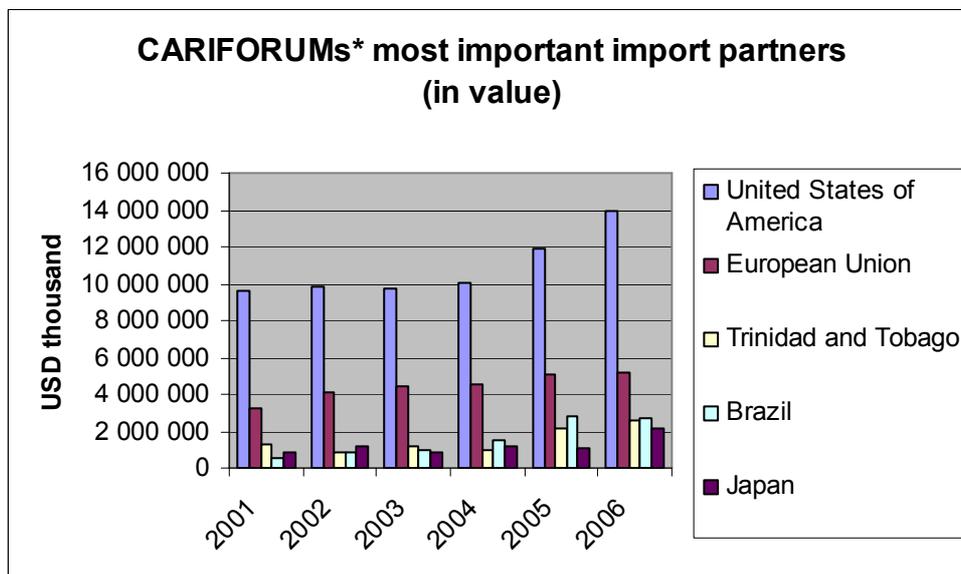
*: There is no available trade data for Antigua and Barbuda from 2001-2004. The diagram also includes Montserrat which is part of the CARICOM but has not taken part in the EPA negotiations. The statistics are mirror data.

Source: Own calculations based on statistics from <http://beta.trademap.net> by ITC

As shown in table 3.4 the US is by far the most important export destination for products originating from the CARIFORUM. The value of the exports to the US is more than double the value of the exports to the EU.

²⁴ South Centre, 2008, page 6

Table 3.5

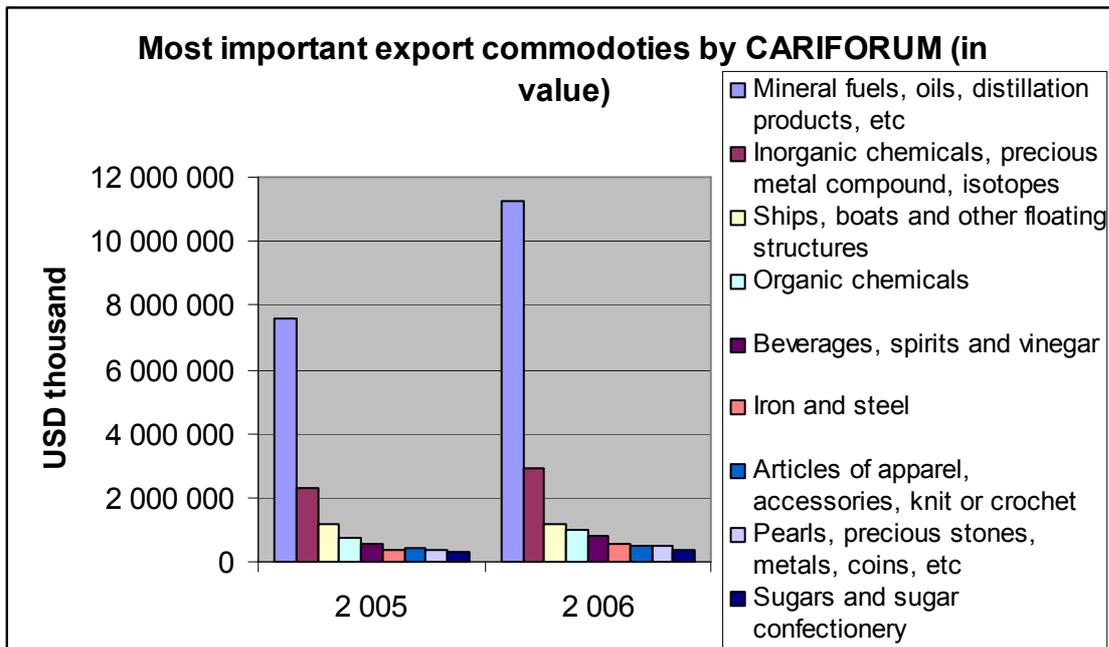


*: There is no available trade data for Antigua and Barbuda from 2001-2004. The diagram also includes Montserrat which is part of the CARICOM but has not taken part in the EPA negotiations. The statistics are mirror data.

Source: Own calculations based on statistics from <http://beta.trademap.net> by ITC

The US is also the CARIFORUMs most important trades partner when it comes to imports and as shown in table 3.5 the value of the imports from the US are worth more than double the imports coming from the EU.

Table 3.6



*: There is no available trade data for Antigua and Barbuda from 2001-2004. The diagram also includes Montserrat which is part of the CARICOM but has not taken part in the EPA negotiations. The statistics are mirror data.

Source: Own calculations based on statistics from <http://beta.trademap.net> by ITC

Table 3.6 shows the main export commodities by the CARIFORUM and mineral fuels and oils are by far their most important export commodity in value. The agricultural products in this table are beverages, spirits and vinegar (rum for instance) and sugars.

3.3.1 Trade relations between the EU and the CARIFORUM

As seen in table 3.4, 3.5 and 3.6 the CARIFORUM main trades partner is the US and agricultural goods are not among the most traded commodities with the exception of beverages, spirits and vinegar (rum). When studying the trade with the EU the case is different and here both sugars and bananas are among the most exported goods for the CARIFORUM. The trade preferences granted by the EU under the Lomé convention and Cotonou agreement has made is more profitable for the CARIFORUM to export agricultural goods such as sugar and bananas to the EU than to the US.

Table 3.7***Main export products from the CARIFORUM to the EU in 2007:***

8901 vessels for the transport of persons or goods	17,20%
2711 petroleum gases & other gaseous hydrocarbons	11,80%
2818 aluminum oxide (incl art corundum), alum hydroxide	10,00%
7202 ferroalloys	5,90%
1701 cane or beet sugar & chem pure sucrose, solid form	5,90%
2208 ethyl alcohol, undenat, und 80% alc, spirit bev etc	5,80%
0803 bananas and plantains, fresh or dried	5,30%
2905 acyclic alcohols & halogenat, sulfonatd etc derivs	4,10%
2710 oil (not crude) from petrol & bitum mineral etc	3,20%
8903 yachts & other vessels for pleas etc, row boat etc	2,60%

Source: http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138665.pdf

Table 3.8***Main import products to the CARIFORUM from the EU in 2007:***

8901 vessels for the transport of persons or goods	28,60%
8903 yachts & other vessels for pleas etc, row boat etc	3,40%
2710 oil (not crude) from petrol & bitum mineral etc	3,30%
8703 motor cars & vehicles for transporting persons	2,60%
0402 milk and cream, concentrated or sweetened	2,30%
8517 elec apparatus for line telephony, telephone sets	2,30%
2208 ethyl alcohol, undenat, und 80% alc, spirit bev etc	1,40%
99BB articles declared as supplies or services for ships	1,30%
7308 structures and parts of structures e.g. bridges	1,10%
3004 medicaments consisting of mixed or unmixed products	1%

Source: http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138667.pdf

The main imports from the EU are mainly “vessels for transport of persons or goods” which consist of 28,6% of total EU imports into the CARIFORUM. Other imports from the EU do not make up more than 3,4% of the total imports from the EU. The imports from the EU are diverse and the main traded products imported by the CARIFORUM from the EU were in 2007 worth 4630 million euro. Exports to the EU however are not as diverse as the imports. Main export products are “vessels for the transport of persons or goods”, “petroleum gases and other gaseous hydrocarbons” and “aluminum”. Exports from the CARIFORUM to the EU were in 2007 worth 4066 million euro.

Given the information in tables 3.6 and 3.7 one can see that the relationship with the EU is more important for the CARIFORUM than the relationship with the US when it comes to agricultural exports. This is important to keep in mind when analyzing what effects an EPA between the EU and the CARIFORUM might have. In next chapter I will present the EPA and the liberalizations that the EU and the CARIFORUM have agreed upon. I will first present a theoretical view of an EPA.

4. Effects of an EPA between CARIFORUM and the EU

The EPA between the EU and the CARIFORUM aims to create an economic area where goods, services and finance can be traded more freely. It also aims to provide a set of clear and transparent rules regarding trade related issues, to offer stability to traders and investors.²⁵ The EPA contains rules and concessions from both sides on trade liberalization and also rules concerning intellectual property and competition policy. The EPA does not only approach trade liberalization by tariff reduction but also through making customs procedures easier. Furthermore, the EPA is not only a free trade agreement but also puts focus on regional integration and economic development.

4.1 Theoretical effects of an EPA

A free trade agreement opens up borders for liberalization to different degrees which effects both domestic production and international trade. There are several theories which concern international trade and economic integration. One of the most accepted theories is one by Jacob Viner which talks about trade diversion and trade creation as a result of a trade opening. Jacob Viner (1892-1970) was a Canadian economist who is probably best known for his studies on firms and the long-run and short-run cost curves. Viner made several important contributions to international trade theory with publications like *The Customs Union Issue*, *Studies in the Theory of International Trade* and notably the terms *trade creation* and *trade diversion*.²⁶

Trade Creation:

For instance, we have two countries, country X and country Y, who did not have an agreement before now engage in free trade with each other. Country X produces good Z and sells this on the domestic market. Country Y also produces good Z and is a much more efficient producer of Z than country X is. Good Z is hence cheaper in country Y than in country X. The free trade agreement now makes it possible for country X to import good Z from country Y to a cheaper price than that for good Z on the domestic market. Country X will therefore choose to import good Z from country Y instead of producing it themselves and

²⁵ European Commission Directorate-General for Trade and Directorate-General for Development, 2006, page 6

²⁶ <http://www.econlib.org/Library/Enc/bios/Viner.html>, 2008-05-28

this creates trade. Trade creation allows countries to produce goods which they are efficient producers of. From this we can draw a parallel to the theory of comparative advantages and state that country Y has a comparative advantage in the production on good Z. The case with country X and country Y is also applicable on economic regions such as the EU and the CARIFORUM.²⁷

Trade Diversion:

Trade diversion is the case when a country chooses to import a good from a less efficient producer with which it has a free trade agreement rather than to continue to import the good from a more efficient and cheaper producer from a third country. For instance, country X imports good Z from a third country with which it has no free trade agreement, we call this country A. Country A is the most efficient producer of good Z on the world market and is hence the cheapest one too. Country X and country Y now sign a free trade agreement and good Z imported from country Z will now be cheaper than good Z from country A since there are no tariffs applicable to good Z from country Y.²⁸

In the case of reciprocal trade liberalization, such as the one between the EU and the CARIFORUM, one can expect that there will be both an occurrence of trade creation and trade diversion. Since the CARIFORUM already has had QTQF access for 97% of its goods to the EU market one can expect that the trade creation and trade diversion will depend on the liberalization of the CARIFORUM borders rather than to the EU one.

The Caribbean area has for long been vulnerable to external shocks such as weather (being in the middle of the hurricane belt) and economic (being highly dependant on external trade). The CARICOM has, in similarity to most of the ACP countries, a long history of agriculture. Their agricultural industry has been protected by trade barriers. Now that the market has to open up for cheaper European imports it will be harder for small agribusinesses to stay in business.²⁹ The CARIFORUM states are all small economies and they have relatively high production costs, undiversified export base and high transportations costs. In order for the CARIFORUM states to handle the competition from the EU they have to become more competitive and focus on their comparative advantages. Increased competition from the EU

²⁷ Senior Nello, 2005, pages 92-94

²⁸ Senior Nello, 2005, pages 92-94

²⁹ FAO, 2006, page 6-8

producers will be an incitement for the CARIFORUM producers to become more efficient and to lower production costs which will most certainly result in lower costs for the CARIFORUM consumers. Since the CARIFORUM has 25 years to implement trade liberalization of products from the EU the area will have time to adapt and hopefully the CARIFORUM industries will not suffer much harm.

Usually trade liberalization leads to increased competition and consequently to increased large-scale advantage. In order to gain large-scale advantages a company has to use its comparative advantage and invest in land, machines, human capital or what is needed to produce in large-scale. The CARIFORUM states are mostly producing traditional goods in which they have relatively high production costs.

Furthermore, there are a few more aspects to take into account when evaluating trade and effects of a free trade agreement. Even though an imported good may be cheaper it is not necessary that a country will stop producing the same good since local firms have a better knowledge about the consumers and the imported good might not be what the consumers on the local market prefers. Also, transportation costs may be so high that it is actually cheaper with locally produced goods than with imported goods produced by overseas companies with large-scale advantages. Finally, the consumers may prefer locally produced goods to imported ones because they may be protectionist of their own industries or environmentally aware. From the exporters side it may also be less appealing to export goods to a small country which has its own standardization and sanitary standards.

For the Dominican Republic the situation is quite different since it has a free trade agreement with the US thanks to the DR-CAFTA. Here we have a case of a hub-and-spoke system. Both the US and the EU have free trade agreements with the Dominican Republic and the Dominican Republic hence have access to both these markets. The US does not have the same access to the CARIFORUM nor the EU and the EU does not have that kind of access to the US. According to the hub-and-spoke system the Dominican Republic can be classified as a hub. The spokes are the US, the EU and the CARICOM-countries. The so called hub and spoke system is often criticized for favoring the hub nations. Since the US is geographically closer to the Dominican Republic transports costs will be lower than with trade with the EU and the Dominican Republic will continue to trade more extensively with the US than with the EU.

4.2 The EPA between the EU and the CARIFORUM

One aspect of the CARIFORUM having to opening up its markets for goods from the EU is that the CARIFORUM will loose important revenues in forms of customs duties. Customs duties are not optimal as revenue. An EPA will thus accelerate the process of replacing customs duties by tax revenues such at VAT or income tax.³⁰ Since the EPA allows the CARIFORUM to gradually over 25 years open up their markets the governments will have time to reform the tax policy and to improve tax collection. The EU has committed to assist the CARIFORUM in the reform of national tax regimes. MFN tariff on non-agricultural goods for the CARIFORUM showed an average of 11,7% in 2002 compared to that of the EU which was 3-4% the same year. It is clear that the liberalization on trade will affect the government revenues. For the CARIFORUM the nation which will probably face the greatest tariff revenue loss is the Bahamas which have an average MFN tariff rate of over 30%.³¹

Table 4.3

Import Taxes as % of total government revenues:

Antigua & Barbuda (2006)	54
Bahamas (2002)	65
Barbados (2001)	29
Belize (2002)	60
Dominica (2006)	23
Dominican Republic (2002)	16
Guyana (2003)	19
Haiti (2003)	65
Jamaica (2004)	9
Saint Kitts & Nevis(2006)	36
St. Lucia (2006)	54
St. Vincent & Grenadines (2006)	41
Suriname (2004)	17
Trinidad & Tobago (2004)	5

Source: South Centre, 2008, page 15

As shown in table 4.3 the difference in import taxes share of government revenue differ among the countries. One explanation to this is that the Bahamas for instance has almost no taxes (income tax, VAT etc) and depends on tariffs for governmental revenue. The Dominican

³⁰ http://trade.ec.europa.eu/doclib/docs/2003/december/tradoc_115007.pdf, 2008-04-29

³¹ <http://www2.gtz.de/dokumente/bib/07-1378.pdf>, 2008-04-25

Republic, Jamaica and Trinidad and Tobago have recently reformed their fiscal policy with the goal of replacing tariffs with VAT, income tax and other fiscal tools.³²

Although the Caribbean has enjoyed a duty and quota-free access to the European Union for most of its exports since 1975, the growth of non-traditional exports to the EU has been insignificant. There have been obstacles in forms of restrictive rules of origin and technical barriers to trade such as sanitary standards and standardizations which have made it difficult for the Caribbean private sector to gain a competitive advantage in non-traditional products.³³ The main exporting products from the CARIFORUM are mineral fuels, inorganic minerals followed by boats, organic chemicals and rum. The CARIFORUM does not have any important advanced industries and need to improve their export base in order to be competitive on the world market. Their main export, mineral fuels and oils, make up close to 50% of their ten most traded products. This makes the CARIFORUM exports fragile and they need to diversify. In order to diversify its export base the CARIFORUM will also need to build up its own market capacity.

The negotiations between the EU and the CARIFORUM seem to have been more open and less restrictive than the negotiations with West Africa or Southern Africa. For instance the duration of safeguard protection is eight years for the CARIFORUM but the EU is prompting for a maximum of three years for SADC and West Africa. Furthermore the Quantitative Restrictions (QR) are limited to 5% of the total value of industrial goods in West Africa and SADC whereas the CARIFORUM has no restrictions what so ever. Also the EU is not pushing for a regional standardization of goods as it is in all the other regions (develop common standards).

³² South Centre, 2008, pages 15-16

³³ Brewster, Girvan & Lewis, 2008

4.2.1 EU liberalization

The European Union has agreed to liberalize 100% of imports as of January 1st 2008, with shorter transition periods for sugar and rice. Transition period for rice will be two years and access for rice from the CARIFORUM will enter the EU duty and quota-free as of December 31, 2009. The quotas for rice during 2008 and 2009 will be 187 000 tonnes and 250 000 tonnes respectively and this is an increase from the former quota which was 125 000 tonnes.³⁴ Another important clause in the EPA is the fact that the EU will eliminate export subsidies in all agricultural products that the CARIFORUM liberalizes.³⁵

It is clear that the aid and trade preferences, given by the EU through the Lomé convention and Cotonou agreement, have not helped the CARIFORUM to diversify its exports nor to tackle problems with competition policy. It is concluded that aid and trade preferences are not a sustainable solution in order to create a prosperous economy and with assorted industries. To diversify production is a difficult task, especially in rural areas, and requires a progressive approach. There can be developed new activities and industries around the already existing agricultural sector for instance but there will also have to be some input of new sectors and industries.

The tourism sector is of great importance in the CARIFORUM and from which many countries could gain. Even though most of the CARIFORUM countries are more or less dependant on tourism this has not created any strong links between the countries and their national economies. Most of the tourism infrastructure is also foreign owned and in order to attract investors the individual CARIFORUM countries grant foreign investors financial and tax incentives. Since the links between the national economies are so weak in that aspect they are actually competing against each other. Better linkage and new reforms could attract even more foreign investment throughout the area.³⁶

The fact that the EU has agreed to liberalize 100% of its imports from the CARIFORUM is an improvement compared to the preferential treatment under the Cotonou Agreement where only 97% of the goods entered the EU market duty free quota free (DFQF). This will affect in

³⁴ http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138569.pdf, 2008-05-02

³⁵ http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138569.pdf, 2008-05-02

³⁶ http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138569.pdf, 2008-05-02

particular the agricultural sector which no longer meets quotas and duties on for instance bananas.

The LDCs have since 2001 had duty free market access for the EU market for all goods except arms and weapons. For certain agricultural goods, i.e. bananas, rice and sugar, the tariffs have gradually been reduced and bananas now enter duty free and rice and sugar will do so in 2009. The only country in the CARIFORUM which is classified as a LDC is Haiti.

4.2.2 CARIFORUM liberalization:

The CARIFORUM has agreed to liberalize 86,9% of imports from the EU over a period of 25 years. 82,7% of imports will be liberalized over 15 years and then after 25 years hence 86,9%. The 13,% which are excluded from trade liberalization are sensitive products such as agricultural goods, fishery products, food preparations, beverages, ethanol, rum, chemicals (cosmetics, soap etc), furniture and apparel (cotton pullovers/jersey/cardigans) etc.³⁷ For the moment around 50% of the EU imports (in value) enter the CARIFORUM market DFQF. Today the main exclusions are the same as the ones excluded from trade liberalization; agricultural goods, processed agricultural products, chemicals, furniture and industrial products.

The CARIFORUM will on the EPA gain market access for goods and services and also a promise on development support. The EU will gain further market access for goods and services by consecutive opening of the CARIFORUM borders. Furthermore the EU gets binding commitments on the CARIFORUM policies in other areas.³⁸

Haiti is the only country in the area which counts as an LDC and hence benefits from trade preferences even in absence of an EPA.

In Summary, the EPA is of importance to the CARIFORUM since it gives the area unlimited access to the EU market for trade in goods (shorter transition periods for rice and sugar). The CARIFORUM has agreed to liberalize its market for imports coming from the EU and this

³⁷ <http://www.normangirvan.info/the-epa-a-critical-evaluation-norman-girvan-powerpoint-presentation-270408/,2008-03-10>

³⁸ <http://www.normangirvan.info/the-epa-a-critical-evaluation-norman-girvan-powerpoint-presentation-270408/,2008-03-10>

means that the CARIFORUM will have to face competition from the EU and will lose government revenue in forms of tariffs. It is time for the CARIFORUM countries to reform their tax regimes and also to diversify their exports. Agricultural goods are important for the CARIFORUM since they have mostly traditional industries and sugar and bananas are their main agricultural export products to the EU. In next chapter I will talk more about past trade agreements and trade development regarding sugar and bananas. I will also discuss what effects the EPA might have on these sectors.

5. The agricultural sector – sugar and bananas

Sugar and bananas are among the most important agricultural trade goods for the CARIFORUM. The main export crops are sugar, bananas, rice, citrus, cocoa and coffee. For the whole CARIFORUM agriculture stands for around 11% of the regions GDP but the importance of agriculture within the CARIFORUM varies a lot. Guyana for instance is highly dependant on agriculture, and especially on sugar exports, and the agricultural sector contributes to 35% of the country's GDP. Trinidad and Tobago on the other hand is more dependant on their industrial and service sectors and agriculture only accounts for around 1% of national GDP.³⁹

5.1 Sugar

The CARICOM has enjoyed preferential access to the European market for sugar under the sugar protocol since 1975. The sugar protocol allowed the ACP countries to export certain quantities of sugar to the European market at agreed negotiated prices. These prices were higher than those on the world market and were negotiated every year. The sugar protocol has been useful for the CARICOM since the fixed prices and quota of sugar was a predictable income for the region. The sugar industry has for long, thanks to trade, been an important earner of foreign exchange and source of employment.⁴⁰

The CARIFORUM agreed to the EUs denunciation of the sugar protocol in order to facilitate the founding an EPA as well as the EUs reform on its sugar production. One of the key elements in the European sugar reform is to lower prices for domestic producers. Domestic producers which are not going to be competitive at the lower prices would be given financial incentives to leave the sector.⁴¹ The sugar reform and the abandonment of the sugar protocol predict a fall in sugar prices offered by the EU with 36% over the period 2006-2010 with later adjustments over the period 2013-15.

The quota under the sugar protocol for the CARICOM is initially 443 000 tonnes. For a one year period from October 1st 2008 to September 30th 2009 the sugar protocol will remain in force and an additional quantity of 60 000 tonnes of sugar will enter duty free. Of these

³⁹ South Centre, 2008, page 9-10

⁴⁰ Thomas, 2008, pages 3-4

⁴¹ http://ec.europa.eu/agriculture/capreform/sugar/index_en.htm, 2008-05-10

60 000 tonnes extra duty-free half of the quantity has been reserved for exports from the Dominican Republic which does not take part of the sugar protocol.⁴² According to FAO statistics the Dominican Republic produced 5 547 000 tonnes of sugar cane in 2004.⁴³ Furthermore, EU sugar imports from the CARIFORUM after the sugar protocol runs out on October 1st, 2009 will be subject to a minimum price which will be no lower than 90% of the EU reference price until September 30th 2012.⁴⁴

The sugar industry is one of the biggest providers of employment in the CARIFORUM area and the sugar industry has relatively high production costs. The fact that the EU will import sugar from the CARIFORUM to a price not lower than 90% of the EU reference price is an important offer and will help the sugar industry in the area. The CARIFORUM however has to improve competitiveness within the sugar sector as well as other sectors. There are many important sugar producing countries in the world and the CARIFORUM should not only depend on the EU reference price to keep their sugar sector alive.

Based on the CARICOMs current quota under the sugar protocol (443 thousand tons) the financial cost of the 36 % price cut is approximately USD 100 million.⁴⁵ This is a large amount of money for the fairly poor region. Guyana is the largest producer of sugar and its export share of sugar to the EU average around 5-6 %.⁴⁶

Even though sugar is one of the biggest providers of employment in the CARIFORUM the sugar export only stand around 2 % of total exports in the area. Sugar is most important in terms in export in Guyana where it stands for 30 % of national exports.⁴⁷

⁴² http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138569.pdf, 2008-05-02

⁴³ http://www.fao.org/ES/ess/yearbook/vol_1_2/pdf/Dominican-Republic.pdf, 2008-05-05

⁴⁴ http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138569.pdf, 2008-05-02

⁴⁵ Thomas, 2008, page 4

⁴⁶ Thomas, 2008, page 5

⁴⁷ South Centre, 2008, pages 18-19

5.2 Bananas

The CARIFORUM have higher production costs in its sugar production compared to other countries in Central and Latin America and the situation is the same for the banana production. Furthermore, the banana trade in similarity with the sugar trade has for long been subject to controversy because of the EUs preferences given to the ACP countries. Before 1993 all the European countries had their own rules and regulations for trade in bananas. The United Kingdom for instance gave preferential access to bananas from Jamaica, Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines, Belize and Suriname. Germany applied duty free market for bananas from third countries based on estimated consumption. In 1993 however, the EUs Common Market Organization for bananas came into force.⁴⁸

The Common Market Organization for bananas was based on three different classifications depending on the origin of the bananas. There were traditional ACP bananas, non-traditional ACP bananas and third country bananas. The traditional ACP bananas entered the EU market duty free under a country-specific quota. The quota for the CARIFORUM was as follows (in tons):

Belize: 40 000

Dominica: 71 000

Grenada: 14 000

Jamaica: 105 000

St. Lucia: 127 000

St. Vincent and the Grenadines: 82 000

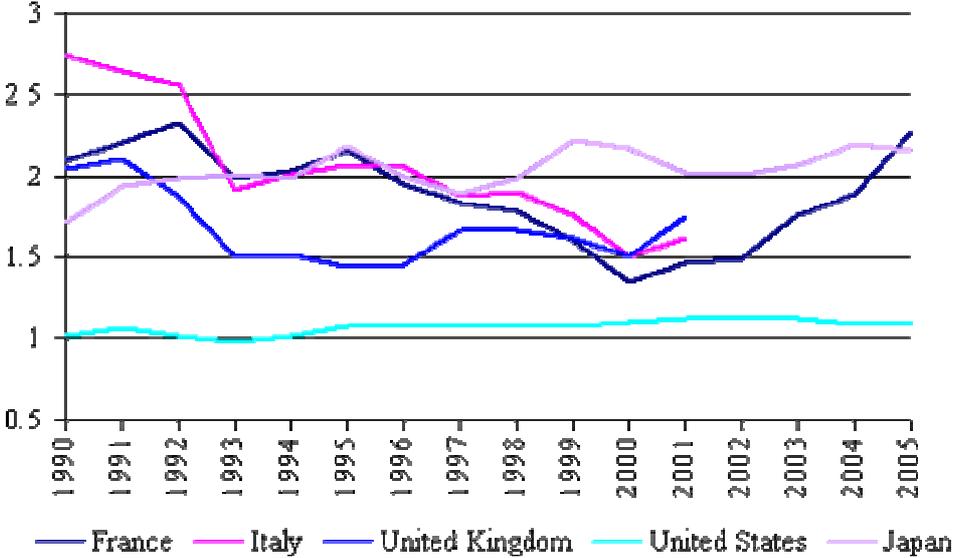
Other countries to benefit from this preferential trade treatment were Cape Verde, Côte d'Ivoire, Cameroon, Madagascar and Somalia. The non-traditional ACP bananas also entered the EU market duty free for a quantity of 90 000 tonnes out of which 55 000 plus 15 000 tonnes were country-specific to the Dominican Republic and Belize respectively. For all non-traditional ACP bananas out-of-quota a tariff was applied. For third country bananas a relatively small tariff applied all imports up to 2,1 million tonnes and on all out-of-quota shipments from a third country a tariff higher than those on out-of-quota imports from non-

⁴⁸ <http://www.unctad.org/infocomm/anglais/banana/ecopolicies.htm>, 2008-05-20

traditional ACP bananas applied. The CARIFORUM countries and St. Lucia in particular benefited greatly on the Common Market Organization for bananas. In the early nine tees retail prices on bananas were fairly high on the European market compared to that on the US market.

Table 5.1

Banana retail prices in selected consuming markets (USD/kg)



Source: <http://www.unctad.org/infocomm/anglais/banana/prices.htm>, 2008-05-20

In 1993 five Latin American countries filed a complaint in the GATT claiming that the Common Market Organization (CMO) violated GATT disciplines. Four of the Latin American countries settled in a negotiation which gave them specific shares of the third country quota in the CMO in return for not bringing any further complaints to the GATT.⁴⁹ In 1996 there was another complaint to the WTO panel (which had now replaced the GATT) from the United States, Ecuador, Guatemala, Honduras and Mexico against the EU regime on importation, sale and distribution of bananas. In 1997 the WTO found the CMO inconsistent with the GATT principle of non-discrimination. The European banana regime was revised three times without getting approval from the WTO and for every revision of the banana regime the support for the ACP countries was weakened. In 2001 the EU, the US and Ecuador came to an agreement which was consistent with WTO and GATT. The agreement allowed the EU to apply a tariff-rate quota regime through import licenses distributed based on past

⁴⁹ <http://www.unctad.org/infocomm/anglais/banana/market.htm>, 2008-05-20

trade for a transitional period from 2001 to 2005.⁵⁰ As of January 1st 2006 the EU has introduced a new banana import regime. This new regime allows the ACP countries to export duty free for a limited quota of 775 000 tons and for all out-of-quota export the bananas will be subject to the full duty rate.⁵¹ For imports from third countries the tariff is 176 euros per tonne. Under the EPA the CARIFORUM gets DFQF access for bananas to the EU market.⁵² The fact that the CARIFORUM now gets DFQF access to the EU market for bananas is not inconsistent with WTO since the EPA is a free trade agreement.

Even though the CARIFORUM are able to export DFQF to the EU they still have to develop their banana production in order to compete with third countries. The importance of the banana industry in several of the CARIFORUM countries is well recognized by the EU and there is a Joint Declaration on Bananas in the EPA which emphasizes this. The declaration acknowledges the need for the EU to keep preferences for CARIFORUM bananas because of the European market importance for the CARIFORUM bananas. Furthermore, the declaration commits the EU to assist the CARIFORUM in funding adjustments in the industry and to support in tackling social issues which may arise from the new trading environment.⁵³ There is however some concern in the CARIFORUM that the EUs MFN tariff will be reduced. Since the EU adopted its new banana regime there has been quota free access for bananas and countries trading with the MFN tariff have increased their exports to the EU with 20%. A group of countries trading with the MFN tariff have called for a reduction in the EU tariff and if this were to happen it would be very difficult for the CARIFORUM producers to compete in the EU market. The MFN tariff of 176 euros per tonne is today what grants the necessary margins for the CARIFORUM to be able to export profitably to the EU.⁵⁴

Even though bananas still today are an important source of income for several of the CARIFORUM countries one can in table 5.2 observe that there has been a substantial decline in exports for these countries, except for the Dominican Republic, from 1990s until today. For St Lucia for instance the banana export earnings have declined from USD 68 million in 1992 to USD 7 million in 2006.⁵⁵ One of the reasons that the Dominican Republics exports have

⁵⁰ <http://www.unctad.org/infocomm/anglais/banana/ecopolicies.htm#allocationsACP>, 2008-05-20

⁵¹ <http://europa.eu/scadplus/leg/en/lvb/l11026.htm>, 2008-05-21

⁵² Taric Database, European Commission

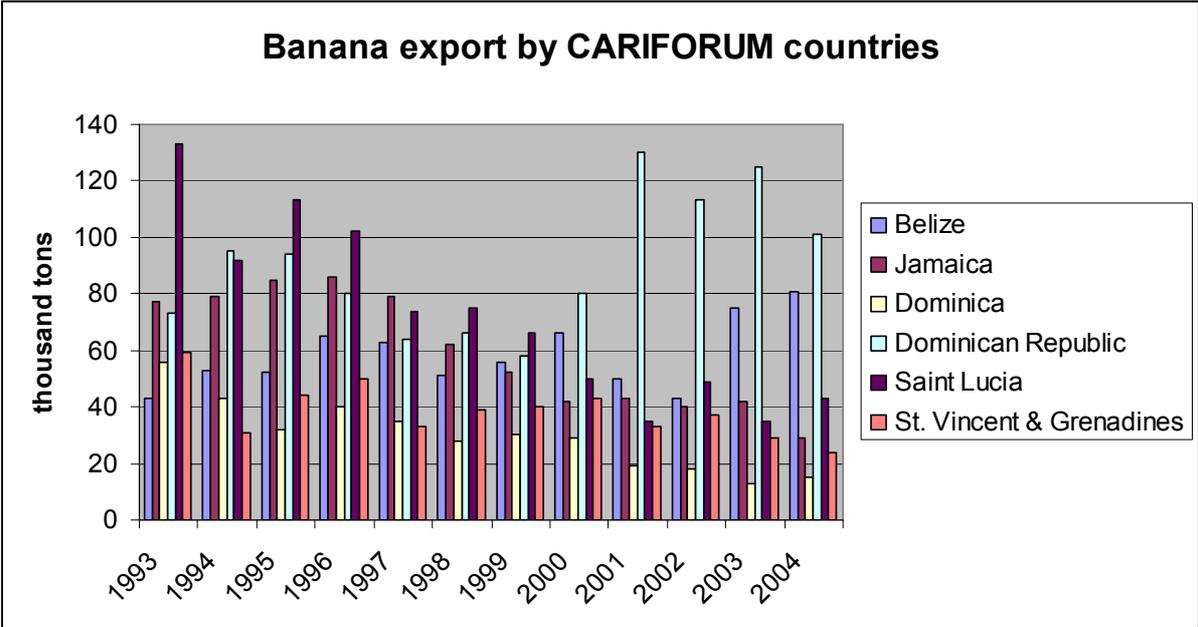
⁵³ http://www.crn.org/documents/updates_2008/special_rnmupdate_on_epa_agriculture.ht, 2008-05-20

⁵⁴ www.caricom.org, 2008-05-21

⁵⁵ South Centre, 2008, pages 18-19

not declined in the same way is that they focus on organic bananas. The Dominican Republic is today one of the largest exporters of organic bananas.⁵⁶

Table 5.2



Source: Own calculations with statistics from <http://faostat.fao.org/>

There are several reasons to why there has been such a decline in banana exports for the CARIFORUM. One reason is the fact that the fairly large country-specific quotas given by the EU in 1993 were met by opposition and ceased to exist in 1997. Furthermore the retail price of bananas has experienced a fall in real terms of 64% from 1990 to 2000. The fall in retail price of bananas was the result of oversupply of bananas in the world market as well as the expectations of the liberalization of the European banana policy. The expectations of the demand in the EU as well as in the US were too high and did not allow for expected levels of banana consumption to be realized.⁵⁷

The price fall in combination with rising production costs and increased competition have made it impossible for the CARIFORUM banana producers to earn as much on their banana

⁵⁶ <http://www.fao.org/DOCREP/MEETING/004/Y1767e.HTM>, 2008-05-20

⁵⁷ <http://www.unctad.org/infocomm/anglais/banana/market.htm>, 2008-05-20

trade as before.⁵⁸ In order to keep the relatively small market share that the CARIFORUM has on the banana market they will have to increase competitiveness and productivity. Many of the banana producers in the CARIFORUM are small scale producers and production costs for them are relatively high compared to producers in Ecuador with large scale advantages. The leading banana exporters in the world are Ecuador, Costa Rica, Philippines and Colombia which together stand for around two-thirds of the worlds banana exports.⁵⁹

In this chapter I have presented the EUs sugar and banana policies and how the EPA concerns these sectors. In next chapter I will draw my conclusions from this study and in particular on how the EPA will affect the sugar and banana industry in the CARIFORUM.

⁵⁸ <http://www.cbea.org/>, 2008-05-18

⁵⁹ <http://faostat.fao.org/>, 2008-05-20

6. Conclusions

The EPA between the EU and the CARIFORUM entered into force on January 1st 2008 and gives the CARIFORUM duty and quota free access for all products with the exception of sugar and rice which will not be liberalized until 2009. The CARIFORUM will have 25 years to open up their markets to the EU and this will give them time to replace tariffs with other taxes such as income taxes and VAT. The European Union has agreed to assist in reforming the tax policies in the CARIFORUM.

Even though the US is the most important trade partner for the CARIFORUM, the EU is their most important market for agricultural goods. Now that there are neither quotas nor tariffs for bananas for instance the CARIFORUM needs to increase productivity to take full advantage of the liberalization. Also here the EU has agreed to help with funding in order to increase competitiveness and productivity. Given that the CARIFORUM banana production is less productive and efficient than many of the producers in Latin America there can be speculations on whether there will be any trade diversion in this case or not. The CARIFORUM have had preferential access to the EU market for bananas for a long time without having gained market shares (except for the Dominican Republic). This is the case since there has been a fall in banana prices and also increased competition due to reforms in the EU banana policy and more competitive producers, such as Ecuador, has increased their exports to the EU. The EU acknowledges the importance of the banana sector in the CARIFORUM. As long as the MFN tariff for the EU is not significantly reduced the CARIFORUM will be able to profitably export bananas to the EU. In theory, if the CARIFORUM banana production increased competitiveness and productivity so much that they could lower their prices to close to those of Ecuador or Peru, there would be trade diversion in favor of the CARIFORUM. Hence, the EU would import from the CARIFORUM rather than from third countries. Yet, the banana trade will with the EPA still be profitable for the CARIFORUM and an important source of income for the main banana exporting countries.

The sugar case is more sensitive since the prices offered by the EU will be lower after the end of the sugar protocol. This fact itself means that the revenue from the CARIFORUM sugar exports will be reduced. As with the banana production, the CARIFORUM needs to improve

competitiveness and productivity in order to increase revenue earned from the European sugar market. Until the sugar protocol runs out the CARIFORUM will both have their quota and fixed price under the protocol as well as unlimited DFQF access to the EU market for sugar. The EU offered the CARIFORUM an even bigger quota which means that the region now can export even more sugar to guaranteed prices until the sugar protocol runs out. The EU has been generous enough to agree to offer sugar producers from the CARIFORUM no less than 90% of the EU reference price, something which allows to predict the future prices of sugar and somewhat future revenues. It is clear that the situation for the sugar sector in the CARIFORUM will be a challenge. It has however been calculated and analyzed that the main sugar exporting countries within the CARIFORUM (Belize, Dominican Republic, Guyana and Jamaica) will remain marginally profitable even after the sugar protocol runs out. It is still unclear what will happen after 2012 when the EU is no longer obliged to pay 90 % of the EU reference price for sugar from the CARIFORUM. Since the EU's new sugar policy is going to reduce European sugar production to sustainable levels the imports will most likely increase. This is an opportunity for the CARIFORUM to improve their production and competitiveness and take more market shares on the EU market. The Dominican Republic is the only country in the CARIFORUM which also takes advantage of the US sugar regime. This is thanks to the DR-CAFTA agreement and because of this fact the Dominican Republic will not be as affected by the EU price reduction as other CARIFORUM countries will be.

Moreover, whether or not the EPA will be trade diverting or trade creating is difficult to predict. The EU is a more competitive region than the CARIFORUM but the CARIFORUM has 15 and 25 years to reform their tax systems and improve their competitiveness. The EU has in the EPA agreed to assist in this by funding and technical advice and help. The fact that the CARIFORUM soon will compete with cheaper EU imports is an important incitement to increase efficiency of local production and improve production in all industries. Furthermore, the CARIFORUM will need to diversify, something that the EU also has agreed in the EPA to assist in, and should not depend on traditional goods such as sugar and bananas for their exports. The fact that the CARIFORUM will open up their markets for European goods may indeed have a trade diverting effect on the cost of the US. The CARIFORUM may prefer goods originating from the EU instead of the same goods originating from the US because of the EPA.

Finally, the questions if the EPA will be trade diverting or trade creating is a difficult one to predict. If the CARIFORUM succeeds to increase productivity and competitiveness within the sugar and banana sector these could very much indeed turn out to be trade creating in favor of the CARIFORUM. Furthermore, if the CARIFORUM manages to diversify its industries then the EPA has a big chance of being more trade creating for the CARIFORUM. Compared to the EU labor and land are relatively cheap in the CARIFORUM. The EPA will most likely not have any trade creating effects in the EU because of the level of development and the relatively small population in the CARIFORUM. It has been argued whether the EPAs are any good for the ACP countries or just profitable for the EU and I believe that the CARIFORUM will be able to gain more on this agreement than the EU. The EU will assist in tax reforms and in trying to reach diversity and the gains of trade creation will be achieved by the CARIFORUM.

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Appendix:

1. This Agreement shall cover the following products:

(i) HS Chapters 1 to 24 less fish and fish products, plus*

(ii) HS Code 2905.43 (mannitol)

HS Code 2905.44 (sorbitol)

HS Heading 33.01 (essential oils)

HS Headings 35.01 to 35.05 (albuminoidal substances, modified starches, glues)

HS Code 3809.10 (finishing agents)

HS Code 3823.60 (sorbitol n.e.p.)

HS Headings 41.01 to 41.03 (hides and skins)

HS Heading 43.01 (raw furskins)

HS Headings 50.01 to 50.03 (raw silk and silk waste)

HS Headings 51.01 to 51.03 (wool and animal hair)

HS Headings 52.01 to 52.03 (raw cotton, waste and cotton carded or combed)

HS Heading 53.01 (raw flax)

HS Heading 53.02 (raw hemp)

http://www.wto.org/english/docs_e/legal_e/14-ag.pdf, 2008-02-08

An international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes. At the international level, the Harmonized System (HS) for classifying goods is a six-digit code system. The HS comprises approximately 5000 article/product descriptions that appear as headings and subheadings, arranged in 97 chapters, grouped in 21 sections. The six digits can be broken down into three parts. The first two digits (HS-2) identify the chapter the goods are classified in, e.g. 09 = Coffee, Tea, Maté and Spices. The next two digits (HS-4) identify groupings within that chapter, e.g. 09.02 = Tea, whether or not flavoured. The next two digits (HS-6) are even more specific, e.g. 09.02.10 Green tea (not fermented) in immediate packings of a content not exceeding 3 kg. Up to the HS-6 digit level, different countries classification codes are identical. Beyond this, countries are free to introduce national distinctions for tariffs by adding more digits to make the HS classification of products even more specific. This greater level of specificity is referred as the national tariff line level. For example the United States of America adds another four digits to its exports and imports to classify them in greater depth. The Harmonized System was formally known as the Harmonized Commodity Description and Coding System. It was developed by the World Customs Organization and the International Convention on the Harmonized System (HS Convention) entered into force on 1 January 1988 (HS88). It has been adopted by most trading nations. The HS In

accordance with the preamble to the HS Convention, which recognized the importance of ensuring that HS be kept up to date in the light of changes in technology or in patterns of international trade, HS is regularly reviewed and revised. The headings and subheadings of HS are accompanied by interpretative rules, and section, chapter and subheading notes, which form an integral part of HS and are designed to facilitate classification decisions in general and to clarify the scope of the particular headings or subheadings. The most recent revision of the Harmonized System came into force on 1st January 2007. See <http://www.wcoomd.org> <http://beta.trademap.net/stGlossary.aspx>, 2008-02-04