ISSN-1011-7741

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INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE

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THE SINGLE EUROPEAN MARKET OF 1992: IMPLICATIONS AND POLICY OPTIONS FOR CARIBBEAN AGRICULTURE

Dowlat Budhram
Lorenzo Rock

26 September, 1991
PROGRAM PAPERS SERIES

WHAT IS IICA?

The Inter-American Institute for Cooperation on Agriculture (IICA) is the specialized agency for agriculture of the inter-American system. The Institute was founded on October 7, 1942 when the Council of Directors of the Pan American Union approved the creation of the Inter-American Institute of Agricultural Sciences.

IICA was founded as an institution for agricultural research and graduate training in tropical agriculture. In response to changing needs in the hemisphere, the Institute gradually evolved into an agency for technical cooperation and institutional strengthening in the field of agriculture. These changes were officially recognized through the ratification of a new Convention on December 8, 1980. The Institute's purposes under the new Convention are to encourage, facilitate and support cooperation among its 32 Member States, so as to better promote agricultural development and rural well-being.

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The contributions provided by the Member States and the ties IICA maintains with its 13 Permanent Observer Countries and numerous international organizations provide the Institute with channels to direct its human and financial resources in support of agricultural development throughout the Americas.

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The Inter-American Agricultural Documentation and Information Center (CIDIA), through its Editorial Service and Print Shop, was responsible for the stylistic and copy editing, typesetting, layout and printing of this publication.

IICA
DP–26 Budhram, Dowlat.
The single European market of 1992 : implications and policy options for Caribbean agriculture / Dowlat Budhram, Lorenzo Rock – San José, C.R. : Interamerican Institute for Cooperation on Agriculture, 1991.
116 p. ; 25 cm. – (Program Papers Series / IICA ; no. 26).

1. Política agrícola – Caribe. 2. Comercio exterior – Caribe. 3. CEE. 4. Integración regional – Caribe. I. Rock, Lorenzo. II. IICA. III. Título. IV. Serie.

AGRIS E10 | DEWEY 382

PROGRAM PAPERS SERIES No. 26
ISSN 1011-77-41

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FOREWORD

The beginning of the current decade already offers an indication of substantial changes in the world political and economic scenario. The events of the last twelve months have no precedent in recent history and have revealed the new dynamics of global relations. Economic forecasting has become a most daunting and difficult task, yet the prediction of events and their implications continues to be in great demand. For the Caribbean countries, the anticipated single European Market of 1992 poses interesting challenges and opportunities, some of which are discussed here, always keeping in mind the unpredictability of events in the current global context.

This study discusses the nature of EEC policies with particular reference to the Common Agricultural Policy and others of significance such as those related to transport, competition, and the monetary system. The recent performance of Caribbean agriculture points up major challenges for EEC-Caribbean trade and cooperation arrangements, especially regarding the diversification of agriculture, the strong need for modernization of institutions, the management of macroeconomic policies, and a strategy that stimulates complementarity between agriculture and other sectors in the Caribbean economy. Most important is the strengthening of national and regional capabilities so as to maintain a common position that will allow for fruitful negotations with the EEC in rapidly changing global conditions.

Carlos Pomareda
Director of Program I:
Agricultural Policy Analysis
and Planning

SUMMARY

Although the EEC countries have a long history of internal warfare and rivalry, they have moved gradually toward a single economic entity, which may possibly become a political union. The Community represents over 30 years of economic and political integration. It has traversed the difficult path to integration, overcoming obstacles through difficult negotiations and strengthening the institutional, policy and social environmental. What can the Caribbean integration movement, itself little more than two decades in existence, learn from the EEC experience? The economic integration of western Europe can and should inform the Caribbean exercise of several broad lessons.

- Perhaps the first basic lesson to be learned from the EEC experience is that of persistence and political commitment of individual governments toward the common goals of integration. Like the CARICOM experience, the road toward 1992 has been anything but smooth. National interests and conflictive lobbying by groups with a narrow economic and political agenda often placed stumbling blocks in the integration path. Nevertheless, the EEC has observed a sure timetable in implementing the several phases of its economic and (now political) integration, by committing itself and its resources (human and institutional) to the unification process. A major factor has been the role of various organs of the Community and strengthening of the administrative, regulatory and political role of its institutions to facilitate economic integration. As a result, Community policies and programs have increasingly transcended the national position. Individual countries have reluctantly but gradually ceded various aspects of their sovereignty so that Community regulations are strictly adhered to and are treated as law within individual countries. In this respect, individual CARICOM governments have often failed to adhere to decisions made by the CARICOM heads of government and its Secretariat is not sufficiently strong to enforce implementation and observation of agreements and regulations.

- For genuine economic integration to be achieved, as the EEC experience shows, additional policies are needed at both the national and regional levels. These include a regional policy for agriculture, regional development, transport, employment, capital, trade, competition, the environment, external relations and fiscal and monetary policy coordination. However, the implementation of these policies must of necessity be gradual since national and regional institutional capacities are very limited and countries are extremely sensitive to their economic and political implications. This is evidenced

by the very modest success achieved in the proposed full political union of the OECS subregion. The Caribbean could also benefit from an in-depth study by a task force of the legal administrative and economic structure of the EEC.

- With respect to the agricultural sector, the EEC's Common Agricultural Policy highlights both the benefits and burdens of deliberate government intervention in agricultural markets, and the inherent difficulties of satisfying the divergent economic and political interests of different constituents in an integration bloc. The CAP has been centered around price support and trade measures for agricultural products. The EEC's experience with the CAP has shown that while government intervention can assist in agricultural development and growth (if such policies are formulated and implemented in such as way as to distort underlying market signals), then economic inefficiency and misallocation of scare resources will result. For example, if there is agreement on price support that includes interest rate credit subsidies, the EEC's experience demonstrates the need for additional complementary mechanisms that provide incentives for efficient production.

- The CAP highlights the problems inherent in having a common policy for heterogeneous regions possessing varying natural resource and other endowments, farming practices and social attitudes. The CAP has often been said to worsen rather than improve regional disparities in the Community. The EEC has been forced to strengthen its regional policy and increase its social funds to complement the CAP in resolving regional economic imbalances. This also demonstrates that agricultural policy per se cannot solve the problems of the sector. A study of this particular aspect of the EEC experience would be very informative given the diversities that currently exist in the Caribbean in economic conditions, comparative advantage and resource endowments.

- The CAP also demonstrates the need for a unified structure to address trade issues with third countries. The Common External Tariff of the EEC has been implemented to protect domestic EEC agriculture while custom duties on intra-EEC trade have been abolished. Myriad technical and administrative requirements have nevertheless been used in EEC member states to circumvent free intra-EEC trade. The single market of 1992 will remove such barriers. The gradual move toward unhindered EEC intra-regional trade is an important lesson for the Caribbean. For example, there have been several violations of the "rules of origins" stipulated in the CARICOM Agreement. On occasion, Caribbean countries have exported goods originating from third countries to other CARICOM states under the pretext that these were domestically produced. This has often served to injure domestic agriculture and industry in these states and to weaken the integration movement. While it can be argued that regulations in the Caribbean regarding the rules of origin were not very definitive, the experiences of the EEC in such matters can inform the Caribbean initiative.

- The EEC has gradually coordinated and is moving toward integration of the monetary, fiscal and exchange rate policies of its member countries. This is necessary for economic stability and growth of the Community. Experiences indicate that when such policies vary and are uncoordinated the Community's efforts for closer economic integration are self-defeating. The Caribbean experience also suggests that policy coordination provides additional economic benefits. The evidence shows that those countries which have adopted a coordinated monetary policy (e.g., the OECS) have contributed to a strong and stable currency, economic stability and consistent growth. Another example is the adoption of differential exchange rates for extra-regional and regional trade before by Jamaica and Trinidad and Tobago, which discriminated against regional trade. This is a critical issue which the Caribbean integration movement should address as it formulates its strategies for regional economic growth in the future.

- The success of the efforts toward economic and political integration in western Europe was also a result of a continuous process of issue dissemination, education, debate and interaction involving diverse institutions and interest groups as well as the general populace. The political commitment by member countries has been supported in general by involvement of broad sections of its people. With respect to the Caribbean, the political commitment to the integration process has not been sufficiently strong. This is reflected in the long delays in implementing decisions and regulations adopted at the area level. In view of the urgency of a regional approach to address economic and social issues, national governments as well as the regional institutions need to better market the idea of integration to Caribbean nationals. A comprehensive campaign of informative publicity including seminars, public debate and research on the benefits of integration and the necessary steps is needed. This is critical if there is to be effective political commitment to Caribbean integration.

The single European market of 1992 has raised the possibility of the Caribbean losing its preferential markets for its main exports, sugar and bananas. While the available evidence at this point in time does not indicate the immediate or even the medium-term loss of these markets, general developments inside and outside of Europe signal the possibility of contracting export markets for Caribbean agricultural products. These include the consequences of the single market, technological changes, efforts to reform the CAP, the possible implications of certain agreements from the GATT negotiations, and the development of special trading arrangements between the EEC with regions including the Mediterranean and North Africa, Latin America and eastern Europe.

It is envisaged that Latin American countries would be the most important rivals for agricultural market shares in Europe and North America. A major implication of such developments would be the adverse economic and social consequences which a reduced market and declining prices for the major agricultural exports would have on Caribbean economies. Given the current price advantage which Latin American agricultural producers have vis-a-vis their Caribbean counterparts, it is essential that Caribbean producers employ enhanced technologies in their production processes and improve their production efficiency as much as possible to remain competitive in external markets.

Other developments in the world economy will also provide severe challenges for the Caribbean if it is to sustain economic growth and be cost competitive in external markets. These include the trend toward formation of mega-trading blocks and the possible enlargement of existing ones (USA-Canada-Mexico-Central America, EEC-Eastern European countries, and the Asian Group), trade and aid concessions to eastern European countries by North America and the EEC, rapid changes in technology which cannot be easily accessed by Caribbean countries and changes in consumer preferences, market requirements and regulations in importing countries.

The above possibilities have enormous implications for Caribbean economies in general, and specifically for the agricultural sector. The challenges will be many and severe, as will the opportunities which the above developments will provide to the Caribbean. How successful the Caribbean can deal with such challenges and opportunities will ultimately depend on such interrelated factors as its preparedness to meet the challenges, its choice of strategies, the political commitment of its governments, efforts to deepen the integration process and the swift execution of policy decisions.

Based on the discussions in the Chapter 4, a number of broad policy recommendations which the Caribbean needs to seriously consider if the region is to adjust successfully to the challenges of 1992 and beyond are set out below.

Two complimentary lines of action are recommended for the Caribbean: (i) to lobby for continued protection of traditional exports in the short and medium term while doing everything possible to increase production efficiency; (ii) to diversify the agricultural base and economies in general toward goods and services, which market research has firmly indicated to have significant economic and export potential. To achieve this, governments must necessarily establish the relevant support structures and provide the required incentives to the agricultural sector. These include:

a) A commitment by regional governments to strengthen mechanisms to promote intra-regional agricultural (and general) trade.

b) Adoption of a common policy for the region's agriculture and established of the necessary mechanisms and institutions of support.

c) A speedy implementation of the Common External Tariff and Rules of Origin with a view to reducing some of the price disadvantages of local production.

d) Encouragement of stronger agriculture-tourism and agro-industry linkages based on comparative advantages in regional production.

e) Reduction of the bias against the agricultural sector by affording agricultural investment and agri-business opportunities similar fiscal incentives and concessions afforded to the manufacturing, tourism and service sectors.

f) Establishment of a tax regime biased toward non-traditional agricultural exports.

g) A focus on diversification to products whose potential for production and marketing has been thoroughly researched. Priority should also be given to export products with low bulk and high domestic value added.

h) Rationalization of agricultural production on a regional scale to support national and regional specialization in production.

i) The design of support policies for agriculture that allow for a more fluid and dynamic sector constantly adjusting to domestic needs and external market preferences.

j) Establishment of consistent land use and land reform policies to avoid the divergence of prime agricultural land from agriculture; provision of incentives for investment, land management and environmental protection.

k) The granting to the CARICOM Secretariat, or an associated regional institution, of powers and the necessary support (human, financial, legal) to enforce agreements and implement common policies.

1

INTRODUCTION

Background

The European Economic Community (EEC) has gradually moved from an economic grouping of six countries in 1957, when the Treaty of Rome was signed to establish the integration movement, to a proposed single, integrated market of 1992 with twelve member countries. The idea of a single European market is not new. The Treaty has as one of its goals the creation of a common market in which there would be harmonious development of economic activities, a continuous and balanced economic growth, an accelerated increase in the standard of living and closer relations between member states. The Treaty envisaged that a future, prosperous Europe will depend on political and economic unity deriving from a single, integrated market.

Unlike the EEC of 1957, the Community today has grown to become a stronger, dominant economic and political entity on the world scene. It is a major producer of goods and services and its role in influencing the world's trade and financial situation is unique. Its economic fortunes and its ability to influence those of other countries are unparalleled. The developing world, particularly those countries belonging to the African-Caribbean and Pacific group (ACP countries) have become heavily dependent on the EEC through special trading and aid arrangements. The move towards a single European market, therefore, is of great economic and political significance for these countries, especially the relatively small ACP states in the Caribbean.

The proposed unification of Europe is only one of several major new developments in the world economy, all of which will affect the future prosperity of the Caribbean. These include negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), recent political changes in eastern Europe, the move towards formation of mega-economic blocs such as the EEC, USA-Canada (with possible inclusion of Mexico and Central America), and the countries in the Far East.

A single European market in 1992 will, nevertheless, have various economic, trade and legal implications for Caribbean countries. A unified Europe offers challenges as well as opportunities to the region. However, it is too early to ascertain what the specific implications will be, partly because various negotiations between the EEC and ACP countries are still on-going and the precise mechanisms through which the single market will operate have not yet been fully elaborated.

Despite this uncertainty, several initiatives are being undertaken to examine specific issues related to the implications of the single market on the Caribbean. In fact, the Caribbean Community (CARICOM) has commissioned two studies to address some of the issues related to the 1992 unification of the European market. The first is a broad study that looks at legal implications, the current marketing arrangements for traditional and non-traditional agricultural and manufactured products from the Caribbean in the European market and implications for the various service sub-sectors. The second study focuses on the likely impacts of the single European market on the Caribbean-ACP banana producers.

These studies together, however, do not comprehensively address implications of the single market for the region's agricultural sector. Major changes in the "rules of the game" governing EEC-Caribbean trade would have far-reaching consequences on Caribbean agriculture, foreign exchange earnings, employment and resource allocation. These impacts would not be felt solely in the agricultural sector, but would also affect the entire Caribbean macroeconomy, given the importance of EEC-Caribbean agricultural trade to national income, foreign exchange earnings and employment. The implications are crucial for the region's economic and political stability and survival.

At this time, it is too early to determine the medium-to long-term impact of the single market in 1992 on the EEC's policy of granting Caribbean countries preferential markets, but it is essential that the region places itself in the best position to minimize the shock of any loss of preferential markets for key exports, or to take advantage of any policy of continued trading preferences and opportunities provided by an expanded EEC market.

This study complements other studies by focusing more on agricultural sector issues, while looking beyond the consequences of 1992 for individual preferential markets. It also addresses some issues related to significant developments in the world economy that are critical to Caribbean countries.

The study does not pretend to be prescient as to the precise implications of 1992 and beyond, prescribing an unequivocal path for agricultural and general economic policy in the Caribbean. Its aim is more modest —to identify possible scenarios and issues related to the single market and global economic developments which can inform the policy process in the Caribbean, so that appropriate strategies can be prepared in response to such developments.

Organization of the Study

The first section (four chapters) provides a background of the policy framework of the EEC, the economic role of agriculture in the Caribbean, and trading relationships between the Community and the region. Chapter 2 provides an overview of the policy framework in the EEC which guides the Community's efforts towards a single market. These include the Common Agricultural Policy (CAP), competition, transport, fisheries, and economic and monetary policies. Chapter 3 discusses the role of agriculture within the general economic framework of Caribbean countries, focusing on the importance of specific agricultural activities in the various economies and Caribbean-EEC trade relationships. Chapter 4 discusses the policy basis for the Caribbean's current trading arrangements with the EEC and reviews the Lome Conventions and the benefits which these have conferred on the region.

The second section (three chapters) discusses the likely implications of the single market for Caribbean countries, policy responses to the single market and the lessons of EEC's economic integration for the Caribbean. These include changes in the CAP and in the current preferential trading arrangements, the consequences of monetary integration and the likely impact of changes in eastern Europe on the Caribbean (Chapter 5), policy options for retaining a preferential trading status and diversification of agriculture (Chapter 6). Finally, Chapter 7 identifies some lessons from the EEC experience which can inform the Caribbean's efforts at strengthening economic integration, concluding with a summary of the main issues and policy recommendations for agriculture.

2

EEC POLICY FRAMEWORK AND MARKET UNIFICATION

The Common Agricultural Policy (CAP)

Genesis of the CAP

The EEC was established by the Treaty of Rome in 1958 and was charged with the development of European agriculture. At that time, the six EEC founding members (Belgium, France, West Germany, Italy, Luxembourg and Holland, known as EUR-6) were not self-sufficient in the production of several basic agricultural commodities. It was also considered urgent at the time that agricultural policy should seek to improve European agricultural incomes to bring them up to par with those of the other productive sectors.

Article 39 of the EEC Treaty sets out several objectives for the agricultural sector. These include:

- To increase agricultural productivity, foster technical progress, and assure rational development of agricultural production, as well as optimal utilization of factors of production, in particular labor.

- To guarantee an equitable standard of living to the agrarian population, comparable to that in other productive sectors, especially through increased incomes of those who work in agriculture.

- To stabilize markets, avoiding undesirable price swings.

- To guarantee the security of supplies.

- To assure the consumer of supplies at reasonable prices.

The Treaty also mentioned some of the instruments for the implementation of the Common Agricultural Policy. These include a common organization of markets, a uniform price policy and the establishment of Community funds. However, the Treaty did not specify more than a general framework for agricultural development. At the Agricultural Conference of Stresa (Italy) in July 1958, the signatories to the Treaty enlarged on the objectives defined therein and set guidelines for the CAP. In its final resolution, the Conference adopted the idea of an agricultural common market and the concept of agricultural development fully integrated into the general economic development process. The importance of structural adaptation and the need to enhance agricultural productivity was highlighted, thus establishing a relationship with the objectives originally defined in Article 39 of the Treaty.

The CAP is one of several common policies of the Community; other common policies include those in the areas of transport, trade and competition. These other common policies are seen as critical to the long-run success of the CAP, as a common (agricultural) market can only operate successfully if free competition exists and firms and governments do not adopt policies that unfairly restrict competition. The EEC member states have delegated the Community as the sole authority to formulate these common policies.

Agriculture occupies a special place in the Community's policies and is considered as "one of the bases" for economic integration in Europe, despite its relatively low share in real output. Indeed, a great part of the Community's regulations make reference to the agricultural sector; in fact, agriculture dominates the EEC's budget, accounting historically for over two thirds of expenditures. (See Table 2.1).

Table 2.1. Development of the general Community budget, 1973-89.

	Million ECU		%	
	1973	1989	1973	1989
Agriculture and fisheries	3,627	30,032	80.6	67.0
Regional policy	-	4,294	-	9.6
Social policy	249	3,232	5.5	7.2
Research, energy, industry, environment and transport	70	1,536	1.6	3.4
Development cooperation	61	1,032	1.4	2.3
Miscellaneous	250	2,562	5.5	5.7
Administration	248	2.153	5.5	4.8
Total	4,505	44,841		

Source: Commission of the European Communities 1989.

The achievement of a common agricultural policy presupposed the removal of all existing custom duties and tariffs between member states and a unification of trade measures vis-a-vis third countries. It was also quintessential that a common agricultural pricing system be established for all EEC members, and the price support policy has become the key agricultural policy instrument of the Community.

Once the objectives and principles of the CAP were established, common market organizations were formed, the most important of which have been those based on price support and intervention and those based on protecting European agriculture from external competition.

Operational aspects of the CAP

The Community finances the costs of the common agricultural market through the European Agricultural Guidance and Guarantee Fund (EAGGF). This fund operates on a common basis irrespective of the product or of the member state involved. The Guarantee section of the EAGGF, which utilizes the larger share of available budgetary resources, has as its highest priority to meet all expenses due to the minimum price guarantee, interventions and compensation of exports to third countries. The Guidance section contributes funds aimed at structural changes for the upgrading and reorientation of European agriculture.

Within agriculture, the EEC's budget is skewed toward support of certain commodities (such as wheat, grains, dairy products). As a result, the importance of these commodities in some countries (e.g., France, Denmark and Holland), and in some regions within a country, meant that benefits accrue disproportionately to certain regions and member countries. This has served to reinforce existing inequities both between regions at the national level and between countries at the Community level.

Recently, there has been growing concern from both within and outside Europe for reform of the CAP. Despite some impressive results, the CAP has been far from problem-free. On the positive side, production has increased considerably in terms of per capita output and productivity (per unit of land). The CAP has been the driving force behind the process of structural modernization in the agricultural sector and the development and transfer of agricultural technology. In turn, the increase in productivity, output, technical progress with regard to post-harvest handling and preservation of food crops and the growth of intra-community trade have all led to a high degree of food self-sufficiency within Europe, thus alleviating the problems of scarcity characteristic of the 1945-50 period. It has also contributed to substantial agricultural surpluses, and the EEC has become the second largest exporter of agricultural commodities in the world behind the USA. Taking a common approach to trade with third countries has made the EEC a world leader in total trade and its actions are key determinants of the behavior of the world agricultural market.

The existence of a common market has been an undeniable benefit for all members of the Community, as evidenced by its continual expansion; even the most "backward" regions have benefited from the development process. Agricultural commodities now circulate throughout EUR-12 with much greater freedom than is possible without a common approach. When placed within the context of the enormous structural complexity and diversity of European agriculture and the various economic, social and political interests at play, the results are even more impressive. Politically, the CAP represents a genuine common policy and is the standard bearer for European unification.

The CAP without doubt has achieved many of its stated objectives. At the same time, it has left unresolved various problems or has created new ones, most notably high budgetary costs, over-production and regional disparities. Overproduction has created surpluses of commodities such as butter, cheese, meat and grains at a considerable cost to the Community. Available data for 1987/88 indicate that the Community achieved better than self-sufficiency (114%) for total cereals (126% for wheat, 121% for barley), 128.9% for sugar (for 1988/89), 107% for fresh vegetables, 105% for beef, 103% for pork and an average of 132% for milk and dairy products. The EEC alone accounts for more that 35% of the total share in world trade in milk and dairy products. As a result, the CAP has contributed to depressed world market prices, affecting other producing countries such as the USA, Canada and Australia. It is estimated that the value of producer support in the EEC in 1986/87 was in excess of US$50 billion, of which about US$ 45 billion were spent to support the cereal, diary and meat sub-sectors. The amount spent by the Community in these three product areas is much greater than the amounts spent on agriculture by the USA and Japan, about US$37 billion in the same period.

Besides the problem of budgetary support, the concept of financial solidarity has been undermined to some extent. National assistance to the agricultural sector over and beyond EAGGF contributions meant that the richer countries of northern Europe, with their better equipped agriculture, have increased their advantage over the countries of the South, whose governments have not been able to match the North's degree of support to the sector. This process, coupled with the preferential treatment afforded certain products (milk and cereals) under the CAP, have the economic advantage of encouraging the production of commodities in areas best suited for these ("optimal" allocation of resources). It has in large measure contributed to growing income inequalities across regions and has hindered the Community objective of achieving a more even distribution of agricultural wealth. Some inherent characteristics of the CAP which have threatened its viability also include a lagging structural, as compared to market, policy, in the sense that the diversity of the EEC's agriculture makes it difficult to support the different agricultural commodities and develop regions equally.

The EEC's policy of focusing on frontier barriers to trade (with third countries) so as to protect EEC agriculture has meant that much of the real burden of financing the CAP has fallen on consumers. This burden is felt primarily in terms of higher prices for agricultural products relative to world market prices. It is estimated that, in 1986/87, about 85% of the cost of producer support was borne by consumers in the form of higher prices. The CAP has for the most part favored producers over consumers, with a primary objective to secure improved incomes for farmers and to narrow income differentials in agriculture. Nevertheless, there is no clear evidence that the CAP has led to a narrowing of income disparities within agriculture. A study by the Organization for Economic Cooperation and Development (1987) has found that, in the EEC, more than 75 percent of agricultural aid is received by less than 25 percent of all farmers.

The CAP has had a considerable influence on the EEC's relationships with third countries. These relationships have also exerted direct and indirect pressures on the CAP and European agriculture. The most important forum for EEC-third country issues in agriculture has been the General Agreement on Trade and Tariffs (GATT) negotiations. The USA has been the major, though not sole, critic of the EEC's external agricultural policy; in fact, over the years the EEC and the USA have waged a subsidy and regulatory "cold" war. At issue is the financial support by the EEC to its agricultural sector and its insulatory policy in trade that has restricted the entry of US products to the Community, and promoted competition in the world market. This has resulted in both direct and indirect cost increases to the USA.

Pressure from third countries over alleged unfair trade practices of the EEC, together with internal structural pressures for reform and recognition that the Community could not continue to finance the CAP as presently structured, have led to a reappraisal of the CAP. While not leading to core changes in the CAP or the EEC's fundamental position that the Policy and protection of its agriculture are essential to European development, such pressures have forced the EEC to recognize the need to limit agricultural production and to institute policy reforms.

The EEC Ministers of Agriculture have already taken a number of decisions along these lines as regards milk, meat and cereals. To restore market balance in these sectors (with income support for the farmers affected), prices have been frozen and the conditions for intervention have changed. At the same time, there has also been agreement on the need for a drastic reduction in production of commodities where a surplus exists.

Other Common Policies

Competition policy

Free competition between companies providing goods and services, whether in the public or private sector, guarantees a wider choice for consumers and helps to lower prices. It also provides a powerful stimulus to technological and economic progress as competing companies are constantly forced to innovate. Yet, left unregulated by government, the market of itself does not guarantee free competition. Companies may enter into collusion; competition can destroy itself if economic concentration leads to the creation of monopolies. Also, social objectives may not coincide with the outcomes of the free play of market forces. In addition, national governments may be encouraged to establish rules and regulations to benefit their nationals at the expense of other (EEC) citizens.

The objectives of the European Competition Policy are:

- To prevent companies from re-establishing frontiers abolished 25 years ago through the less visible but equally effective means of market-sharing agreements and export bans. Both consumers and traders benefit from this policy —consumers do because they can enjoy the lowest prices available in any of the member countries; traders, because they have access to a market of a European scale.

- To prevent excessive concentrations of economic power from damaging the interests of consumers, competitors or subsidiaries. Fair competition and free movement of goods are protected by preventing companies from abusing dominant market positions and preventing the concentration of economic decision making in too few hands, especially in the coal and steel sectors.

- To prevent national aids from giving unfair advantages or distorting competition in such a way that economic forces are disturbed and the very existence of the Common Market is threatened.

European competition policy is set out in broad terms in the treaties governing the Community. An impartial body monitors the market, and occasionally punishes offenders. This responsibility is that of the European Commission, which enforces the Community's competition, law acting either on its own initiative or by following up complaints from member states, companies or individuals.

Each year the Commission reports on its work to the European Parliament. The cases dealt with run into the thousands. In many instances they are resolved by voluntary policy changes by the companies concerned. Sometimes the Commission finds in the company's favor. In other cases, the Commission orders a change of policy or imposes fines, which may amount to millions of ECU. Companies have a right of appeal (against the Commission's decisions) to the European Court of Justice, which rules on points of European law.

The European competition policy must not, however, be seen as a purely punitive one. It also encourages positive developments. Economic and social progress often comes about through various forms of cooperation between companies. The Commission attempts to promote these through its power to authorize agreements which, in the words of the treaties, "contribute to improving the production or distribution of goods or promoting technical or economic progress... without imposing on the undertakings concerned, restrictions which are not indispensable to the attainment of these objectives, (and without) affording such undertaking the possibility of eliminating competition in respect of a substantial part of the products in question."

A further issue is that of state aid, whether to private or public enterprises. The European treaties deem such aid incongruent with the Common Market in so far as it distorts trade between the EEC members or damages competition among firms. However, certain forms of aid are permitted, such as that which aims to correct regional imbalances or allow struggling industries to readapt.

In summary, the EEC's competition policy has dual objectives:

- To prevent member states from distorting competition by giving favored treatment to certain enterprises.

- To prevent firms from carving up markets by erecting new barriers to trade.

Through its various operational mechanisms, the policy aims to defend the interests of the consumer and, in the long run, to guarantee dynamism in the European economy.

Transport Policy

Under the EEC treaty, transport policy (established in 1970), like agricultural policy, was intended to be a common policy area. But very little has emerged so far in the way of common solutions in this complex sector. The EEC transport policy covers the sectors of rail, road, inland waterways, sea transport and civil aviation. The individual types of transport, in particular road freight, railways, and inland waterways, still largely rely on the old national structures. As such, they are still supported by the respective member states which, for a variety of reasons (economic, geographical, political and historical), pursue their own transport strategies. Countries have different rules and regulations and the technology also differs among countries. In addition, the pattern of roads and railways tends to be directed inward, toward national capitals, rather than toward borders. Moreover, the difficulties facing implementation of a common transport policy have increased with further enlargement of the Community.

However, the continued success of other Community policies (agriculture, industry, regional development, energy, environment and tourism) relies heavily on the quality of the Community's transport services. The elimination of distortions to competition and discriminations affecting transport undertakings is an indispensable pre-condition for the genuine achievement of one of the basic principles of the single market: the free movement of people and goods.

Recognizing the need for a more effective common transport policy, a number of objectives have been laid down by the European Commission for the next few years:

- To increase the integration of national transport policies.
- To improve competition between different forms of transport and within each sector.
- To strengthen the productivity and efficiency of the European transport network, notably through reduction of bottlenecks and bureaucratic constraints.
- To contribute financially to a number of major infrastructural projects of Community-wide importance.

The common transport policy sought by the Commission and the European Parliament also implies a series of other measures on safety, technical harmonization, protection of the environment and working conditions.

Some progress has already been made towards harmonization. Common rules have been agreed to, for example, on lorry weights and drivers' hours. Agreement on multi-modal containers has greatly eased the passage of international freight and restrictions on cabotage —the right of "foreign" haulers to pick up and deliver goods in other member states' borders— should be abolished by the end of 1992. European unification is encouraging an integrated transport system to grow, one that is more fully financed by and subject to the control of the Community.

Fisheries Policy

In 1957, the Treaty of Rome envisaged the creation of a common Community fisheries policy as part of the common agricultural policy or "Green Europe." But the birth of "Blue Europe" has been a long time in the making. The first decisions, covering three areas, were taken by the Council of Ministers in 1970 and the principle of common access to all fishing grounds in the Community was established. A common market organization for fish was created, based on the establishment of producer organizations and the operation of price support mechanisms and protection for the Community market. Finally, it was decided that there be coordination between the structural policies of member states with financial help from the Community.

"Blue Europe" came into being on January 25, 1983, when the common fisheries policy was implemented. The Community now has a comprehensive body of laws to regulate its fishing industry. "Blue Europe" was re-launched to include radical changes that have taken place in the fishing industry. These include:

- The extension of fishing zones to 200 miles in 1975 by a number of countries (most importantly, Canada, Iceland and Norway) on the Atlantic coastline. In 1977, the EEC adopted similar measures to protect its members.

- Related to the extension of fishing limits was the problem of exhaustion of fish stocks, as EEC fleets were forced out of their traditional distant fishing grounds into the EEC's own fishing zone.

- The need to manage and conserve fishing resources to ensure the survival of the fishing industry. The *raison d'etre* of the common fisheries policy is to help the industry measure up to these challenges. The policy has four main spheres of operation: access, and conservation and management of stocks; organization of the market; structural changes; and international agreements.

The first sphere of operation focuses on determining yearly limits for catches of various species to prevent potential over-fishing. It also establishes a compromise agreement, granting national governments preferential access for their citizens to fishing grounds up to a 12-mile limit from their respective shores.

Organization of the market is aimed at promoting a rational development of the fisheries sector, ensuring a fair reward for fishermen, stabilizing markets and guaranteeing supplies to the consumer at reasonable prices. Its major provisions are (a) marketing standards; (b) producers' organizations; (c) a pricing system, and (d) an external trade policy.

To assist in the industry's restructuring, the Community has adopted a plan for capacity reduction by developing aqua-culture, sponsoring expeditions aimed at discovering, developing under-exploited resources and new fishing grounds, and supporting national efforts to build and modernize fishing fleets. The Commission has been given the exclusive mandate for international fishing negotiations on behalf of its members.

Economic and Monetary Policy

Background

The Community's founders fully realized that the creation of the common market and the effective implementation of common policies would have to be accompanied by a common economic and monetary policy. It was clear that the gradual establishment of the common market would lead to growing economic interdependence between the member states, making it more difficult for them to pursue their own short-term economic policy objectives. However, economic and monetary policy measures diverged as economic inter-dependence grew, and it became essential to establish some common ground in these policy areas.

When the Community was founded, member states were reluctant to cede their sovereignty to the Community in matters of monetary, budgetary and fiscal policy. Instead, the common aims of national economic policies were laid down, whereby the member states committed themselves to the goals of full employment, price stability, balance of payments equilibrium and currency stability. The six founding members also resolved to coordinate their economic policies in close consultation with the Community's institutions. But responsibility for formulating and implementing economic policy was to remain the sole prerogative of member states. It was soon clear that the lack of a unified monetary and fiscal policy would constrain progress toward a true common market and impede the integration process. However, despite the establishment of a timetable in 1971 for achieving economic and monetary union, the pressures facing individual governments in the turbulent 1970s and 1980s reinforced unilateral national action at the expense of a common approach.

A salient feature of the monetary scene in Europe during the 70s and early 80s was markedly divergent inflation, interest and exchange rates and frequent currency revaluations. This turbulence in exchange rates between EEC currencies had direct consequences for the nature and management of the CAP: a system of common agricultural prices can work smoothly only if exchange rates remain stable. The European Monetary System (EMS) has indeed helped to reduce such exchange rate fluctuations, but has not eliminated them. These fluctuations are still a threat to the very existence of the common agricultural market. A correcting mechanism called monetary compensatory amounts (MCAs) was later instituted.

When a country revalues its currency, the prices paid to its farmers (the common prices expressed in national currencies but fixed in the European Currency Unit - ECU) should be reduced by the same rate. In the case of devaluation, farmgate prices need to be raised. However, immediate and sharp fluctuations in exchange rates are not acceptable in most of the countries as they undermine the stability of farm incomes and food prices. To address the problem of stability, the Community agreed that the necessary changes should be phased in gradually, using special "representative rates" also called the "green parities." But if the difference between the official rates and the green rates were not bridged, there would be a divergence of prices between member states, resulting in distortions in intra-Community trade. As a result, a system of monetary compensatory amounts (MCAs) has been introduced, which covers the differences between the official parities and the green parities. A country which revalues its currency pays compensatory amounts on exports and charges them on imports; the opposite is the case for a country which has devalued its currency.

A distortionary element in the use of green rates is its application to outputs and inputs. The application of the green rates to agricultural product prices in a country (which has revalued), expressed in its domestic currency, at first maintains prices at the pre-revaluation level. On the other hand, imported farm inputs, not subject to MCAs, cost less because they are paid for at the official (revalued) rate of exchange. The reverse occurs if there is a devaluation. The unequal treatment of inputs and agricultural products also has important effects in some sectors of production (e.g., pork, poultry, eggs and to some extent milk, beef and veal).

On the whole, MCAs have made it possible to maintain unity of the market and survival of the policy, despite the differences in prices when expressed in national currencies. However, the mechanism has certain shortcomings, among them high costs. About 12% of agricultural expenditure took the form of monetary compensatory amounts in 1977, when there were big currency movements. But it is the long-term effects of the system which are perhaps the most important. Persisting differences between the official parities and the green rates tend to distort competition, constrain structural adjustment of agriculture, and jeopardize the optimum allocation of available resources in the Community. Suppliers would attempt to sell their goods in those markets, where the differential between official parities and green exchange rates afforded the highest margin to them. This distorted intra-Community trade flows and threatened the common agricultural market with collapse. On the whole, calculating MCAs has proven complex and cumbersome, and in a real sense the need for MCAs contradicted the establishment of a common (single) agricultural price applicable in the Community.

The problems of instability caused by varying exchange rates are further compounded by different rates of inflation and interest rates, which together have caused a divergence in the benefits of the CAP. It has thus been firmly recognized that the only lasting solution to the emergence of monetary compensatory amounts and the constraints to a true, common agricultural market and policy was the attainment of economic and monetary union.

European Monetary System

The setting up of the European Monetary System (EMS) in March 1979 gave a new dimension to European monetary cooperation. Its purpose was to create a zone of monetary stability in Europe as free as possible of wild currency fluctuations like those which occurred in the wake of the collapse of the Bretton Woods System. It was largely because of the volatility of exchange rates that European firms limited their involvement in major, long-term investment projects in other Community countries and was unable to take full advantage of the common market. With frequent unpredictable shifts in exchange rates, firms found that making broad economic calculations had become too risky and the stakes were too high for their liking.

The EMS is essentially an international, intra-community agreement, amending the original "European Snake," the former system for stabilizing exchange rates between EEC countries, in operation since 1972. Under the EMS, there is a central peg around which member countries are allowed to vary their currencies with uncertain margins. Additionally, there is a policy of "managed" floating between their currencies and the currencies of countries outside the system.

The purposes of the EMS are:

a) To develop European economic union in the long term;

b) to promote economic convergence in Europe in the shorter term;

c) in the immediate term, to stabilize exchange rates between the currencies of the member countries, so as to ensure that speculation against the US dollar on foreign exchange markets do not distort exchange parities between the European currencies in the EMS. The EMS also encourages stability of exchange rates between Community currencies and other international currencies.

The main features of the EMS are as follows:

- It has created a new currency, the European Currency Unit or ECU. An ECU is a unit of currency based on a "basket" of currencies of all the participating countries, plus sterling. The value of the ECU therefore depends on the weights given to each individual currency in the basket. These weights were based originally on the relative importance of each country's currency at the time in EEC trade. There was some expectation that the ECU might become a major "reserve asset" for international liquidity. The value of the ECU against non-member currencies varies according to how the currencies in the "weighted basket" vary on the foreign exchange markets. For example, if the D-Mark strengthens in value against the US dollar, but the pound sterling and the French franc weaken, the value of the ECU against the US dollar would reflect all these changes.

- It provides for a system of exchange rates for member currencies. Each currency has a central parity rate against the ECU. The system of maintaining exchange rates within the EMS is known as the Exchange Rate Mechanism (ERM).

- The exchange rate of the currency of each member country is permitted to vary within a margin of plus or minus 2.25% against its central parity. (The Italian lira and Spanish peseta are allowed a wider margin —6%— as exceptional cases).

- The exchange rate of each currency is therefore pegged against the ECU and indirectly against each other. Exchange rates between the currencies of EMS member countries are in effect expected to remain within the "target zones."

- In addition, there are ECU limits, narrower than the plus or minus 2.25% margin, which act as an early warning system. When these limits (or divergence thresholds) are reached, it is presumed that the central bank of the country concerned will intervene, using its official reserves to buy or sell its currency in the foreign exchange markets.

- The EMS is a "moveable peg" system, which means that occasional revaluations or devaluations of the central parity rates are allowed; these are referred to as realignments of EMS parities.

- Each country in the EMS (and the UK) agrees to place 20% of its gold and dollar reserves in a central fund, the European Monetary Co-operation Fund (EMCF). The size of the contribution is reviewed regularly, and there are revolving swaps of gold and dollars on the one hand and ECUs on the other, between the EMCF and individual countries). The EMCF provides short- and medium-term financing to member countries with balance of payments problems, or which need help in supporting the value of their currency. However, intervention in the foreign exchange markets is carried out by the authorities of the country concerned, buying or selling their own currency (rather than ECUs).

- It was intended that debts between member countries should be settled in ECUs from the official reserves of those countries.

The successes of the EMS include:

a) A relative stability of the value of the ECU against other world currencies and the gradual acceptance of the ECU in international commerce.

b) Inflation rates of member states have steadily converged and there has been a declining frequency of realignments of currencies. No major realignment has occurred since 1987.

c) It has persuaded member countries to accept the need for broadly similar economic policies.

d) It has survived since 1979 and shows no signs of collapse. In addition, it has led to plans for fuller economic and monetary union among EEC members.

The Exchange Rate Mechanism of the EMS has been fairly successful in recent years in bringing stability to the exchange rates of the EMS currencies. This is largely because the governments of the various EMS countries have adopted economic policies similar to those of its most successful member, West Germany. As a result, business confidence has improved and it has allowed the financial markets and entrepreneurs to treat Europe as a single economy.

The EMS has been looked upon as an initial step to monetary integration. The growing plausibility of this has made it possible for European governments to maintain fixed exchange rates with each other, despite the current account imbalances and existing disparities in inflation rates that might have triggered crises in the past (i.e., the fear of speculative trading of a currency that is expected to be devalued).

The EMS has not been without its weaknesses. Some failures of the EMS include:

a) Slow progress towards European monetary union. The UK, for example, has resisted moves in this direction and has so far refused to join the EMS.

b) Realignment of currency values has occasionally undermined the stability of exchange rates that was being pursued. Individual currencies at the top or bottom end of permitted margins come under strong speculative pressures to revalue or devalue.
c) The government of an individual member state might refuse to adapt its economic policies to the needs of a stable EMS. For example in the early years of the Presidency of F. Mitterand, France adopted an independent (but eventually unsuccessful) economic policy.

Policy proposals

To accelerate deepening of the integration process in the EEC, the Delors Committee was established in 1985 to recommend how practical steps towards economic and monetary union should be taken. The Committee recommended a three-stage transition to economic and monetary union.

A) Stage I

Greater economic union to be achieved by:

1) closer economic policy coordination between member states; and

2) completion of internal free trade, with a free flow of goods, services and capital by the end of 1992.

The committee also proposed that all EEC currencies should join the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). Stage 1 of the Delors proposals was accepted by the EEC countries at the Madrid summit (1989) and implementation will soon begin (the UK has subsequently agreed to join in).

B) Stage 2

Member states will begin to coordinate their monetary policies. The responsibility for developing a coordinated monetary policy will be given to a new body which the Delors Committee called the "European System of Central Banks." Furthermore,

1) each state will continue to have its own currencies, but a realignment of currencies within the EMS should be minimized or avoided, if possible;

2) a common EEC policy towards foreign exchange rates between EMS currencies and non-EMS currencies should be pursued.

C) Stage 3

Exchange rates between all currencies in the EMS will be irreversibly fixed, without any realignments. This includes:

1) a single monetary policy to be formulated by the European System of Central Banks; and

2) eventually, a single EEC currency should replace the individual national currencies. This currency might be the ECU.

The UK remains opposed to Stage 2 and Stage 3 of the Delors Plan and has itself put forward an alternative proposal centered around the establishment of a European Central Bank (Euro-Fed). There is the implicit concern that with the system of European Central Banks under the Delors Plan, the role of Germany's Bundesbank would dominate European monetary policy. What is clear however, is that plans for EMU are progressing rapidly and seemingly irreversibly, as the EEC speeds up its integration process.

European Unification

The idea of creating a single European economy based on a common market is not a new one. The opening lines of the treaty of Rome signed in 1957 spelled this goal out in specific terms:

> The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.

The treaty clearly envisaged that the Community's prosperity and, in turn, its political and economic unity, would depend on a single, integrated market. To achieve that, a set of specific provisions for the free movement of goods, services, people and capital is needed. It also foresaw that this major objective would need to be supported by action in other related spheres, such as establishing freedom of competition and developing common legislation where necessary.

Nevertheless, a true common market does not yet exist within Europe despite the nomenclature "the EEC Common Market." Many of the original barriers to the completion of the internal market persist and new ones have evolved. Key among these are obstacles to the free movement of people (already improving as 1992 approaches); varying national technical specifications; health and safety standards; environmental regulations; quality control and differences in indirect taxation.

Previous attempts had been made to confront these so-called non-tariff barriers, but no consensus approach could be agreed on. In addition, the economic woes of the 1970s caused national governments to concentrate on domestic issues which resulted in protection of national markets and jobs not only against non-EEC countries but also against EEC member countries. As a consequence, not much progress was made towards resolving these issues.

However, the early 1980s saw a regeneration of the unification spirit with the realization that a fresh, concerted effort had to be made to create a single economic framework if Europe was to compete on favorable terms with the two economic giants, the USA and Japan. Individually, none of the EEC countries could successfully compete with Japan or the USA; even the EEC's largest market for industrial goods, West Germany, was less than half the size of the Japanese market a quarter of that of the USA. It was readily apparent that only a single European market of 320 million persons, which induces economies of scale in production, research and innovation and which made provisions for free competition, could provide the environment in which the EEC could meet the challenges offered by the USA and Japan. Against this background, the heads of state of the EEC member states specifically asked the European Commission to put forward concrete proposals to achieve a unified internal market by 1992.

The CAP forms an essential component of the objective of 1992 unification. The reform of the CAP aims to encourage more economic and social cohesion between the EEC member states and regions, and promote a more equitable distribution of the benefits of the rationalization of human, economic and natural resources in agriculture and in the overall economy of the 12 members. Many of the poorest regions of the EEC depend integrally on the agricultural sector. The benefits of 1992 cannot therefore be fully experienced by such regions unless special attention is paid to their agricultural sectors. Additionally, the CAP, as the most visibly successful common policy, is the standard bearer for European unification.

Steps for the gradual attainment of a unified European market have been clearly detailed by the Commission in its "White Paper" (1985). These include adjustment of tax and administrative systems, removal of all types of trade and technical barriers, and the coordination of monetary and fiscal policy. With respect to employment, civil rights and the conduct of business, no EEC member would be allowed to grant preferential treatment to its own nationals *vis-a-vis* another EEC citizen. These measures are intended to foster increased mobility of human and material resources so that the integrated economy could respond flexibly to policy and institutional changes. In addition, the White Paper treats manufacturing and services equally.

The White Paper also envisages that the various proposals which are required for market unification should be discussed, adopted and implemented according to a timetable between 1985 and 1992. The Single European Act, a new treaty signed on 17th and 28th of February, 1986 and which entered into force on the 1st of July, 1987, amended the Treaty of Rome and enshrined the 1992 date for the creation of a single European market. It is the mandate for European union and it provides the Community with the institutional means for implementing the unification plan. It introduced several major clauses in the strategy for advancing the integration process, the most important of which are:

1) Simplification of the requirements for harmonizing national laws by limiting harmonization to the essential standards and by systematic mutual recognition of national norms and regulations;

2) the need to strengthen economic and social cohesion in the Community;

3) the need to enhance the Community's monetary capacity with a view to economic and monetary union.

The Act has as its central objective to advance the economic integration of the Community by progressively establishing the measures necessary to the formation of a true common market. These measures include, in addition to the elimination of legal and other barriers, reinforcing of joint actions in the areas of social and regional policy, environmental protection, scientific research and monetary and external policy. The Act has also extended the Community's sphere of responsibility; trade matters have been placed more fully within the Community's domain and this has been extended to cooperation on questions of security. The Act and the proposed European unification do not, however, imply the formation of a single European state in 1992.

There remain several complex legal, administrative and various policy issues to be addressed by 1992. For example, border regulations and technical and administrative requirements have been employed by EEC member states on a more or less continuous basis to diminish imports from other EEC members, so as to protect national producers and workers, especially in those activities undergoing structural difficulties (textiles, steel, shipbuilding). Some countries, notably the UK, have expressed doubts about the desirability of a common approach to fiscal and monetary policy.

As regards matters of external trade, the Commission agreed in October 1988 that "1992 Europe" will be a "European world partner: the internal market will not close in on itself." The external trade policy principles of the 1992 program are:

1) The abolition of internal barriers will benefit foreign companies as well as domestic European companies;

2) the Community, being dependent on international trade for much of its industrial needs and for the sale of much of its products, has a fundamental interest in the promotion of free and open international trade;

3) the Community is committed to its existing international commitments in GATT, the OECD, with the European Free Trade Association (EFTA) and the LOME countries among others.

The continued attacks on the surfacing of the EEC's CAP in the current GATT negotiations show that other countries are not necessarily convinced about European abolition of trade barriers in agriculture. For the internal market to work in practice, the full spectrum of common policies and harmonized regulations must be implemented. Without the removal of all barriers and a coherent approach to all cross-frontier activities, whether by individuals or companies, the existence of a true internal common market will be limited.

Despite the above stumbling blocks for closer economic integration, it is clear that the single market, whether it is fully formed by 1992 or not, is already a reality in the Community. The single market will have profound consequences for European and world economies that will transcend the agricultural sector of countries. A unified Europe with the advantages of increased economies of scale will open new perspectives for the Community. At the same time, the prospect of a single European market has caused apprehension among other developed and developing countries, who fear that a unified Europe will be a closed, protectionist Europe, restricting imports from third countries. Developing countries in the Caribbean and other ACP states have also feared that 1992 would signal the termination of preferential marketing arrangements conferred to them by the EEC.

3

PERFORMANCE OF CARIBBEAN AGRICULTURE

Introduction

This chapter discusses the main characteristics and performance of the agricultural sector in the Caribbean and provides information on its importance in individual countries and to the region as a whole. A brief profile of agriculture of each country is provided and, within this context, the relative importance of the sector in external trade with the European Community is demonstrated.

The Economic Role of Agriculture

The role of agriculture in individual Caribbean countries varies from one of high economic dependence as the case of Dominica, to that of lesser economic importance as in Antigua and Barbuda. The sector's performance also differs across the countries and so is its dependence on external markets for export earnings (see Tables 3.1, 3.2 and 3.3).

Nevertheless, a general characterization of Caribbean agriculture includes mono-crop cultivation, with one or two (at most) commodities dominating the sector's contribution to GDP, employment and foreign exchange earnings. The dependence on individual crops or sub-sectors also varies across countries. Sugar is the largest and most important crop in Guyana, Jamaica, St. Kitts and Nevis, and Trinidad and Tobago; bananas are the most important crop in the Windward Islands (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines). With the possible exception of Jamaica, Caribbean countries have remained dependent on a few major traditional export commodities (sugar and bananas) and have failed to significantly develop alternative crops. Other features of the sector, particularly in the last fifteen years, are its declining contribution to GDP and a rapid decline in production in most countries (see Tables 3.4 and 3.5).

The sugar industry, once the mainstay of most economies in the region, has rapidly declined since its heyday of the 1960s. This decline has been both absolute (characterized by declining yields in most countries and declining acreage planted and harvested) and relative. The industry's efficiency has decreased and production costs have been high, sometimes as high as the guaranteed prices received on the preferential EEC and US markets. Most Caribbean countries have diversified their economies into tourism and manufacturing, thereby reducing

Table 3.1. Caribbean countries: Growth rate of agricultural GDP: 1978-1989.

Country	1978	1980	1985	1986	1987	1988	1989
Barbados	-0.001	5.5	-0.7	4.5	-11.2	-6.8	-7.8
Guyana	18.7	-17.4	0.0	3.7	-5.8	-9.5	-1.0
Jamaica	-28.4	-5.0	-3.5	-2.1	5.2	-5.4	-4.3
Trinidad and Tobago	-0.6	-9.4	7.6	2.2	4.5	-3.5	14.9
OECS							
Antigua and Barbuda	0.57	0.0	2.2	6.3	11.9	5.3	3.2
Dominica	11.21	-2.07	-2.5	18.9	2.5	8.6	-12.8
Grenada			-6.4	-0.5	8.6	2.2	2.4
St. Kitts and Nevis	4.58	-9.56	-2.25	-1.62	3.82	0.75	-3.9
St. Lucia	18.47	-21.35	12.2	12.3	-4.3	24.0	1.0
St. Vincent and the Grenadines	17.28	-14.41	8.4	3.9	-6.2	25.1	1.3

Sources: (1) Economic Affairs Secretariat. 1985. OECS National Accounts Digest.
(2) Caribbean Agricultural Database. 1991. IICA, Barbados.

Table 3.2. Caribbean countries: Export concentration indices showing ratio of leading commodity exports to total exports.

	Largest commodity		2nd largest commodity		3rd largest commodity	
Country	Ratio	Ist. Commodity	Ratio	2nd. Commodity	Ratio	3rd. Commodity
Barbados (1987)	61.2	Sugar	71.3	Electronics	80.3	Clothing
Guyana (1987)	47.7	Sugar	79.7	Bauxite	85.1	Rice
Jamaica (1986)	37.3	Alumina	50.9	Bauxite	59.7	Sugar
Suriname						
Trinidad and Tobago (1987)	48.3	Mineral Fuels	82.0	Chemicals	89.9	Sugar
OECS						
Antigua and Barbuda (1982)	45.6	Clothing	48.2	Rum	48.8	Lobsters
Dominica (1986)	43.7	Bananas	81.3	Soaps	86.7	N.A.
Grenada (1987)	26.1	Nutmeg and Mace	45.3	Cocoa	62.4	Bananas
St. Kitts and Nevis						
St. Lucia (1986)	41.5	Bananas	55.4	Paper Products	66.3	Clothing
St. Vincent and the Grenadines (1985)	42.8	Bananas	56.6	Flour	65.3	Rootcrops

Source: Strategy of Action for Reactivation of Agriculture in the Caribbean. 1989. IICA, Barbados.

Table 3.3. Degree of Caribbean countries' dependence on EEC preferential markets.

Countries	Agricultural Commodities			Economic Dependence
	Bananas	Sugar	Rice	
Barbados	-	X	-	Min-Mod
Guyana	-	X	X	High
Jamaica	X	X	-	Mod-High
Trinidad and Tobago	-	X	-	Min
OECS:				
Antigua	-	-	-	Min
Dominica	X	-	-	High
St. Grenada	X	-	-	Mod-High
Lucia	X	-	-	High
St. Vincent and the Grenadines	X	-	-	High
St. Kitts and Nevis	-	X	-	Mod-High

Mod - Moderate dependence
Min - Minimal dependence

their dependence on the sugar industry. Countries such as Antigua and Barbuda, St. Lucia and St. Vincent and the Grenadines have stopped producing sugar completely.

Agriculture, particularly the production of bananas, is the most important industry in the OECS countries. As a group, the banana-producing countries of the Windward Islands have become more dependent on bananas in the 1980s as compared to the 1970s. For example, in the 1977-1987 period, the contribution of banana exports to domestic exports increased from 56% to 64% for Dominica and from 48% to 67% for St. Lucia. There were declines of 2% and 5% for Grenada and St. Vincent and the Grenadines, respectively. However, as a producing group, the proportion of banana exports to total exports increased from 41% to 50% during the same period.

The emergence of the banana boom has been a major factor in the development of the Windward Islands during the last decade. Changes in the real exchange rate have benefited the banana sub-sector and has dampened production of most agricultural products in the Windward Islands. Besides the guaranteed market for banana exports, the nature of the crop provides some advantages over the production of other crops. Banana is a year-round crop that can be grown on flat or hilly terrain. Its gestation period is shorter than that of tree crops (about 9 months), allowing quick recovery from hurricane damages. Furthermore, bananas generate a year-round demand for labor as well as a healthy cash flow.

The industry, however, has been affected by several problems which already have begun to affect its future economic viability. These include a scarcity of farm labor in some countries, persistence of the Moko disease and declining product quality, cropping patterns that favor diversification out of bananas, spiralling increases in the price of agricultural lands and the predominance of small holder-type farms with limited investment resources.

Table 3.4. Caribbean countries: Agriculture contribution to gross domestic product (%).

	Antigua				Barbados				Dominica				Grenada*				Guyana*			
Sectors	1977	1980	1985	1988	1975	1980	1985	1989	1977	1980	1984	1987	1977	1980	1984	1989	1975	1980	1985	1989
Total Agriculture	11.4	7.4	3.7	3.7	10.5	10.3	9.6	6.6	37.6	25.7	29.2	30.4		20.9	20.1	17.3	16.0	21.5	25.9	24.5
Crops	1.7	1.2	1.0	1.0					31.9	18.5	21.2	22.4		17.3	16.4	14.1		3.6	5.7	6.4
Sugar						7.2	5.4	3.1										9	10.7	8.2
Rice																		3.4	4.7	5.1
Livestock	4.4	2.9	1.7	1.6					1.3	1.8	2.2	2.9		1.2	1.0	1.0		2.8	1.7	2.1
Forestry/Fishing	5.3	3.3	1.0	1.1					4.4	5.5	5.8	5.1		2.4	2.7	2.2		2.2	3.1	2.7
Other						3.1	4.2	3.5												

	Jamaica**				Montserrat				St. Kitts and Nevis				St. Lucia			
Sectors	1975	1980	1985	1989	1977	1980	1984	1989	1977	1980	1984	1987	1977	1980	1984	1989
Total Agriculture	7.0	8.3	8.9	7.3	5.0	4.2	4.6	3.9	18.9	16.8	13.9	8.9	15.5	11.8	14.1	
Crops						2.0	2.4	1.7	14.1	12.5	9.5	5.8	12.4	9.4	11.0	
Livestock					1.4	1.3	1.3	3.5	2.8	2.5	1.5	1.8	1.5	1.9		
Forestry/Fishing					0.8	0.8	0.9	1.4	1.5	1.9	1.5	1.4	0.9	1.1		

	St. Vincent and the Grenadines				Trinidad and Tobago			
	1977	1980	1984	1989	1975	1980	1985	1989
Total Agriculture	18.5	13.1	17.4		4.0	2.4	2.5	3.2
Crops	13.8	9.4	14.3					
Livestock	2.1	1.7	1.3					
Forestry/Fishing	2.6	1.9	1.8					

* GDP at market prices.
** GDP at producers' prices.

Source: United Nations; ECLAC. 1990. Selected Statistical Indicators of Caribbean Countries. Trinidad and Tobago.

Table 3.5. Indicators of agricultural production of CARICOM countries.

	Percent growth over previous period			
	1970-74 (mt)	1975-79	1980-84	1985-88*
Export Products				
Sugar	1,240,000	9.1	-38.7	-10.2
Bananas	349,869	-19.7	-21.9	5.1
Citrus	219,800	-23.1	-44.2	-1.2
Coffee	5,100	8.0	-3.7	-0.3
Cocoa	12,359	2.1	-44.9	-
Cotton (sea island)	-	-	-84.1	-
Cereals, Grain and Legumes				
Rice	142,300	104.8	-36.6	-8.8
Maize	32,300	2.8	-13.4	-
Legumes (excluding peanuts)	11,607	18.6	26.2	-
Peanuts	903	143.7	56.5	-
Livestock - Meat				
Poultry	44,000	68.9	5.0	4.6
Beef	20,000	5.7	-6.7	-2.8
Mutton	1,390	-	-	-
Milk	99,000	-3.8	-12.0	-3.1
Eggs	13,507	32.7	-22.6	-1.5
Fisheries				
Fish	49,500	7.1	-12.6	-
Shrimp	6,100	-25.0	-20.0	-
Root and Other Crops				
Sweet Potatoes	28,906	14.3	7.3	3.1
Yams	124,394	31.6	-10.5	-0.8
Cassava	53,800	-37.3	-19.9	-
Plantain	-	-	1.1	-
Other Vegetables				
Cabbage	17,485	24.2	12.6	-
Carrots	10,072	0.4	78.1	-
Cucumbers	-	-	8.2	-
Egg Plant	-	-	-9.1	-
Sweet Peppers	-	-	-	-
Tomatoes	-	-	5.4	-
Onions	-	-	-34.0	-
Pineapples	10,130	-22.8	8.4	-

Note: * Estimates

Sources: Regional Agricultural Sector Programme. 1987. CARICOM Secretariat, Georgetown.
Caribbean Agricultural Data Base. 1991. IICA, Barbados.

The key issues for Caribbean agricultural producers are how to maintain production levels of the traditional crops (sugar and bananas) to meet preferential market requirements and what policy options should be pursued to constrain production costs from increasing, given relatively high wages and obsolete capital.

Country Performance

Barbados

Prior to the 1960s, the Barbados economy was basically an agrarian one centered around sugar production. However, with deliberate policy measures aimed at encouraging diversification, tourism and manufacturing have replaced agriculture as other major economic sectors. Tourism is now the leading foreign exchange earner.

The production of sugar once dominated total agricultural production in Barbados. The overall picture of the Barbadian sugar industry is one of declining production and yields, coupled with dependence on preferential markets for its continued existence. In real terms, sugar output has shown a continuous decline since the 1960s. Output has decreased by about 56%, from 157,000 tons in 1970 to 69,300 tons in 1990. This decline can be attributed to a reduction in acreage planted and declining sugar yields, from 8.6 tons per hectare in the 1960-69 period to just below 7 tons per hectare in the 1980-89 period. Even though there was a short-lived recovery in both physical output and earnings in 1979-80, production fell off again, with the slide accelerating after 1986. Production declined to 62,000 tons in 1989 and output for 1990 showed a slight recovery. The industry currently contributes a modest 2 percent to real GDP, compared to more than 6 percent a decade ago.

As a result of declining production, sugar exports have fallen from 184,000 tons in 1967 to less than 60,000 in 1990. Exports of sugar have historically been as much as 90 per cent of domestic production. This emphasizes the crucial role of the foreign market, particularly the EEC market, for sugar production in Barbados.

The export price of sugar in Barbados dollars has exhibited a downward trend since 1981 and the industry has been plagued by rising average costs of production, sometimes in excess of the price received on preferential markets. As a result, the government found it necessary to establish a sugar price bond facility in the 1980s to guarantee sugar producers a meaningful price. Although this was discontinued for a short time, the government has had to reintroduce a guaranteed price support for sugar to ensure the industry's survival. The net effect of governmental support to the sugar sub-sector is that the industry remains very heavily indebted to the state-owned Barbados National Bank.

One feature of the evolution of agriculture in Barbados in recent years has been the increasingly important role of the non-sugar agricultural sector, with the decline of the sugar industry. As late as 1980, sugar's contribution to GDP was more than twice that of other agriculture. However, since 1982, the contribution of non-sugar agriculture has surpassed that of sugar; it is currently twice that of sugar. Although its contribution to GDP has remained the same, the non-sugar sector has grown by more than 160% in the last fifteen years. In recent years real output has increased, particularly for food crops and livestock products.

It is now widely recognized that the agricultural sector of Barbados is in a state of crisis. Much of the good agricultural land has been diverted from production, either to construction and urban development or to an idle status. There seems to be little that can be done in the present context to retard this rate of divergence of agricultural land, unless agriculture begins to be seen as a profitable enterprise and effective land use policies are implemented. Yet agriculture remains of great importance to the Barbadian economy, even as it grapples with dwindling levels of foreign reserves, increasing levels of debt repayment and historically high levels of unemployment. Sugar is Barbados' only agricultural export of significance and its contribution to foreign exchange earnings remains crucial (more than 80% of total agricultural exports), given the decline in manufacturing export earnings since 1986 and the need to prevent the country moving again toward a mono-sector export economy based mainly on tourism. While non-sugar agriculture has grown in relative importance, sugar remains the single most important agricultural activity, especially when foreign asset earnings are taken into account.

Guyana

Guyana's economy has stagnated for several years, with real GDP declining by an average of 2.6 percent since 1970. With several substantial devaluations over the last decade, real incomes have decreased by more than 25% and there has been a significant flight of both financial and human capital. A thriving parallel market has developed which competes with the official market for resources and products. A major factor restraining the recovery of the economy has been a shortage of foreign reserves for official purposes and the consequent shortage of imported inputs and spare parts for the productive sectors. As a result of the rapid economic decline, the government has recently entered into a stand-by arrangement with the IMF and World Bank and has begun to undertake radical policy and institutional reforms.

The economy is largely based on agriculture (sugar and rice) and mining (bauxite and aluminum). Agricultural production has declined in the 1980s relative to the output levels of 1978. The average annual decline in agricultural output (including fisheries and forestry) over the 1978-89 period has been more than 5 percent. In 1989, the output of sugar and rice averaged about 38% and 80% respectively of the output levels of 1978. The sector's relative contribution to GDP, however, has increased by more than 1.0 percent per annum in the last decade. In 1980, agriculture (excluding fishing and forestry) contributed about 25 percent to GDP; in 1989, the sector's share in national product had increased to 37 percent. Agriculture's role in the economy is even more accentuated when account is taken of the important role of sugar manufacture and rice milling, classified as manufacturing, but which depend crucially on agricultural production. If they are included, the sector's contribution is more than 40% of real domestic output.

Sugar and rice are also Guyana's two most important agricultural export crops. In 1989, these two commodities together accounted for nearly 45 percent of total domestic exports and more than 80 percent of total agricultural exports.

In real terms, sugar's contribution to GDP has steadily fallen in the last decade. Acreage of sugarcane has declined slightly since nationalization of the industry in 1976, from 128.400 acres to just over 100,000 acres in 1989. Production has been constantly affected by unfavorable weather conditions, labor disputes, obsolete equipment and machinery, an outflow of technical skills and non-rehabilitation of sugarcane lands.

The sugar industry is largely controlled by the Guyana Sugar Corporation Ltd (GUYSUCO), a government-owned enterprise. Until recently (1991), local sales of sugar have been state-subsidized, leading quite often to huge financial losses for GUYSUCO. Despite attempts by the government to accelerate mechanization of sugar cane production, the industry remains dependent on labor, as foreign exchange shortages have often impeded the acquisition of essential imported equipment and spare parts.

Over the years, attempts have been made to diversify agricultural production. Although fishing, forestry and other food crop production have increased in importance, these have been over-shadowed by the increasing role of sugar and rice in national income and for export earnings. The production of rice, unlike sugar, is largely a private sector activity, and it remains the second most important agricultural output both in terms of domestic consumption needs and export earnings. Like sugar, rice benefits from preferential marketing arrangements under the EEC-ACP Convention. Exports of rice accounted for approximately 20 to 40 percent of total rice production in recent years, although the ratio was substantially higher in the late 1970s.

With respect to the domestic market, rice is a staple diet and its price has traditionally been fixed in an attempt to provide cheap food to the urban sector. However, the convergence of the official exchange rate and the free market rate in 1991 (from G$45 to G$105 per US$) has had a substantial impact on domestic rice prices. It is estimated that the average price of rice has nearly doubled during the period 1990-91.

Jamaica

Like Guyana, Jamaica's economy has experienced a rapid decline since the decade of the 1970s; real per capita gross domestic output fell by over 20 percent in the 1972-87 period. During this time, the government expanded its role in the economy, which caused that the public deficit to soar to levels that could not be sustained. There was also a substantial flight of both human and financial capital and massive currency devaluations. As a consequence of the economic decline, Jamaica had to implement stabilization and adjustment measures supervised by the IMF and World Bank. Tourism and merchandise exports have subsequently recovered to a significant extent and inflation has improved in recent years.

The two most important economic sectors in Jamaica are mining and industry and services; agriculture has maintained a fairly steady share of GDP, but tourism has become the country's main earner of foreign exchange.

Agriculture is characterized by the dominance of a few traditional products in both production and exports. The major export crops of economic significance in Jamaica are the traditional crops of sugar and bananas, marketed under preferential market arrangements, and coffee. Overall, agriculture's contribution to real GDP has not expanded significantly for some time. Over the 1984-88 period, the sector's contribution to national output was between 8 and 9 percent. However, the contribution of domestic agriculture (non-traditional sector) is about four times that of export agriculture, reflecting the country's stronger food security position vis-a-vis other Caribbean countries such as Antigua and Barbuda, Barbados, and St. Kitts and Nevis.

Since 1980, sugarcane production has also decreased in Jamaica. Output has declined on average by about 26% in the last decade and total acreage has declined by about 10 percent since 1984, although yields have improved. Despite the damages inflicted on the industry by Hurricane Gilbert, production recovered by about 28 percent in 1988. The production of rum, which is based on output of the sugar by-product molasses, has also stagnated since 1984.

The banana sub-sector has grown in importance and has become a major foreign exchange earner for the Jamaican economy. However, Hurricane Gilbert decimated the banana industry in 1988. Production fell by approximately 17.6 percent in 1988 compared with the previous year and export earnings also fell. Before Gilbert, the Jamaican banana industry experienced significant expansion and banana exports had climbed from 11,000 tons in 1984 to 34,000 tons by 1987. The export target for 1989 was 46,000 tons before another hurricane struck. An extensive rehabilitation program for bananas had to be implemented as a result of the hurricane damage.

Apart from bananas and sugar, other major agricultural crops are cocoa, coffee and citrus. Production of these and export sales have been also severely affected in the short run following the massive destruction caused by Hurricane Gilbert.

Trinidad and Tobago

For some time, Trinidad and Tobago was considered the leading economy in the Caribbean region as a result of substantial inflows of oil revenues. Following the two oil price shocks of 1973-74 and 1979/80, the economy experienced an explosion of economic growth and foreign exchange earnings. The buoyancy of the Trinidad and Tobago economy was a key factor in the development of intra-regional trade, including agricultural trade, particularly in fruits and fresh produce from the OECS countries. However, since 1983, Trinidad and Tobago has registered consecutive years of negative economic growth, resulting in the need for an IMF-managed structural adjustment program. Economic reforms have been introduced, the most important being a currency devaluation in 1989.

The petroleum industry has dominated the economy since the oil price shocks of the 1970s. During the "boom" years of the oil industry, the growth of that sector had adverse impacts on the agricultural sector. As a consequence, production levels of agricultural commodities have been low and the percentage of real gross domestic output contributed by the agricultural sector was 4.3 percent on average. However, domestic agriculture expanded its role in the economy due to a reduction in oil prices in the latter half of the 1980s and the consequent decline in the economic contribution of the petroleum sector. Agriculture's GDP contribution was 1.0 percent in 1984 and increased to about 3.0 percent in 1989. But, agricultural value added has fallen in both absolute and relative terms throughout the 1980s as compared with the 1970s. Paralleling this is a decline in capital formation in the sector in the last decade.

Again, the importance of agriculture goes beyond its limited contribution to GDP, given the economic environment of high unemployment, low foreign reserve levels, substantial capital flight and increases in the cost of imported foods subsequent to the quite substantial devaluations.

Like most sugar industries in the Caribbean, the sugar sub-sector in Trinidad and Tobago has also experienced a significant contraction. Sugarcane production has fallen dramatically in the last decade, by almost 50 percent. Consequently, the production of raw sugar has also declined, to about one-third the output achieved in the late 1960s. The industry recorded its worst performance since 1935 in the 1981-83 period, but has recovered since 1986 to contribute an average of 0.7% to GDP compared with an average of 0.4% in preceding years. Sugar is exported under the EEC preferential marketing arrangement, but the industry has had considerable difficulties in meeting its quota allocation.

Apart from sugar, traditional agricultural (export) crops in Trinidad and Tobago also include coffee, cocoa and citrus. Production of these three commodities have also declined dramatically since the 1970s, as the oil price-induced terms of trade worsened the relative price for agricultural production. For example, cocoa production in the last decade was only about 45 percent of its output in the 1970s. The citrus sub-sector has experienced a sharper decline in production, more than 75 percent since 1970.

The decline of the oil sector since 1983 has had positive impacts on the agricultural sector. Domestic agriculture consistently increased its share of agricultural GDP during the latter half of the 1980s. Growth averaged more than 6.0% per annum in the last five years, contributing an average of 70.0% to agricultural GDP. Although no firm statistics are available, it would seem that agriculture has benefited from a positive inflow of human and capital resources. It is estimated that the food crop sub-sector has significantly increased its output, by an average of 15 percent in the last five years. Subsequent currency devaluations in the post-1983 period have also encouraged the production of food crops for domestic consumption.

OECS countries

The OECS subregion comprises the countries of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, Montserrat and St. Vincent and the Grenadines. As a group, these countries (normally referred to as Caribbean LDCs) have in recent years exhibited rates of economic growth that are much higher than those experienced by the so-called MDCs (Barbados, Guyana, Jamaica and Trinidad and Tobago), despite declining terms of trade and support through inflows of concessionary financing. Real growth rates have averaged 5 to 9 percent in the last five years, compared to 2 to 4 percent in the MDCs (except Barbados). The OECS countries depend relatively more on agriculture for their economic well-being than the MDCs, although tourism is growing in importance in these countries.

The importance of agriculture and its performance vary significantly among OECS countries. At one end of the spectrum is Antigua and Montserrat, which obtains around 4 percent of its gross domestic product from agriculture; at the other extreme is Dominica where, despite attempts to diversify the economy, agriculture still contributes approximately one-third of GDP. In between are St. Lucia, Grenada and St. Vincent and the Grenadines where the sector contributes about 15 to 17 percent, while in St. Kitts and Nevis it represents 10 percent.

With the exception of St. Kitts and Nevis, and Antigua and Barbuda, banana production is of greatest importance to the Windward Islands (Jamaica is the only major non-OECS producer of bananas in CARICOM). These countries are generally very dependent on banana production and exports for their national income and foreign exchange earnings. Despite the problems of the banana industry, no single major crop has yet challenged the dominant position of bananas in the economies of the Windward Islands. Grenada is also a major producer of nutmeg, mace and other spices, while St. Kitts and Nevis' agriculture is centered around sugar cane cultivation.

The UK preferential banana market is the main outlet of banana exports from the Caribbean. The retention of that market is therefore critical to OECS countries at this point in time, despite an overall decline in agriculture's share in GDP of the OECS as a group. The dependence on bananas in St. Lucia and Dominica has grown significantly during the 1980s (measured by share in exports) compared to Grenada and St. Vincent and the Grenadines.

The production of other agricultural crops has lagged far behind that of bananas in OECS countries generally, and in the Windward Islands in particular. There were production increases in non-traditional root crops because of a favorable market in Trinidad and Tobago prior to the decline in oil prices.

Dominica

Bananas are by far Dominica's main agricultural product and export. Since 1978, the government has been attempting to encourage diversification into other agricultural commodities (and manufacturing, such as agro-industries) for export. Other important traditional crops are coconuts and citrus fruits.

The banana industry is the largest single user of agricultural land and accounts for 25-30 percent of total land under cultivation; it is the main source of agricultural employment. Banana production has dominated total output in the agricultural sector; its value of banana production in 1977-89 was between two and three times that of the next leading production activity. With respect to exports, the banana sub-sector contributes more that 70% of total agricultural exports and more than 50% to total domestic exports.

Grenada

The agricultural sector of Grenada is more diversified compared to that of Dominica. Nevertheless, banana is still the main agricultural crop in Grenada. Production increased by about 15% in 1988 compared to 1987 levels, the result of higher prices prevailing in the preferential UK market, and an increase in acreage devoted to banana production as the government divested two of its agricultural estates in 1986. However, output fell by about 10% in 1989 in response to a decline in the real price of bananas in the UK market and the reallocation of resources to production of nutmeg. In addition, shortages of labor, problems of quality and the persistence of the Moko disease have adversely affected production. Competition by non-agricultural sectors for labor as a result of increasing real wages, as well as fishing production in some areas of the country, have induced labor constraints to the banana industry.

Like the other Windward Islands, Grenada exports bananas to the EEC under the Banana Protocol of the Lome Convention. However, unlike the others, Grenada has a lower dependence on bananas. The country is second only to Indonesia in the production of mace and nutmeg. Since 1984, nutmeg and mace exports together contributed more than 40 percent of domestic exports. Nevertheless, banana exports are in themselves quite substantial, accounting for an average of 15 percent of total domestic exports between 1984 and 1988. Given the importance of traditional crops, major changes in the fortunes of bananas or any other major export crop will have far-reaching consequences for the entire Grenada economy and its ability to service its foreign exchange needs.

St. Kitts and Nevis

The sugar industry has historically been the mainstay of both the agricultural sector and general economic development of St. Kitts and Nevis. Output of sugar has accounted for over 20 percent of GDP and is the largest single employer of labor in the economy, employing as much as 30 percent of the total labor force. In 1983, as much as 90 percent of cultivated land area in St. Kitts and Nevis was under sugarcane. Since the mid-1970s, the government has had control of both field and factory operations, and due to economic reasons, production was stopped in Nevis. Most of the sugar produced in St. Kitts and Nevis is exported under preferential marketing agreements in the UK and the USA.

Output performance of the sugar industry has slightly recovered in the last few years from major declines since 1982. However, the industry continues to be plagued by labor shortages. For example, less than 90% of cultivated cane has been reaped in the last few years because of a severe shortage of labor. Expansion of the construction and tourism sectors due to higher wages have diverted labor away from the sugar industry.

The industry's role in the economy has declined over the years, contributing only about 6 percent to GDP, but accounting for more than 50 percent to agriculture value added. The most important issues facing the industry are:

1) the low financial viability of the industry given high operating costs, compounded by obsolescence of most of the industry's transportation equipment and shortages of labor and technical personnel for plant maintenance;

2) uncertainty of labor supply to the industry given expansions in the construction and tourist sectors;

3) uncertainty of the future market for sugar in the EEC and the US. The US market has become doubtful as efforts have been made to reduce its sugar import quota. The St. Kitts and Nevis quota has already been reduced from 12,500 tons in 1986 to 7,500 tons in 1987.

St. Lucia

Banana is the major crop in terms of both total domestic output and export earnings, accounting for close to 80 percent of the value-added in agriculture and about 70 percent of St. Lucia's exports. Banana production grew rapidly during 1982-86, from 42,000 to 112,800 tons, surpassing the level of about 80,000 tons attained in the 1960s. An increase in banana prices (in terms of the EC dollar) has contributed to the boom as the British pound appreciated against the US dollar. Also contributing to the strong expansion of output years has been the implementation of a rehabilitation program, aimed at raising productivity through increased application of fertilizers and pesticides, the widespread use of field packing and by the construction of feeder roads providing easy access to remote areas.

More than 70 percent of the banana output of St. Lucia is exported to the protected United Kingdom market. The importance of this market is therefore critical to St. Lucia's exports and to domestic output as a whole.

St. Vincent and the Grenadines

Production of bananas has more than doubled during the period of the 1980s. After suffering from adverse weather conditions during 1986 and 1987, banana production increased about 81% in 1988 compared with 1987 and was 128% above the 1983 production level. Yields have increased from 4.6 metric tons per acre in 1983 to about 6.6 metric tons in 1988, but this is still below those obtained in Central American countries (Costa Rica (14.2), Belize (10.7) and Honduras (17.7). The improvement of yields has been brought about by increased use of fertilizers and insecticides; import volumes of those inputs increased about 300% and 200% respectively, between 1983 and 1988. The increase in production was also due to an increase in acreage of nearly 60% during that period.

Banana sector production vastly outstrips those of all other crops and exports dominate total merchandise exports, accounting for more than 50% of export earnings. Arrowroot production, once a major crop, has declined significantly in the last 15 years; expansion of banana production has contributed to this decline. Other crops of importance to the agricultural sector include root crops and fruits, which have gained importance in the last decade, as a result of favorable regional markets, particularly in Barbados and Trinidad and Tobago.

4

FRAMEWORK OF EEC-CARIBBEAN TRADE AND AID ARRANGEMENTS

The LOME Convention

The first Lome Convention between the European Economic Community (EEC) and the African, Caribbean and Pacific countries (ACP) was signed on February 28, 1975 and became operational on April 1, 1976. Some fifteen years later (December 15, 1989), a fourth Convention was signed, again in Lome, between the EEC and the ACP countries. Within this period, membership of the Convention has grown from nine member states of the EEC and 45 ACP states under Lome 1 to 12 EEC members and 66 ACP states under Lome III. The number of ACP states signing the fourth Convention rose to 69 with the addition of Haiti, the Dominican Republic and Namibia. There are 15 Caribbean countries who are now signatories to Lome.

Unlike the previous three Conventions, which were of five years duration, the fourth is for ten years (although the Financial Protocol covers the first five years and is negotiable thereafter). Despite the preferential trading arrangements for key export products, financial aid and other support provided by the Lome Convention, most ACP countries have experienced a decline in every major sector of their respective economies. In the Caribbean, this decline has been most evident in the case of sugar, where costs of production have progressively increased above the preferential price. However, there is little doubt that Caribbean agriculture would have performed even more poorly in the absence of the Convention.

Principles of the EEC-ACP cooperation under Lome

The objective of the Convention is "to promote and expedite the economic, cultural and social development of the ACP states and to consolidate and diversify their relations in a spirit of solidarity and mutual interest." The Convention covers all aspects of developmental aid including preferential access to the Community market for specific products, financing of projects by the European Development Fund, and the stabilization of earnings from exports of agricultural and mining products (known as STABEX).

With respect to preferential access to EEC markets, the Convention aims at granting specific ACP products more favorable treatment than that applicable to similar products originating in third countries where the most-favored nation clause is applied. The agreement, however, does not imply reciprocal treatment of EEC imports to ACP countries [1]. Another feature of the Convention is the existence of common ACP-EEC institutions which administer and monitor its various aspects.

The Convention basically aims at providing support to ACP countries for their efforts "to achieve comprehensive self-reliant and self-sustained development based on their cultural and social values, their human and natural resources and their economic potential, so as to promote the ACP states' economic, social and cultural objectives." Its articles therefore make reference to cooperation in every major sector of the national economy, structural adjustment efforts and debt management, as well as the development of marketing skills and regional cooperation.

Innovations in Lome IV

A number of important innovations have been made over the years to the Lome Convention. For example, Lome II added the SYSMIN facility to the already existing STABEX facility. One salient aspect of Lome III was the EEC's flexibility in providing a fair amount of the programable resources to quick-disbursing import programs that are linked to the original program, but are capable of swift mobilization and disbursement. This flexibility was essential, as many ACP states experienced balance of payments and debt problems, and financial inflows were critical to sustain imports of essential raw materials, spare parts and fuel.

Likewise, a number of changes have been made to Lome IV. First, there is the new system of support to structural adjustment policies given the economic difficulties many ACP states experienced in the 1980s. In focusing on another major economic problem of debt management in ACP states, Lome IV provides technical assistance to such countries and offers the facility of converting special loans, STABEX transfers and SYSMIN financing into grants.

Building on the experiences of Lome III, the recent Convention emphasizes the private sector's role in economic growth and diversification and the need to increase domestic value-added by deepening the manufacturing process in ACP countries. Both the STABEX and SYSMIN facilities as well as the terms of financing have been improved. Apart from funds managed by the European Investment Bank, all financing under the new Convention will be in the form of grants.

With respect to trade, existing restrictions on certain products such as rum, beef and veal have been significantly reduced. For example, in the case of rum, the new rum protocol provides for a rapid increase in the quota from 1993 and its abolition after 1995.

Other significant innovations include considerations for the environment and provisions for the development of services and trade. In particular, there is an agreement for the establishment of a trade development service with responsibility for developing and promoting

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[1] ACP states are obliged to grant EEC states "most favored nation" (MFN) status.

ACP trade with the EEC market. The Community's financial contribution has risen by over 20% in real terms, from ECU 8.5 billion to ECU 12 billion.

Instruments of ACP-EEC cooperation in agriculture

Several trade and aid measures are provided by the Lome Convention; those that are directly related to the agricultural sector include the following:

1) National Indicative Programs that include technical cooperation, investment projects, loans and grants;

2) STABEX: export earnings stabilization (including bananas);

3) emergency aid for hurricane and drought relief, among others;

4) food aid;

5) cooperation in the field of commodities, including the banana, sugar, rice, and rum protocols.

Most of the agricultural products originating in the ACP states are allowed into the Community free of customs duties and charges having an equivalent effect. In addition to trade preferences, the Lome Convention provides for a commodity stabilization scheme, STABEX, which applies to 44 primary commodities (agricultural and tree crops, but excluding fruits and iron ore). The scheme offers compensation or loans to ACP countries when they suffer a fall in export revenues from the sale of these commodities in EEC markets. As stated previously, the STABEX scheme has been altered under Lome IV to allow conditions for the conversion of such loans to grants. Under the new arrangements, the so-called tunnel method and the replenishment requirement have been abolished. Notably, there has also been an increase in the STABEX resources by over 60% over those under Lome III [2/].

The EEC and ACP have established several protocols governing certain key ACP agricultural exports to the Community. Of greatest relevance to Caribbean agriculture are the banana, sugar and rum protocols (see Appendix 1 for details). The sugar protocol has entered Lome IV unchanged since it is essentially compatible with the single internal market. The sugar protocol commits the Community for an indefinite period "to purchase and import, at guaranteed prices, specific quantities of cane sugar, raw or white, which originates in the ACP states producing and exporting cane sugar and with those states that have undertaken to deliver to it."

Under the banana protocol, the EEC undertakes to continue the advantages enjoyed by traditional suppliers and agree that "no ACP state shall be placed, as regards access to its

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[2/] SYSMIM is the corresponding facility in the case of mineral exports.

traditional markets and its advantages on those markets, in a less favorable position than in the past or present."

The rum protocol allows for fixed quantities of rum to be imported into the EEC annually. It also provides for a revision of these quotas when there are consumption changes in the EEC market. In addition, the protocol provides for abolition of the Community tariff quota "taking into account the situation and prospects of the Community rum market and of the ACP states exports."

Apart from the above-mentioned marketing and trading arrangements, the Lome agreements also have provisions for emergency aid, food aid, technical and financial cooperation and community aid. These complement the efforts of ACP states and are integrated in their national economic and social development plans and programs. The Community's Indicated Aid Programme is drawn up by both the EEC and ACP states.

Caribbean Exports to EEC under Lome

The trade performance between the Commonwealth Caribbean and the European Community under Lome has been somewhat disappointing. The Caribbean's relative share of ACP trade with the Community has declined and the Community's proportion of exports to the Caribbean has also been reduced. With respect to exports from the EEC to Caribbean countries (as a percent of total exports to ACP states), there has been a gradual decline since 1960, from about 13.3% to 5.4% in 1989 (see Table 4.1). The region accounts for less than 10% of the total exports from ACP states to the Community.

Without preferential access for traditional products, trade between the Caribbean and the European Community would be marginal. The economies of Guyana, Jamaica, and the Windward Islands are largely dependent on the EEC market for their sugar and banana exports. They will suffer severe setbacks without this preferential market.

The Caribbean provides only a small fraction of total exports to the EEC. In 1980, the Caribbean export share was about 0.32 percent of the EEC's total imports, of which non-fuel primary commodities accounted for 41 percent. The percentage of non-fuel primary products in total Caribbean exports increased from 50 percent in 1981 to 58 percent in 1984, and to 71 percent in 1986. The proportion was estimated in 1986 to be less than 0.2 percent with over two-thirds this amount being non-fuel primary exports, mainly agricultural exports, as they are understood in the broader CGCED grouping. While total exports of LDCs (in current US$) decreased at an average year-to-year rate of 2 percent over the 1980-86 period, Caribbean exports had fallen at an average of about 7 percent. The data suggests that, despite access to EEC markets under the General System of preferences, industrial and non-primary agricultural products from the Caribbean industry have not been successful, by and large, in securing a meaningful share of the Community's market. For LDCs generally, the proportion of non-fuel primary exports was stable around 33-35 percent (see Table 4.2).

The decline in export earnings of Caribbean countries (in US$) also reflects fluctuations in the US dollar, to which most of the currencies of Caribbean countries are tied. The overall picture implies a decline in manufactured exports and a growing dependence of Caribbean countries on agricultural and other primary exports to the European market (see Table 4.3), although the US dollar value of primary exports has itself fallen by over 2 percent on average over the period.

Table 4.1. Percent of total EEC exports to the ACP states and Caribbean countries, 1960-1989.

	1960	1965	1970	1975	1980	1985	1986	1987	1988	1989
Exports to ACP States as % of Total World Exports	5.533	4.357	3.502	3.520	3.429	2.275	1.989	1.668	1.681	1.569
Exports to Caribbean as % of Total Exports to ACP States										
MDCs	13.294	10.301	10.251	5.689	4.611	5.415	6.717	6.148	5.462	5.420
Bahamas	3.763	2.005	2.852	0.536	0.939	1.133	1.969	1.264	1.234	0.800
Barbados				0.456	0.387	0.528	0.667	0.542	0.519	0.581
Guyana	1.547	1.383	1.131	0.832	0.399	0.269	0.249	0.253	0.184	0.202
Jamaica	3.344	3.007	3.147	1.778	0.551	0.760	0.766	1.062	1.083	1.216
Suriname	0.836	0.864	0.885	0.604	0.422	0.460	0.461	0.412	0.466	0.495
Trinidad	3.804	3.042	2.237	1.482	1.631	1.484	1.608	1.351	0.899	0.892
LDCs										
Antigua and Barbuda						0.290	0.411	0.491	0.328	0.330
Dominica					0.141	0.124	0.125	0.166	0.131	0.134
Grenada					0.041	0.103	0.112	0.159	0.112	0.122
St. Kitts and Nevis							0.069	0.094	0.085	0.073
St. Lucia					0.065	0.140	0.168	0.202	0.269	0.293
St. Vincent and the Grenadines					0.035	0.124	0.112	0.152	0.151	0.281

Source: European Community; Eurostats, Brussels (various years).

Table 4.2. EEC imports from LDCs: Ratio of non-fuel primaries to total exports.

	1980	1981	1982	1983	1984	1985	1986
LDCs	34	35	33	33	33	33	35
Caribbean	41	50	47	59	58	57	71

Source: World Bank. 1989.

Table 4.3. EEC imports, 1980-86 (US$ billion)*.

	1980	1981	1982	1983	1984	1985	1986
EEC Imports from LDCs:							
Total Merchandise	122.0	99.1	99.9	97.1	103.4	105.4	104.8
Total Manufactures	35.7	30.2	29.3	30.1	32.3	33.8	46.0
Total Non-fuel Primaries	42.1	34.4	32.5	32.3	34.1	34.4	37.1
Fuels	43.4	33.6	37.5	34.3	36.5	36.6	21.1
Total Less Fuels	78.6	65.5	62.5	62.8	67.0	68.8	83.7
EEC Imports from Caribbean Countries:							
Total Merchandise	2.4	1.6	1.6	1.2	1.1	1.2	1.2
Total Manufactures	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total Non-fuel Primaries	1.0	0.8	0.8	0.7	0.6	0.7	0.8
Fuels	1.2	0.6	0.7	0.3	0.3	0.3	0.1
Total less Fuels	1.2	1.0	0.9	0.9	0.8	0.9	1.1

* There may be some error due to rounding.

Source: World Bank. 1989.

Table 4.4. Average growth rates of the US$ value and volume of Caribbean non-fuel exports to the EEC (1980-86).

	Total Exports		Manufacturing Exports		Primary Exports	
Exporter	Value	Volume	Value	Volume	Value	Volume
CGCED	-1.9	5.0	2.1	1.2	-2.9	5.7
Antigua	24.4	30.8	30.5	29.4	20.8	31.5
Barbados	-9.4	-3.3	-6.5	-7.3	10.3	-2.3
Dominica	10.7	20.2	-34.1	-34.6	33.4	45.3
Grenada	-1.4	7.2	5.8	4.9	-1.5	7.2
Guyana	-3.1	4.8	0.3	-0.5	-3.4	5.2
Jamaica	-4.3	3.8	15.0	14.0	-4.9	3.6
St. Kitts and Nevis	-3.5	4.8	-22.9	-23.5	-1.4	7.3
St. Lucia	26.6	37.8	8.4	7.4	26.8	38.1
St. Vincent and the Grenadines	10.5	20.0	7.0	6.1	10.7	20.5
Trinidad and Tobago	9.1	12.0	20.3	19.3	-2.2	6.4

Source: World Bank. 1989.

The decline in exports of primary commodities to the EEC market by CARICOM countries has not been consistent. In particular, those countries depending largely on exports of bananas have experienced growth, while those that depend mainly on sugar performed consistently worse (see Table 4.4). This has occurred despite the increasing share of sugar in EEC imports from the Caribbean (see Table 4.5).

Table 4.5. Selected Caribbean exports to EEC as a % share of EEC imports, 1980-86*.

Commodity	1980	1986
Alumina	34.8	20.5
Sugar	23.3	26.1
Bananas	9.4	17.1
Coffee	1.4	1.0
Rum	15.3	12.2
Cocoa	0.7	0.7

* CGCED countries.

Source: World Bank. 1989.

The Lome Convention has not affected traditional exports either from falling or losing their market shares. However, it has played a role in facilitating growth, albeit from a very small base, of new exports, both manufactures and some processed agricultural products. Sugar and bananas have performed differently compared to the trend in other traditional exports, which increased their share in EEC imports, although the growth in sugar is largely due to quota allocation rather than "pure" market forces.

Table 4.6. Selected Caribbean exports to EEC, 1980-1986 (% annual average real growth rate)*.

Alumina	-5.7
Sugar	1.8
Bananas	10.6
Coffee	-4.9
Rum	-6.0
Cocoa	6.4

* For CGCED countries.

Source: World Bank. 1989.

The information provided (in Tables 4.3 to 4.6) shows a weakening performance in manufacturing exports to the EEC, where Caribbean exports compete on a more even basis with similar products from other LDCs. In the area of agricultural primary exports, however, the EEC preferences favoring ACP countries have served to strengthen and encourage production of bananas and sugar, to the extent that these crops dominate the agricultural and foreign trade sectors. This has had two major implications for Caribbean countries. First, it has allowed the relative high-cost banana and sugar producers of the Caribbean to survive. Second, it has provided a disincentive to diversification of the agricultural sector in these countries and has increased their dependence on these exports for hard currency earnings. However, despite these negative implications for the agricultural sector, Caribbean countries have derived other considerable benefits from the EEC arrangements.

Benefits From Sugar Exports

ACP sugar exporters receive a guaranteed price (currently around US$ 650/MT) in European Currency Units (ECU) which is negotiated annually "within the price range obtaining in the Community, taking into account all relevant economic factors." ACP producers in fact receive the EEC intervention price (i.e., the price which the Community pays if there were no commercial buyers). This means that the guaranteed price to ACP producers is governed by the state of the EEC supply/demand balance and by production costs in the EEC rather than by the economic factors affecting production in the ACP countries. The evidence further suggests that changes in the guaranteed price have often not kept pace with changes in production costs in these countries.

The vast majority of sugar production in the Caribbean goes to the protected USA and EEC markets. It has been noted that the EEC policy of subsidizing production of and exports by EEC farmers has helped to depress world prices. This situation is further compounded by the fact that the EEC already produces more sugar than it needs and its sugar imports under Lome contributes to a larger surplus which must be disposed of (or stored) on the world market. The net benefit to Caribbean producers is less than the actual difference between the higher EEC price and the world price, since the world price would probably have been higher in the absence of the CAP. However, given that most Caribbean sugar is exported to protected markets, it is not likely that the foreign exchange gains from the EEC and US sugar policies would be offset to a significant extent by the depression in world prices. The World Bank has estimated that when comparing the EEC and US prices and the world prices, the value of the sugar protocol under Lome to CGCED countries was US$667 million during the 1980s or an average of over US$95 million a year. Guyana, with the largest quota allocation among Caribbean, benefited most. However, when account is taken of the importance of sugar to foreign exchange earnings and employment in other Caribbean countries, the benefits of Lome to these are fairly substantial.

Caribbean earnings from sugar exports have been affected by appreciation of the US dollar (to which Caribbean currencies are generally tied), rising domestic labor costs and the growth of protectionism in the U.S. market, which has resulted in substantial declines in both volume and value of shipments.

Much of the sugar exports from the Caribbean are destined for the UK market. Exports from the region represent around 23 to 25 percent of total EEC imports in volume terms and about 30 percent of the exports from ACP countries to the U.S. market.

Table 4.7. Sugar exports to EEC* (Tons).

Country	1986	1987
Barbados	28,742	68,090
Guyana	160,109	164,481
Jamaica	125,513	125,744
St. Kitts and Nevis	14,189	15,615
Trinidad and Tobago	46,448	46,301
Total ACP	1,284,503	1,386,147
World	1,658,226	1,687,941

* Imports into EEC of raw sugar destined for the refinery.

Source: EEC Statistical Office, Barbados.

Benefits From Banana Exports

The banana market in Europe is basically still organized on a country basis with major preferences extended by the UK, French and Italian markets to traditional suppliers (usually former colonies). Germany comprises the other major European market. It is the largest banana consumer in the EEC and its market is characterized by a high degree of competition.

Traditional Caribbean exporters to the UK market are the Windward Islands and Jamaica (along with Belize and Suriname), and these supply the bulk of bananas to that market, estimated to be about 66 percent of UK imports in 1987. Italy and France offer preferential trading arrangements to non-Caribbean countries, but exclude those from the Caribbean, except the French overseas territories. The lower price prevailing in the free German market has meant that Caribbean bananas are de facto excluded from that market as they are not price competitive. Under the Banana Protocol, Caribbean countries are able to export to the UK at a price that is significantly higher than that which prevails in the world market.

The combined exports from the OECS countries and Jamaica represent about 11 percent of total volume of exports and about 40 to 50 percent of ACP exports to the EEC (see Tables 4.8, 4.9). The World Bank estimated that over the 1980-86 period, the banana Protocol has served to transfer about US$200 million to its beneficiaries in the Caribbean (Table 4.10).

Table 4.8. Percentage of the UK banana market filled by Caribbean exporting countries, 1980-87.

Country	1980	1981	1982	1983	1984	1985	1986	1987
Jamaica	11	5	7	8	4	4	6	10
Windward Islands	22	32	32	37	42	42	53	56
Belize	4	3	3	3	3	3	11	6
Suriname	7	7	8	10	10	12	4	10
Martinique	2	3		-	-	1	2	0.5
"Dollar" Bananas*	50	49	50	40	39	27	13	16
Other	2	1	-	-	-	11	11	1.5

* Bananas imported by UK that have to be paid for in US$, mostly fruit coming from Latin America.

Source: Social and Economic Survey of Jamaica, various issues.

Table 4.9. Banana exports to EEC (Tons).

Country	1983	1986	1987*
Dominica	27,373	48,846	63,000
Grenada	9,473	7,914	8,000
Jamaica	23,814	21,962	35,000
St. Lucia	47,504	110,774	85,000
St. Vincent and the Grenadines	30,914	39,492	36,000
ACP 66	335,950	445,070	457,000
World	1,747,939	2,082,545	2,568,000

* Figures are rounded

Source: EEC Statistical Office, Bridgetown, Barbados.

Table 4.10. Value of EEC preferences compared to GSP for bananas and sugar, 1980 - 1986. (US$ thousands).

	Bananas	Sugar	Total	%
Barbados	-	76,385	76,385	8.8
Dominica	33,344	-	33,344	3.8
Grenada	9,390	-	9,390	1.1
Guyana	-	242,883	242,883	28.0
Jamaica	18,036	181,340	199,376	23.0
St. Kitts and Nevis	-	23,355	23,355	2.7
St. Lucia	71,793	-	71,793	8.3
St. Vincent and the Grenadines	34,510	-	34,510	4.0
Trinidad and Tobago		81,361	81,361	9.4

Source: World Bank. 1989.

Other Exports

Rum

The EEC rum protocol historically provides ACP countries with duty-free access for exports of rum but with an import quota constraint which is sub-divided into national quotas. The UK has by far the largest quota. Only Jamaica (and the Bahamas) have successfully exported to the broader EEC market; others have not succeeded to any significant extent in penetrating the UK-Germany market.

In 1985, Caribbean countries (Barbados, Trinidad and Tobago, Jamaica and Guyana) accounted for about 20 percent of ACP exports and some 12 percent of world exports of rum to the EEC. In 1987, the Caribbean (excluding the Bahamas and Suriname) exported some 15,336 tons of rum to the EEC market. This represented about 52 percent of ACP exports and about 29 percent of the total rum (and other spirits) exports to the EEC market. The Bahamas, the French and Dutch Overseas territories, and Germany make up the remainder of the market.

Rice

Rice is one of the products covered by the CAP and it is also subject to very stringent protection in the EEC market. Most imported rice faces a price that is equal to the Community's threshold price (minus certain fixed deductions). However, in the case of ACP countries, 50 percent of the levy is replaced by an equivalent tax on the exporting state. As in the case of sugar, the ACP countries are accorded not only preferential access to markets, but also part of the economic rent from the policy-induced higher price levels. The preference is volume constrained. Along with Suriname, Guyana is the only Caribbean country exporting rice to the EEC. EEC statistics show that between 1984 and 1987, Guyana exported some 72 thousand tons of rice to the EEC market.

Coffee and Cocoa

The EEC also exempts coffee and cocoa beans imported from ACP states from tariff duties. The main Caribbean beneficiary of this is Jamaica. However, since these products face similar tariff arrangements in all other major markets, the net benefit of the EEC preference is not very significant.

Financial Aid

Caribbean agriculture and the overall economy has also benefited from access to grants and loan capital. The EEC has provided Caribbean countries with emergency aid following natural disasters such as hurricanes. This type of financial assistance allowed several countries such as Dominica, St. Lucia and St. Vincent and the Grenadines to rapidly rehabilitate their banana sector following hurricanes in the late 1970s and 1980s. Other types of aid have been in the form of food aid, technical assistance and training.

However, the STABEX facility (which provides support to stabilization of export earnings) has not greatly benefited Caribbean countries. Of the list of products covered by the facility, only a few are produced in the Caribbean (see Appendix II). Of the total amount transferred to ACP states during the period 1975-88, less than 5 percent was made to Caribbean countries, and total monetary transfers to the region was less than 1 percent (see Table 4.11). At the moment, Caribbean countries are seeking about ECU 30 million from the EEC as compensation for losses of earnings from sugar exports as a result of a price freeze and reduction in the price of sugar.

The Caribbean has also been a minor recipient of programmed aid under the first three Lome conventions. Under lome I, 3.6 percent of the total programmed was allocated to the Caribbean region. Under Lome II and III, allocations were 4.0% and 3.2% respectively (see Table 4.12).

In terms of funds under the National Indicative Programs, there has been a relatively larger amount of financial aid (grants and loans) provided to the agricultural sector in the Caribbean. These funds have been channelled into specific projects at both the regional and national levels. With respect to regional projects, the tourist sector has been the largest beneficiary of financial aid. It is estimated that about 40 percent of the funds for regional projects are for tourism projects; agricultural projects receive between 5-10%.

In terms of national projects, the proportion going to agriculture was generally around 20% to 30% in the OECS countries (see Table 4.13).

Table 4.11. STABEX transfers per beneficiary country, 1975-1988 (million ECU).

Total Number of Transfer to ACP States	429
Transfers to Caribbean States as % of Total	4.20%
- Dominica	0.70%
- Grenada	2.33%
- Jamaica	0.23%
- St. Lucia	0.23%
- St. Vincent and the Grenadines	0.23%
- Belize	0.47%
Amounts Attributed to Caribbean States as % of Total	0.84%
- Dominica	0.28%
- Grenada	0.25%
- Jamaica	0.19%
- St. Lucia	0.07%
- St. Vincent and the Grenadines	0.04%
- Belize	0.01%
Net Amounts Received by Caribbean States as % of Total	0.93%
- Dominica	0.31%
- Grenada	0.28%
- Jamaica	0.21%
- St. Lucia	0.08%
- St. Vincent and the Grenadines	0.04%
- Belize	0.02%

Source: Commission of the European Communities. 1990. The Export Earnings Stabilization System (STABEX). EEC, Brussels.

Table 4.12. Regional characteristics of national programmed aid allocations and approvals*.

Regional groups	Lome I			Lome II			Lome III**		
	Total Allocation million ECU	%	% Aid approved 1976-1980	Total Allocation million ECU	%	% Aid approved 1981-1985	Total Allocation million ECU	%	% Aid approved
East Africa	734	38.0	81.7	897	35.7	82.2	837.7	30.5	62.7
West Africa	687	35.5	87.9	912	36.2	77.9	1020.1	37.1	
(Coastal)	(317)	(16.4)	(88.5)	(447)	(17.8)	(70.5)	(527.8)	(19.2)	(65.7)
(Sahel)	(370)	(19.1)	(87.3)	(465)	(18.4)	(85.1)	(492.3)	(17.9)	(73.4)
Southern Africa	166	8.6	92.0	257	10.2	78.9	446.1	16.2	69.4
Central Africa	237	12.2	88.6	282	11.2	82.0	313.9	11.4	73.2
Caribbean	69	3.6	75.1	100	4.0	73.6	87.3	3.2	57.9
Pacific	41	2.1	72.0	68	2.7	66.6	44.2	1.6	43.3
Total	1934	100.0	85.2	2516	100.0	79.4	2749.3	100.0	66.5

Notes: * Excluding regional aid.
** Amount allocated and approved after three years of implementation

Sources: Ten Years of LOME: A Record of EEC-ACP Partnership, 1976-85, European Commission, 1986.
LOME III - Mid-Term Review, 1986-88, European Commission, 1989.

Table 4.13. Financial aid (loans and grants) under Lome I,II and III to national projects in selected Caribbean countries (ECU thousands).

	Antigua	Dominica	St. Lucia	St. Vincent and the Grenadines	Barbados
1) Agriculture	2,444.0	8,843.1	5,791.5	1,043.8	3,414.0
2) Total	12,193.1	30,023.0	26,768.1	25,262.0	46,312.1
3) (1) as % of (2)	20.0%	29.45%	21.6%	4.1%	7.4%

Source: EEC Office, Bridgetown, Barbados.

Summary

According to the World Bank, the EEC commodity subsidies have transferred about US$1 billion to the CGCED countries in the 1980-87 period. Although this has supported employment, foreign exchange earnings and aided living standards in these countries, the preferences given by the EEC have not been without limitations. For example, the UK subsidy to bananas has increased wages and returns to other resources in banana production lands and has reduced the competitiveness of other crops and activities. On the other hand, the sugar subsidy has done little to encourage productivity and competitiveness of that sector. Some Caribbean countries have ceased to be competitive in sugar production; a few are trying to fulfill their EEC and US quotas by importing from the world market to meet part of their domestic requirements.

The attractiveness of the EEC subsidy scheme may have strengthened the vulnerability of the small open economies of the Caribbean region. When small economies depend on only a few primary commodities for export earnings, they find it difficult to adapt quickly to changing economic circumstances, especially when the economy is dominated by a few activities such as sugar, which has large fixed costs (e.g., sugar mills with linked transport facilities). Under these circumstances, these economies are more vulnerable to external shocks affecting major economic activities.

The EEC subsidy schemes, while transferring a not insignificant amount of resources to Caribbean countries, may not be the most appropriate means of channelling these resources to the beneficiary countries. Being product-tied in many cases, these subsidies have encouraged a skewed production and export base. Providing funds for well organized, clearly identified developmental programs aimed at widening the economic base of recipient countries as opposed to trade subsidies may have been a more efficient way to assist in the general economic development of these countries. Nevertheless, in the final analysis, the smaller OECS countries in particular have gained most per capita from EEC subsidies and would struggle to maintain their current rate of growth in the absence of EEC subsidies and preferential markets.

5

THE EUROPEAN MARKET OF 1992: CONSEQUENCES OF UNIFICATION AND OTHER DEVELOPMENTS

Introduction

The single market of 1992 is seen as the logical completion of the economic union conceived by the birth of the EEC in 1958. The EEC has since then put in place a number of policies aimed at protecting EEC farmers and other producers, establishing a freer flow of resources within the Community and adopting a common approach to trade with the outside world.

Caribbean countries have benefited from EEC preferential markets, largely for sugar and bananas; these benefits have been substantial and have meant the survival of traditional export agriculture in the region. It is only due to the higher prices paid to beet sugar producers under the CAP and to ACP producers that high-cost sugar producers like Barbados and Trinidad and Tobago have survived on a large scale.

The EEC policy of subsidizing its exports of milk products and cereals, in particular, has allowed less developed countries, including those of the Caribbean, to benefit significantly from depressed prices and sometimes from food aid. However, these low import prices are a deterrent to domestic production of such commodities, particularly in the larger countries (such as Guyana) where resource endowments do exist. As a consequence, structural changes in the CAP that will likely affect agricultural production and prices may well have implications for Caribbean agriculture.

Major changes in global agricultural production and trade are also likely to result from the GATT negotiations. Implementation of the agreements on agriculture under the GATT which seeks to abolish subsidies to the sector and to reduce protectionism would also have implications for world prices of agricultural commodities, and directly affect opportunities facing Caribbean agriculture. In addition, the sudden political and economic reforms in Eastern Europe provide a new dimension and challenges to global and regional economic developments, particularly that of the EEC. The implications of such changes on the EEC-Eastern European economic relationship, and aid and trade arrangements with other developed countries, may have possible consequences for Caribbean economies. This chapter examines these developments with a view of evaluating their implications for Caribbean agriculture.

Probable Broad Trends after 1992

The single internal market will undoubtedly provide larger benefits to the European Community. By rationalizing the use of scarce resources and by reduction and removal of the barriers to free competition, it is estimated that the EEC economy could grow at between 5 and 6 percent in the short to medium term with substantial improvements in productivity and reduction in costs and prices. With a restructuring of the CAP, however, it is expected that certain products will be adversely affected and the EEC has already adopted a plan to compensate agricultural producers for losses that may result from policy adjustments. To the extent that changes in the CAP will impact on agriculture and trade, these changes will undoubtedly have important implications for the economic welfare of Caribbean countries. At this time, it is still uncertain as to what these effects will be. The analysis of the likely impacts on the Caribbean agricultural sector must thus necessarily be speculative and broad as opposed to precise and definitive. Consequently, the paper concentrates on likely changes in the EEC policy toward major Caribbean agricultural exports to the EEC and on response mechanisms available to Caribbean countries to minimize any negative effects and to maximize opportunities for further growth.

Modifications of the CAP

Two distinct forces are operating to bring about changes in the EEC's Common Agricultural Policy. On the one hand, internal pressure is growing in the EEC to reduce the financial burden of the CAP on the Community's budget, and to reduce the structural imbalances in production caused by the CAP's policy of price support and guaranteed purchases. On the other hand, international pressures have been mounting as a result of the CAP's external policy of subsidizing EEC exports on the world market. Such pressures have led the EEC to agree (at least in principle) with other major agricultural producers within the framework of the GATT not to increase the level of protectionism in agricultural markets and to gradually eliminate agricultural export subsidies.

A series of measures have been taken in recent years, particularly following the European Commission's green paper "Perspectives on the Common Agricultural policy" (1985) to reform the CAP and reduce the degree of Community intervention for certain commodities. These measures will have the ultimate effect of reducing levels of price support to products such as cereals, meat and dairy products, which are heavily supported; they will also contribute eventually to a decline in production and stocks.

The EEC's policy of subsidizing its exports to third countries as a way of disposing its surplus production and reduction of huge stocks helped to depress world prices of cereals and dairy products. Importing subsidized EEC products below world market prices have benefited those countries in which there were no competing domestic sector to produce such commodities.

The policy changes being proposed in the CAP are therefore likely to impact both the import and export side of Caribbean countries' balance of payments. The changes in welfare to be derived from changes in import prices of cereals and other commodities, due to decreased subsidies by the EEC of its exports, are likely to be small by comparison with the effects of any major shift in its trade policy toward Caribbean exports of agricultural products to the Community. For example, any reduction in the preferential market arrangements for sugar and bananas would reduce trade and export earnings and employment in the short run. Government revenues, often derived from taxation of agricultural exports, would also suffer, particularly in such countries as the Windward Islands. The net effect would be catastrophic in the case of the Windward Islands, Jamaica and Guyana, with the adverse consequences persisting for years, thus requiring drastic structural adjustment efforts.

Sugar Protocol

The EEC-ACP Sugar Protocol is attached to the Lome Conventions, although in a strict sense, it is not part of them. The principal reason for this distinction is that it is of "unlimited duration" and therefore not subject to periodic re-negotiation. Thus, the Sugar Protocol enters the Lome IV agreement unaltered.

The Protocol provides certain specified ACP states plus India with a global quota of 1.3 million tons of sugar (white sugar equivalent) for which the EEC guarantees to pay similar prices (well above the world price) to those offered to European sugar beet producers. The Protocol, which represents a major breach in the CAP system of protection (and which makes all other sugar imports financially inviable), was negotiated as part of Britain's accession in 1973 to the Community. The imports are consumed almost exclusively in the UK market. It provides the ACP producer with a market for its product at a price which is to be "negotiated annually, within the price range obtaining in the Community, taking into account all relevant economic factors." In practice, this has always represented the full price paid for sugar by consumers in Europe less only the cost of refining it and of ocean freight. The price has, over the life of the Protocol, represented a substantial premium to the price otherwise obtained, if sugar had to be sold on the world market, where the price rarely reflects costs of production in even the lowest-cost exporting nations.

The global quota is subdivided into allocation for each beneficiary state. The CGCED members that benefit from the Sugar Protocol are Barbados, Belize, Guyana, Jamaica, St. Kitts and Nevis and Trinidad. Suriname's quota was ended in 1981. The EEC is empowered to reduce permanently the quota of any Protocol signatory that fails to fulfill its deliveries unless it can claim force majeure. Quota reductions in this fashion have enabled the EEC to extend slightly the number of Protocol beneficiaries (to include Ivory Coast and Zimbabwe) without having to increase the global quota, considered to be politically impossible.

EEC market structure

It is necessary to understand the structure of the EEC sugar production and marketing system in order to appreciate the effect the potential changes in 1992 will have on the EEC-Caribbean sugar trade.

Sugar within the EEC can be considered as being either quota sugar or non-quota sugar. (ACP sugar under the Protocol clearly falls into the former category). EEC production quotas are normally fixed for a period of five years. The EEC sets from time to time a minimum support price called the intervention price, at which it will buy quota sugar from producers who are unable to sell their sugar at a higher price in the market. Sugar sold to users within the Community is sold at an internal price which is in fact a market price. This, in theory, should always exceed the intervention price, as otherwise producers would choose to sell to the authorities. Quota sugar not required for domestic consumption is exported on the world market and the EEC holds tenders on a weekly basis to achieve this. Generally the intervention price is higher than the world market price and the EEC has to subsidize the exports of "quota sugar." The cost of these subsidies is recovered annually from EEC producers by raising levies on quota tonages. Production of non-quota sugar is limitless, but it must be exported without subsidy to the world market. In principle, the sugar regime is thus self-financing and thus it has been subject to much less criticism within the Community as compared with production schemes for other commodities such as milk, butter and cereals.

All EEC agricultural prices are fixed in European Currency Units (ECUs) which are converted into national currencies by "green rates." Therefore, Monetary Compensatory Amounts (MCAs) are set to compensate for price fluctuations between member states' currencies. This ensures that the price of sugar in each member state is in essence equivalent to that in the others so that intra-Community movements do not occur due merely to changes in currency rates. The same price is received by ACP suppliers regardless of the particular member state to which their sugar is sent. Basically, this price is equivalent to the internal green rate price in those member states with zero MCAs. It is higher than the internal price in states with negative MCAs (such as the UK at present) by the amount of the respective negative MCA.

It is clear that the organization of the internal sugar market in the EEC, the Sugar Protocol and the allocation of guaranteed quotas to Caribbean countries are not in themselves threatened by the unification of the European market in 1992. In theory, there are no current barriers to intra-EEC trade in sugar, so the concept of 1992 should not affect the entry of ACP sugar to any great extent. In practice, however, there are several specific areas of concern which may potentially have implications for ACP-EEC sugar trade.

Domestic production quotas

At present these quotas are allocated on a national basis. Some references have been made as to the possibility that, in a totally free internal market, production quotas could be abolished altogether. The political consequences of this are unlikely to be acceptable. Another suggestion has been that quotas could become "tradeable." In other words, quotas, instead of being allocated on a national basis, could be given to the various industries within the EEC countries who then could buy and sell these quotas from each other, as currently happens under the milk regime. However, this could give rise to a situation where a powerful interest group could control a large share of the EEC internal market. In the case of the UK, this could lead to increased beet quotas and production which, in turn, could seriously undermine the cane refining sector and hence its ability to receive ACP sugar.

The EEC sugar refining industry

The long-term guaranteed access to the Community of ACP sugar afforded by the Protocol must be linked closely to the continued existence of a viable EEC cane refining industry. Tate & Lyle's refineries, by virtue of their size and existing commercial relationships with the Caribbean sugar industry, are clearly of particular importance in this regard. Moreover, the fact that there is a major industry within the EEC whose future is totally dependent on ACP sugar is a crucial factor in protecting the existence of the Protocol. However, several factors can create potential problems in the sugar refining industry, which can in turn affect the EEC market for ACP sugar. A few of these are discussed below.

a) The UK sugar market

At present the capacity of the two UK cane refineries is approximately the same as the UK beet production quota, and the combined output of the cane and beet sectors is approximately equal to UK consumption of sugar. This has recently been static due to a reduction in retail sales being counterbalanced by an increase in industrial sales (currently about 72% of the market). Unification of the market in 1992 could have an effect on the level of the UK's sugar consumption (private consumers and industry). Structural changes are already taking place in the European food manufacturing industry with 1992 being at least a catalyst, if not the main reason for these changes. This could possibly lead to rationalization of food manufacturing operations and relocations of production units outside the UK. To the extent that food manufacturing firms that utilize sugar as a critical ingredient are relocated elsewhere in the community, the UK's industrial consumption will be reduced. On the other hand, the relocation of firms from elsewhere in the EEC to the UK may have a positive impact on total sugar use. While it is difficult to ascertain which direction industrial consumption of sugar will move, it is nevertheless important to note that the financial burden of any decline in UK sugar consumption will, due to the structure of the market, fall upon the cane sugar refining sector. These developments will have to be closely monitored.

b) MCAs

MCAs have to some extent served as an irritant to smooth intra-EEC trade because of their administrative difficulties and complicated nature. In their absence, it will be much simpler for a small trader to move refined sugar from one part of the Community to another. A relatively small quantity of sugar offered cheaply can seriously affect the price of a whole market and also affect the margins of cane refiners.

c) Agri-monetary measures

It is the Commission's policy to phase out MCAs. In practice, it may be difficult to do so entirely unless all member states join the Exchange Rate Mechanism (ERM) within the European Monetary System (EMS), thus limiting the fluctuations between the currencies of member states. If this were to happen, the "green currencies" would be realigned so as to harmonize agricultural prices without the need for MCAs. The consequence for the ACP exporters, in so far as their shipments to the UK are concerned, is that the internal price received by them from the refiners would rise whilet there would be a corresponding reduction in the MCA presently also received by them. Overall, the ACP price would tend to remain unchanged (on the assumption that there are no general price changes) whilet the price received by UK beet sugar producers would tend to be equal to those of other EEC producers.

d) The future of EEC sugar prices

The future of the Caribbean sugar industry, faced as it is with restrictions in the US market and with depressed prices on the world market, depends critically on the trend of EEC guaranteed prices. These in turn depend on developments in the CAP and reduction of levels of agricultural protectionism in the EEC to reflect agreements reached during the Uruguay Round of GATT. Given that sugar prices are set unilaterally by the EEC, any potential decline in EEC sugar prices would bring unavoidable losses to Caribbean producers unless their production efficiency could be enhanced and/or the sugar industry can obtain substantial price support from the respective national governments. A collapse of the sugar industry would be quite severe for Guyana and St. Kitts and Nevis, who depend heavily on sugar exports for foreign exchange earnings, but less so for Jamaica, Trinidad and Tobago, and Barbados.

Despite the self-financing nature of the sugar regime, for the first time during its life, EEC sugar prices have been reduced by 2% for the 1989/90 marketing year. This is due in part to the continuing pressures within GATT toward a reduction of levels of agricultural protection; it also reflects the fear within the Community that, should Intervention Prices remain unchanged, the competitive position of alternative sweeteners based on iso-glucose (high fructose corn syrups) would be enhanced. An example of the effects on sucrose consumption already exists in North America, a result of sugar prices being relatively too high. It is at this time impossible to determine with any accuracy the future trend of internal EEC sugar prices and thus of prices paid to Caribbean exporters. While prices may decline in the medium term, it would be reasonable to assume that, on average, they are likely to continue to exceed the world free market price of sugar. As long as this continues, Caribbean sugar producers will continue to enjoy a substantial premium from guaranteed access to the EEC market at levels related to EEC internal prices. However, further reductions in the EEC price offered to Caribbean producers will affect the survival of high cost Caribbean producers like Barbados and Trinidad and Tobago, who are already experiencing difficulties in producing profitably even with the higher EEC price. Therefore, the possible longer-term reduction in EEC prices emphasizes the need for Caribbean countries to produce sugar more efficiently and at lower cost. In the case of Barbados, this would call for extensive recapitalization of the industry at a time when the heavily indebted domestic sugar industry is already financially strapped.

Given sugar's importance in terms of employment and export earnings and its impact on the economic and social life in many countries, the maintenance of the Protocol is of vital importance to the region. The ratio of net to gross foreign exchange earnings from sugar is usually far higher than for many other sectors of the economy. Therefore, the sugar industry is usually more important for a country's overall foreign exchange position than what is suggested from a table of gross foreign exchange earnings from other sectors. It is thus in the national and regional interest of Caribbean countries that sugar production should be consistently maintained, at least at a level which enables the Sugar Protocol quotas to be met, and that the ACP nations protect it from hostile interests within and without the EEC.

Banana Protocol

The traditional market for Caribbean bananas is the United Kingdom. The main implication of the single market for ACP banana producers is competition with "dollar" bananas, particularly from Latin America. To comply with the Banana Protocol, this market is currently isolated from the rest of the Community market via a licensing system and thus from competition with "dollar zone" bananas. Such a situation inside the Community is not compatible with the free internal market that 1992 will bring. Consequently, the present internal market arrangements for bananas cannot be expected to continue. However, the EEC has reiterated its basic commitment not to abandon this important product from certain ACP countries, as this would threaten their very economic survival.

To date, the EEC has promised that the objectives of the Banana Protocol will be maintained as they are congruent with the objectives of the internal market. The Banana Protocol has indeed been retained in Lome IV basically unaltered; the EEC has therein restated its commitment to continuing the current privileges of ACP banana producers. However, a new compromise regime based on a replacement of the several national markets by the single, unified EEC market will have to be established. This regime will have to be compatible with the objectives of that market, the Banana Protocol and the EEC's external obligations. Alternatively, the EEC could make compensatory payments to ACP banana producers who suffer export losses due to the establishment of a single banana market.

Even with a high tariff on non-ACP bananas, the removal of internal market barriers will facilitate free circulation and will open Caribbean bananas to very strong competition. In any event, the likelihood of a high, protective tariff, applied by the Community for a long period, is not a likely measure given the attitude of the Community to tariffs on tropical products in the Uruguay Round. This is rendered more difficult by the low tariff which currently exists in certain national markets of the Community, for example the West German market. In addition, the current licensing and tariff arrangements will eventually disappear in the single market which can be beneficial to non-ACP banana producers. Anticipating that the single market will provide opportunities to exporters of "dollar" bananas, Latin American banana-exporting countries have already begun to position themselves.

The need for licensing arrangements had arisen because ACP and Community-produced bananas cannot compete successfully in an open market with dollar supplies. In the Caribbean, topography, soil type and climate limit production possibilities and economies of scale that are achieved in Latin American countries. Equally, input costs, particularly for wages, are higher than in Latin America where wage rates on vast plantations are often exceptionally low. Similarly, average shipping costs from Latin America are lower because of the larger volume exported and the ability to balance such costs with the existence of a closer banana market in North America.

As yet, no details (via a transmission mechanism) that would enable Caribbean banana exports to serve a single European market have been finalized, although there is a commitment by both the ACP and EEC to bring about an accord which would be mutually satisfactory. In the meantime, the Caribbean and other ACP countries have made it clear that the Commission's proposals for a common regime must contain adequate preference for ACP and Community-produced bananas; otherwise, the trade flows from these developing countries will be disrupted, causing severe economic, political and social instability.

Specifically, the ACP and EEC domestic producers want the Commission's proposals to achieve the following:

a) A limitation on dollar supplies. Latin American countries currently have 50% of the EEC market as well as the entire North American market of 3 million tons. The ACP is not looking to a change in patterns of trade; rather, they prefer to maintain present conditions of access to the EEC.

b) A satisfactory level of income for the ACP banana-producing countries.

c) Support for structural adjustment for ACP countries that are dependent on banana exports.

On the positive side, the impacts of a single market on real income growth in the community will likely induce a higher demand for fruits including bananas. With respect to growth of the EEC banana market, it is estimated that there is some potential for further growth of the UK banana market (Banana Marketing Study 1989). These opportunities suggest the need for an aggressive promotional campaign by Caribbean producers and improved quality of the fruit if they are to better compete with other ACP countries or in a more open market following 1992. Based upon surveys in the UK banana market, the study also concluded that:

> Views regarding the future of the UK banana trade were not on the whole very optimistic... While some companies were looking to 1992 and the Single European Act to "open up" the market, others saw no hope of change. One major supermarket group, however, said that it is likely that in 4 to 5 years' time supermarkets would be able to source freely from wherever they like, as the government is under increasing pressure to free the market.

While the EEC and ACP seem committed to protecting ACP privileges, pressures seem to be moving the EEC market toward a more competitive and open position in the medium term. Caribbean banana producers will find it difficult to survive in an open EEC banana market as indicated by their current inability to penetrate all but the highly protected UK, and to a lesser extent, the Italian market, which also restricts imports of dollar bananas.

It goes without saying that any immediate loss of the preferential banana market will create problems for the economies of the Windward Islands in particular. Caribbean banana producers must therefore resist any adverse changes to the marketing arrangements for bananas in the medium term. It is probable, perhaps, that the EEC will gradually reduce protection for Caribbean bananas. Whether the medium-to long-term loss of premium prices and markets in the EEC will traumatize the more vulnerable Windward Islands economies will depend on their ability to become more efficient producers and to diversify their agricultural production base.

Rum Protocol

The export of rum is not a major source of foreign exchange earnings for most Caribbean countries. However, the general consensus is that if properly marketed abroad, Caribbean rum exports could expand significantly. It is axiomatic that any increase in rum exports will depend largely on "prior" survival of the sugar industry.

The Rum Protocol provides for the duty-free importation of an agreed quantity of rum from Caribbean exporters with a potential factor for growth. This current arrangement is in no way contrary to the establishment of the single market. In fact, the current partitioning of the EEC market, which results in the UK being unable to re-export Caribbean rum to other EEC members, will change for the benefit of Caribbean rum producers after 1992. The EEC and Caribbean governments have also reached a satisfactory definition of what constitutes "rum." Studies have been conducted within the EEC to assess the potential for exporting rum to members of the EEC, Spain and Portugal. The EEC is assisting Caribbean countries in the marketing of rum exports through the provisions of the Lome Convention. These developments augur well for the Caribbean rum industry. With effective marketing, Caribbean rum exports can grow significantly. It is estimated that the UK and other EEC markets have been consistently growing at an average of 5 to 10% per annum.

There are certain problems, however, that need to be resolved if an increased market share is to be achieved. At present, Caribbean rum is not only restricted in circulation in the market but also restricted by specific quotas for all ACP rum into the Community. ACP and exporters, as a group, enjoyed a total annual quota under the Lome III Convention of 172,000 hectolitres. ACP, especially Caribbean, rum exporters to the Community have maintained that the small national quotas in certain Community member countries have made the marketing and promotion of rum in these markets uneconomic. Free circulation after 1992 would improve the market opportunity for Caribbean rum within the Community. However, this would not itself increase the restricted common European quota. Maintenance of the restricted quota could result in an unexploitable opportunity arising from the free circulation of rum in the Community. There is fear that France may resist free circulation of rum in the Community after 1992. If France fails in this and the principle of free circulation is permitted, it is very likely that France will then seek to maintain the restrictive common quota. The current indications are that the EEC is more amenable to a faster rate of expansion of the rum quota under Lome and possible elimination thereof by 1995. This will provide the opportunity for increased exports to the Community in the longer run.

Marketing Non-traditional Exports

Non-traditional agricultural exports to the EEC market do not enjoy preferential marketing arrangements. While there are provisions in the new Lome IV agreement for potential preferential arrangements for key non-traditional products, it is doubtful that any non-traditional agricultural products would become of such significant importance as to warrant such consideration. Non-traditional products are likely to face competition from other developing countries, including Latin American producers.

Monetary Union after 1992

It is generally accepted that a common fiscal and monetary policy is a key to the full realization of a unified Europe's economic potential. The transition to full monetary and economic union is necessarily slow. This gradual approach was adopted from the Delors Committee report entitled "Economic and Monetary Union in the European Community;" no deadlines have been set for the completion of this monetary and economic union in the Delors report. However, Stage 1 of EMU officially began during July 1990 with the full liberalization of capital movements becoming effective for most of the EEC countries. In this first stage, the emphasis was on strengthening the economic and monetary policy coordination needed to secure greater convergence of economic performance in all key areas. For the first time, the central banks of the 12 EEC members will be expected to consult the Committee of European Central Bank governors before making national decisions on domestic, monetary or credit targets.

This gradual approach is made necessary by the political difficulty involved in getting sovereign countries to cede control over monetary and fiscal policy to a central EEC authority. Also, as stated, monetary union is viewed as part of a broader plan for economic unification that includes the adoption of the Single Market, common competition policies, common structural policies and macroeconomic policy coordination - all of which will involve a gradual approach given the important institutional changes needed to cope with monetary union.

In a working paper subsequent to the 1989 Delors Paper, the European Commission recommends a fairly quick transition from stage 1 to stage 3 of the Delors plan. It expects stage 2 (an independent European Central Bank rather than a system of European Central Banks) to be reached by 1994, and stage 3 by 1995/6. The Commission has also proposed that the ECU should no longer be a basket of currencies, but rather the currency of all member countries.

However, the UK is strongly resisting the idea of EMU (the 2nd and 3rd stages of the Delors plan), worried about the key role that West Germany would exercise in the setting of European monetary policy within the system of European Central Banks. Instead, the UK proposes a European Central Bank independent of the Bundesbank.

Implications of EMU for the Caribbean

EMU is primarily aimed at strengthening economic growth in the EEC and coordinating intra-EEC monetary and fiscal policy with an aim to reducing exchange rate risks in intra-Community trade. There are fears that with freer mobility of capital, speculative trading of currencies is likely if there is a revaluation, and this may cause initial instability. Enhanced exchange rate stability should ensue in Europe, with a narrowing of inflation and interest rates, something already happening. Predicting the exchange value of European currencies *vis-a-vis* international currencies is difficult, especially as in the past few years exchange rates have not moved as closely in line with the so-called exchange rate fundamentals, as theory would suggest. Movement in the short-run ECU-US$ exchange rate is difficult to predict. However, as EMU progresses and the unified European market expands its output and world trade share, the ECU should gain confidence as a genuine world currency and its exchange value should rise, *ceteris paribus*. With the commitment of EEC members to fixed (or very narrowly moving) parities, the overall picture should be one of more stable exchange rates for major world currencies.

Given that other pressures do not in themselves cause a price decline, any increase in the value of the ECU versus the US dollar will imply higher export receipts and profitability for Caribbean agriculture, given that most of the Caribbean currencies are directly pegged to the US dollar. This would provide an incentive for higher production of non-quota exports to the EEC. The gain from such currency movements cannot be accurately determined until it becomes clear exactly how the EMU evolves.

The EMU will support policy efforts to increase EEC output and income over time. The demand for imports is likely to increase. As a result, the demand for exotic fruits and other non-traditional agricultural products should also increase compared to that for traditional crops. Whether Caribbean agriculture can take advantage of this depends on the Caribbean's ability to exploit new markets, to enhance its international competitiveness and to produce commodities in sufficient quantity and quality as demanded by the marketplace. A World Bank report on the long-term outlook for the OECS provides some empirical evidence reflecting the general responsiveness of Caribbean agricultural supply to price changes (World Bank 1990).

Changes in the GATT and Caribbean Agriculture

The future of world agricultural and other markets are integrally dependent on activities related to the GATT. For the first time, agricultural trade has been made the centerpiece of the on-going Uruguay Round of GATT. At its completion, it is expected that there will be agreements on trade in agricultural and 14 other sectors, including the trade of services and intellectual property.

Agriculture in the GATT: A review

Previous rounds of multinational trade negotiations under the aegis of the GATT have brought little significant change to international agricultural trade. Countries have continued to exploit the "grey" areas of the GATT. The final objective of agricultural trade reform in the Uruguay round is the creation of an environment without distortions due to government intervention. Given the level of intervention in agriculture historically, progress on agricultural trade reform has been and continues to be more complex and difficult than in most other sectors.

Although the rules and regulations of the GATT apply in general to agriculture as they do to industry, there are several significant exceptions which make agriculture a special case. These relate mainly to the treatment of quantitative trade restrictions and export subsidies. Article X1 allows for the relaxation of the general prohibition of quantitative import or export restrictions in the case of primary goods under certain conditions established by the GATT. (Since the Tokyo round, primary goods categories have included agriculture, fisheries and forestry products). The conditions justifying quantitative trade restrictions for agricultural goods are the prevention or relief from the shortages of food or other essential products; enforcement of domestic marketing or product control programs or the removal of temporary domestic surpluses; and the application of standards of commodity classification, grading or marketing.

Primary goods are also exempted from the ban on export subsidies. This is traceable back to the influence of the US trade lobby. The US position on export subsidies has changed with the establishment of the CAP and the EEC's use of export subsidies to increase market share. A Subsidies Code was added to the GATT during the Tokyo round in an effort to restrict the increasing use of trade-related subsidies, but only a fraction of GATT signatories signed this code. Thus, historically (and right up until the present), non-tariff barriers proliferate in agriculture and export subsidies increasingly undermine any "natural" comparative advantage some countries may have; trade wars have frequently occurred, especially between the EEC and the USA. However, the sharply escalating budgetary costs of national farm policies in recent times have apparently made the EEC, the USA and other major players more amenable than ever before to the idea of agricultural trade reform.

The Uruguay Round

The USA, EEC and Japan and the so-called Cairns Group (non-subsidizing exporters) are the major protagonists in the Uruguay round, which commenced at Punta del Este in Uruguay in 1986. The major disputes in the Uruguay round, as previously, have been between the USA and the EEC, and little progress is possible without a resolution of the difficulties between these two agricultural giants. The Uruguay round is the most intricate of the post-1945 GATT rounds; it seeks to extend GATT's coverage from 1/3 to 2/3 of all traded activities including investments and agriculture.

Essentially, the proposals for agriculture before the GATT fall into two categories: one which supports the abolishment of all trade-distorting measures and one with a more limited scope. The EEC and Japan support a more "conservative" approach to the removal of trade restrictions while the USA is requesting a "radical" reform. The EEC's CAP is seen as the major obstacle to an agreement in agriculture. Developing countries, long seen as favoring a system of restricted trade, have supported the need for trade liberalization. Additionally, agreement in other areas, especially that of intellectual property rights (which is very important to the USA), apparently hinges on reaching accord on agriculture. It is considered that developing countries will not support the USA on the question of intellectual property rights, open their markets to Western services, or liberalize their investment regimes in the absence of any meaningful reform on agricultural trade.

It is unclear what final agreements will be reached in the Uruguay round. At the subsequent G7 (Group of Seven) meeting in July 1990 in Texas, the subject of agricultural protectionism was again the focal point. Discussions at this meeting focused on the draft document put forward by Mr. Art de Zeew, chairman of the group negotiating on agriculture in the Uruguay round of the GATT. The document proposes compromises between the "defensive" EEC position on farm reform and the "aggressive" US approach in three key, interrelated areas (with certain exceptions such as food security): export subsidies, border protection against farm imports and trade-distorting internal supports for farmers (all elements of CAP). Essentially, the de Zeew plan favors the US approach on export subsidies (their elimination), but inclined toward the EEC on the mechanism for handling cuts in internal supports. The USA had demanded the elimination of export subsidies within five years, while the EEC had sought to retain its subventions. Under the de Zeew proposals, assistance for exports would be reduced more than other forms of protection. To curb border protection, the plan further advocates the conversion of all non-tariff barriers such as import quotas, voluntary export restraints and the EEC's variable levies into (bound) tariffs as originally proposed by the USA, to be progressively reduced over time. Both the EEC, the USA and Canada have agreed in principle to versions of the de Zeew plan. However, the issue of export subsidy reductions is still a sticking point for the EEC.

At that G7 meeting, the USA, Canada and the UK put forward their respective proposals (based on the de Zeew plan) and these were accepted into the final communique of the summit. This communiqué was seen by observers to be more of a political patch-up than a genuine accord. Substantial differences still exist between the EEC and the USA; the EEC remains committed to its CAP and its policy on export subsidies. There is yet no certainty that the Uruguay round will be successful in reaching a meaningful accord on trade reform.

However, trade restrictions are well entrenched; it is felt by some experts that farm subsidies, which cost industrial nations about US$245 billion a year, are likely to remain in place. Nevertheless, it is clear that the EEC has recognized the need to prepare for cuts in agricultural support and protection, although within the Community itself, there is disagreement on exactly where the cuts should occur. It appears that not all EEC members have agreed to the "incidence" of such cuts, or even to resigning themselves to cuts in farm support. The EEC farm lobby remains strong while US consumers, who stand most to benefit from a dismantling of the CAP, do not demand that much.

Implications for Caribbean agriculture

The implications of agreements to be reached under the GATT will largely depend on the role of a particular country or region in world trade. The industrial countries such as the USA, Canada and the EEC, as well as other major agricultural producers such as Australia, New Zealand and Argentina, are the major players in the negotiations because of their respective roles in world agricultural trade. On the other hand, the Caribbean's role is very marginal and implications for the region will at most be indirect. That is, any impact on the region will be transmitted through the reactions of the major players. In addition, the impacts are likely to be greater on consumption than on production, because a large proportion of food supplies (cereals, grains, meat and dairy products) are imported from the industrial countries rather than domestically produced in the Caribbean.

Ending export subsidies would lead to an initial decrease in the terms of trade facing importing countries, who could experience a welfare loss relative to the situation with subsidies. The price of some EEC agricultural exports is currently kept artificially low by such subsidies. This would make it relatively more expensive for Caribbean countries to import such items as cereals, beef and dairy products from the EEC. In addition, if agricultural trade is liberalized and internal support reduced, the incentive for over-production of these commodities in the EEC market will likewise be lowered. This would reduce production and the need for export subsidies; food aid, often used as a means for distributing surpluses, may also be reduced. For those countries with few domestic substitutes for EEC products, such outcomes will lead to a welfare loss, although the lessening of export subsidies may allow some regional producers (such as dairy and beef in Guyana and Suriname) to complete more favorably if they are efficient. Other Caribbean countries will be negatively affected by price changes.

For developing countries as a whole, freer trade and access to agricultural markets should lead to a rationalization of production and even to higher world agricultural prices. However, the ability of Caribbean countries to benefit from any opening of world agricultural markets under the GATT depends on their ability to compete internationally with other developing countries. The major immediate consequences for Caribbean agriculture deriving from changes in the GATT would be seen in the impact such changes have on the structure of the CAP, US agricultural policy and the preferential markets which Caribbean countries enjoy in the EEC. In the short run, the GATT negotiations should not bring about radical changes in any of the arrangements, given that the EEC is still committed to preserving the CAP and the special marketing arrangements for traditional trade partners, such as the banana market (which is the most vulnerable to changes in the CAP and the GATT). However, developments in the GATT, plus reforms in the CAP, are likely to lead in the medium term to a reduction in the prices now offered preferential markets.

Developments in Eastern Europe

Recent events in eastern Europe have ushered a new phase in world political and economic development. Countries such as Poland, Hungary, Czechoslovakia and East Germany have thrown aside their Marxist economic and political systems and embraced more market-oriented and democratic structures. However, after years of inefficient state intervention in all sectors, the countries of eastern Europe manifest economic stagnation and decline. It is therefore clear that to minimize any economic and social chaos which may result from the radical changes taking place, there must be a new economic relationship that encourages a substantial technical and capital inflow from the West.

Poland for example, has directly instituted a market-based economy; while this has led to reduced queues, reduced inflation and is forcing the closure of bankrupt, inefficient enterprises, unemployment has grown rapidly in a country unaccustomed to unemployment.

Speedy injections of foreign capital and investment are essential if such countries are to develop and be competitive within the world economic order.

So far, in terms of real needs, it has been a slow process. Given the huge risks involved in investing and operating in these fledgling democracies, investors are adopting a cautious approach. At present, it is not clear that the quantum flow of capital into eastern Europe is being realized or that expected returns offered to investment are sufficiently attractive. OECD countries have pledged to "offer all feasible support to the countries of Central and eastern Europe striving to achieve market oriented economic systems and pluralistic democracies ...with the objective of integrating the reforming countries into the international economic system." Therefore, provided that political and economic reform persists in the countries of eastern Europe, competition for scarce international investment and aid funds will escalate. Funds which otherwise would have been available for assistance to the Caribbean may be diverted toward assisting eastern Europe. This has already occurred in at least one case (Jamaica).

Eastern Europe and the EEC

The EEC and the countries of eastern Europe both have much at stake in the current reforms of the latter. It will be impossible for eastern European countries to mature into stable and prosperous market economies without interacting profoundly with the economies of western Europe; this interaction may well prove politically difficult and socially disruptive for East and West alike. Even more important than direct financial support for the development of eastern European economies will be the degree of market access, of labor mobility (eastern Europe has an array of skilled, low-paid workers) and of economic integration which western Europe will be prepared to allow, given that eastern Europe would compete in several sensitive and politically protected areas such as steel, coal, textiles, footwear and agriculture.

The EEC has moved to assist eastern Europe in several areas. In particular, France and West Germany have been instrumental in establishing the European Bank for Reconstruction and Development (EBRD), as well as steering bilateral aid measures through the EEC and other international bureaucracies. The EBRD's role is to assist the reforming countries of eastern Europe in setting up market economies. The capital of the EBRD will be ECU 10 billion and it will lend mainly to the private sector; it will not lend for balance of payments support nor subsidize loans. As the EBRD expects to raise its capital on world credit markets, it is not anticipated that its operations would lessen aid budgets significantly.

Eastern European countries are now forging accords with the EEC, readying themselves for the pledges of democracy required for Council of Europe membership. On 18 September, 1989, the Community signed a trade and cooperation agreement with Poland lasting five years. On the agricultural side, this provides for reciprocal concessions for a number of products. The EEC has also decided to grant food aid to Poland. However, the integration of eastern Europe into a single "Europe" is not likely even in the medium term. Early negotiations in Brussels on tariff reductions and possible associate membership by Hungary, Yugoslavia and Poland suggest that western Europe will take a somewhat protectionist line on the issue of access to EEC markets. The EEC has made it clear that the CAP will remain closed to non-members of the Community and that agricultural protection will remain "sacrosanct." In other sectors, there is strong opposition to lowering barriers again eastern European products.

Events in eastern Europe have caused the EEC to accelerate and "deepen" its integration process for two main reasons: (i) to bind a united Germany more closely in the Community; (ii) to forge a united response to eastern Europe, as instability there will have enormous military, trade and immigration consequences for the EEC. "Deepening" of the integration process is seen as a prerequisite for any possible widening to admit new members in the Community. Full economic and monetary union is now seen as a key if the EEC is to be in a position to give unified response to eastern Europe.

Implications for the Caribbean

How will the changes in eastern Europe and the likely EEC response to them affect the extent of EEC-ACP cooperation? It is still too early to say what the consequences might be with much certainty. The signing of the fourth Lome Convention is, however, proof of the strong ties between the ACP and EEC countries. EEC-ACP cooperation in trade and aid will likely continue despite the new developments. It is possible that investment finance and aid to eastern Europe may reduce the quantity of funds available to the Caribbean in the short run. On the other hand, a fresh burst of investment in eastern Europe can be a stimulus for enhanced economic growth internationally. Growth in those economies can fuel an increase in world demand for all products including agricultural commodities.

Initially, eastern Europe is likely to compete strongly with those countries (e.g., Latin America) producing temperate agricultural products for the EEC market, since much of that region is still an agrarian society. To the extent that demand expands in eastern Europe as its economies grow in the medium term, the area may be looked upon as a potential market for such tropical fruits as bananas and non-traditional products. However, the ability of Caribbean producers to export both traditional products like bananas or non-traditional products will depend on their price (and quality) competitiveness. Also, exporting to eastern Europe will initially be quite expensive given the need to establish new transportation links and marketing arrangements.

6

CARIBBEAN RESPONSE TO 1992

This section explores some feasible policy options and approaches that Caribbean countries can adopt with respect to the uncertainty regarding specific agricultural products that may be affected as a result of the single European market of 1992. It also proposes some options for addressing the more fundamental problem of improving the competitiveness of the Caribbean agricultural sector. Appropriate reactions to the constraints and challenges of 1992 go beyond those that aim specifically at the agricultural sector, for the sector's performance cannot be divorced from the general macroeconomic context in which it operates.

The competitiveness of Caribbean sugar is one major issue; a problem for the future is that production costs in the EEC may increase less slowly than those in the Caribbean. Sugar is produced in most Caribbean countries by old, inefficient equipment; production costs are high and these are compounded by high domestic wage rates. A "common" approach to research and technology development, together with increased scale economies in production and lower inflation rates in a single EEC market, means that European beet-sugar farmers can produce more competitively than Caribbean sugar cane operations. Furthermore, at a time when the CAP is subjected to budgetary pressures and calls for reform, price increases for sugar are likely to only cover increases in European production costs. Therefore, the distinct possibility exists that EEC price increases would lag behind production costs in Caribbean, thereby progressively reducing the benefits obtained by cane-sugar exporters under the Sugar Protocol.

In addition, there is the reasonable expectation that prices for banana exports to the EEC market will eventually decline, even if a long "phasing in" period is afforded to ACP banana growers and "dollar" bananas have increased access to the Community market.

Diversification of Agriculture

One immediate response to the challenges of 1992 is for Caribbean countries to adopt strategies that genuinely contribute to diversification of agriculture as well as economic activities. Although attempts have been made to diversify agriculture, not much success has not been achieved in the Caribbean. Nevertheless, the urgency to diversify may well be one of the indirect benefits of the "specter of 1992."

The OECS countries in particular have moved ahead with a concentrated effort for diversification because they fear that with a unified Europe, the preferential markets for bananas would be lost. As stated before, because of high production costs, the OECS cannot compete with the so-called "dollar" bananas, often produced on large plantations with cheap labor in Latin America by large US multinational corporations. Even if the worst scenario does not materialize with 1992, this possibility has forced the OECS, particularly the Windward Islands, to recognize the extreme vulnerability of their economies, whose development has largely been based on banana production. The need to diversify into other agricultural outputs and away from such total dependence on a single economic activity and market has been clearly recognized and is being addressed, although some observers have argued that this recognition and initial response should have occurred much sooner.

Caribbean successes in agricultural diversification are very few. Even where there has been success, it has been the result of special market conditions and has involved substitution of dependence on one or a few crops for another. For example, some two decades ago, St. Lucia abandoned sugar for banana production whereas Jamaica diminished its dependence on sugar by developing the production of bananas, coffee and, more recently, horticulture and aquaculture. Dominica, once dependent on citrus and still a major producer of bananas, has already met with some success in its attempts to export fruit, vegetables and ginger. On the other hand, the agricultural sector of Barbados, particularly export agriculture, has continued to revolve around sugar, although non-sugar production has grown noticeably if not spectacularly in recent times.

Issues in diversification

Definitions of diversification vary, ranging from totally abandoning a crop in favor of one or more alternatives to maintaining current output of a major crop, but simultaneously initiating or increasing production of alternatives, be they other crops, livestock or agro-based industries. The latter approach is the one that Caribbean governments have uniformly adopted.

There are several issues in the debate on agricultural diversification in the Caribbean. Some pertinent questions are: What options are available for economically meaningful diversification of the agricultural sector? Should diversification result in abandonment of traditional crops such as sugar and bananas? What are the constraints to this meaningful diversification and how can these be addressed?

Maintaining traditional crops

Although the need to diversify is well recognized and not seriously contested by anyone, there are several reasons why agricultural production in Caribbean countries may still center around traditional crops in the medium term.

The arguments for maintaining large-scale sugar and banana production in the medium term in the respective territories are well known. The economies of the Windward Islands revolve around banana production. Loss of the banana market would result in tremendous economic and social dislocation, with foreign exchange losses and increased unemployment with the potential for social and political instability. It is debatable whether viable alternatives could be produced in the medium term which could make the same economic and social contribution that bananas have made historically. Diversifying into fruits is fairly expensive because of the long gestation period and low initial income flows.

Traditional crops have well established production, transport and marketing schemes; marketing non-traditional exports on a similar scale will be costly and difficult and not immediately achievable. The experiences of Caribbean countries in producing high-quality non-traditional products on a large scale, and competing successfully in traditional markets where rigid standards and specific consumer requirements exist are very limited. Therefore, as long as a margin of preference is maintained in the EEC that affords Caribbean producers a ready market, traditional agriculture would, for the next few years, continue to be the primary activity of the sector. In fact, given the degree of dependence on bananas and sugar for export earnings and employment, Caribbean countries cannot afford to abruptly lose the EEC preferential market. The approach taken must be a gradual phasing out of preferences accompanied by aid for structural adjustment if the affected economies are to avoid collapse. It is therefore critical that the countries retain preferences in the sector for the medium term, within which the appropriate adjustments can be made to reduce the economic dependence on traditional products.

Another reason for retaining traditional crops is the prevailing topography of most countries. With the exception of Guyana and Belize, the availability of potential land resources to diversify agriculture for production and exports (as a substitute for sugar and bananas) is very limited. The four Windward Islands, for example, have steeply sloping lands; thus tree crops, pasture or natural forests are best suited to these countries. Agronomically, sugar cane is the best suited large-scale crop in the case of Barbados.

Banana production also has another advantage suitable for agriculture in the hurricane belt of the eastern Caribbean. It has the potential for rapid productive recuperation and is a source of continuous cash income throughout the year. Other crops, such as tree crops, are both seasonal and more vulnerable to hurricanes. If destroyed, they can take several years to rehabilitate as opposed to nine months for bananas.

There are, however, costs in maintaining large-scale banana and sugar production in the medium term. Relying on production and export earnings from a single crop make these economies very vulnerable to adverse shocks in the EEC market and very dependent on the EEC preferential arrangements. The "artificially" high EEC price has supported monocrop agricultural practices by encouraging resource inflow into the traditional sector (e.g., bananas), creating inefficient production structures (particularly in sugar), thereby discouraging the production of alternative crops. The maintenance of inefficient production structures and reliance on a small number of products have real economic costs which are often not well recognized: misallocation of resources and inefficient use of limited available resources, and the potential for an adverse shock from a single market to impair not only export earnings and the balance of payments but also public finance, private incomes and employment (i.e., increased economic risk).

If preferences are significantly reduced, in the short and medium term, Caribbean countries will have to lower their production costs if they are to be competitive. This would necessitate massive recapitalization for sugar production, and enhanced technology and production techniques would have to be introduced in the case of bananas. The cost of maintaining traditional agricultural productions would therefore be costly under these conditions.

If the traditional sector is to maintain its active economic role, one school of thought suggests that Caribbean governments could encourage foreign multinationals such as Booker and Tate, Geest, JP, and others to become more integrally involved in the management aspects of their operations. In the case of sugar, Jamaica and Guyana have encouraged the return of multinationals to improve efficiency and viability of their sugar industries. This is unlikely, however, to be feasible in other countries, particularly the smaller islands. In the Windward Islands, for example, banana production is done on small holdings where the average farm size is less than 10 acres. This is a most unlikely scenario for the involvement of multinationals, which compete internationally and need to exhibit economies of scale in production; hence the need for large holdings. A report on the sugar industry of Barbados suggests the consolidation of sugar plantations into a single entity run by a foreign management company. This is a potentially viable option and can be considered in other countries on a case by case basis. However, whether multinationals would want to become involved in a mature industry like sugar at this time would depend on the attractiveness of the concessions offered by the governments.

The evidence suggests that Caribbean producers of traditional agricultural products are generally not very competitive without preferential markets. One issue to be addressed is the extent to which they can compete successfully in markets for their traditional products of sugar and bananas without preferential arrangements. Both products have or are approaching "maturity" and demand for them in traditional markets may level off. Other crops for which Caribbean countries have the potential to use in diversification, competition from Latin America and other producers for the same markets is very likely.

Other options

Fruit and vegetable production offers an alternative to dependence on traditional crops such as sugar and bananas. These crops have been the focus of the OECS diversification thrust. There are potentially profitable markets for Caribbean fruits; in the EEC, where the demand for tropical (exotic) fruits is expected to continue to increase as its economies expand, mangoes, papaws, pineapple, soursop, and others have much market potential.

In several cases, increased vegetable production can be targeted for the domestic market (including the tourist market) and for import substitution. Given the high level of food imports in the Caribbean, production of vegetables not only offers an opportunity for increased exports to third countries but for increased intra-regional trade. The need for Caribbean countries to expand production of food is also premised on the need for increased food security and the demands for a growing population. However, because of the high cost of production, this will be economically feasible only if sufficiently high tariffs are placed on extra-regional low-cost substitutes.

There are also opportunities for diversification within the sugar sector, but these may not replace sugar as a large foreign exchange earner. They largely aim at retaining a sugar-cane industry in the respective countries. For instance, Grenada has demonstrated interest in cane that is high in reducing sugars suited for rum production rather than high in sucrose content. Given the recent favorable ruling in the EEC on rum, coupled with the recent decision by Canada to allow bottling of Caribbean rum, production, if properly marketed, may be a profitable substitute for some current sugar production. Sugar cane production aimed specifically at producing livestock feed should also be explored. This may call for the planting of different varieties of cane high in protein, fibre and minerals. Given that a major prohibiting factor in livestock production is the cost of imported feed, the development of such feeds with high domestic value added would be important in not only maintaining cane production but also increasing linkages in the agricultural sector. These options for diversification of sugar cane usage may be particularly relevant to Barbados, where alternatives to sugar production may be limited for agronomic reasons.

Producing fruits and vegetables for the tourism sector offers another potential area for development. While the linkages between agriculture and the tourist sector have increased over the years, they are still not sufficiently strong to exploit the full potential of agriculture as a domestic supplier of food. An appropriate strategy needs to be developed that addresses all aspects of the agriculture-tourism linkage. Nevertheless, improving the quantum of domestically (or regionally) produced food to the tourist sector would contribute substantially to foreign exchange savings.

Agro-industry is another possibility whereby Caribbean producers can process vegetables, and fruits to increase domestic value added. These products would serve both as export and import substitutes. The development of a vibrant agro-industry, however, demands regular supplies in sufficient quantity and this has been a constraint this sector's development in the Caribbean.

Countries like Guyana and Jamaica, where inland water resources are more abundant, have already started to develop successful aquaculture industries. These may serve as useful examples for the other Caribbean countries.

The above examples indicate some of the possibilities for agricultural diversification available in theory to the Caribbean. However, there are several constraints to agricultural diversification which also need to be addressed.

Constraints to diversification

Some critical factors that have constrained diversification are the implementation of appropriate economic and sectoral policies, support programs and a weak institutional framework. The commitment of governments to the diversification effort, as reflected by policy measures adopted, has been less than strong. As indicated before, the existence of preferential markets together with inappropriate macroeconomic (budget deficits, overvalued exchange rates) and sectoral policies have provided a bias against the development of non-traditional agriculture in the Caribbean.

A major constraint is the lack of economies of scale due to small production units. This results in relatively high production cost for both traditional and non-traditional commodities and, in many cases, given existing exchange rate and tariff arrangements, it is cheaper for Caribbean countries to import food from third countries than to produce it locally. It is one of the main reasons why the policy objective of strengthening tourism-agriculture linkages has not been realized; hotels have preferred to import cheaper food and avoid risks associated with unreliability of supplies and low product quality.

A major constraint to agricultural development and diversification is the unprofitable nature of agricultural production in many instances, due to the small scale of production, high cost of labor, imported inputs and equipment as well as inadequate technological development. Until a package of policies is put in place that allows agriculture to survive as an economically viable activity, the diversification thrust will not achieve much success. Farmers currently producing for preferential markets at protected prices will be loathe to take on more risky production activities without government guarantees, especially in the initial period.

An associated problem related to risk is the land tenure situation in the Caribbean. Many farmers do not own the land which they operate and this provides a disincentive to invest in land development and agricultural production. It also contributes to their inability to access formal credit facilities. This is further compounded by costs of supervised credit to lending institutions being very high because of the large number of small farmers to be serviced. Nevertheless, a system that allows small farmers to access needed credit is necessary if diversification is to become a reality. A land reform scheme that provides incentives to agriculture may be essential to government's diversification efforts in such situations.

Other major constraints include those related to marketing and transport. Marketing is traditionally a major constraint to agriculture and other sectors. However, to penetrate increasingly sophisticated EEC markets, a concerted and well-focused marketing effort will be needed. With respect to transportation, Caribbean governments have little control over either air or shipping transport facilities. Present arrangements for the transport and handling of traditional exports are well defined and organized; this needs to be similarly done for non-traditional exports. Success in penetrating developed markets is predicated on timely supplies of large quantities of products; ensuring adequate transportation facilities is therefore of paramount importance.

A further constraint to diversifying agricultural exports is the lack of consistent product quality. Quality standards will be higher in a the Single European Market. Caribbean producers should strive to produce commodities which accord with market quality demands and which benefit from proper post-harvest handling. Standards for different agricultural products would have to be established on (hopefully) a Caribbean basis, but these will also take into consideration the market requirements abroad.

There are also institutional and structural constraints to agricultural diversification in the Caribbean. While the sector in most countries is characterized as basically mono-crop agriculture, diverse cropping patterns also exist, but on a smaller scale. The guaranteed markets for traditional products have supported a highly technological and commercially oriented approach to farming, which unfortunately is lacking in non-traditional agriculture.

Closely related to this is the fact that the average age of farmers in most Caribbean countries is more that 45 years. As a farming group, they are likely to resist change and are unwilling to accept risks in the cultivation of alternative crops. The institutional prerequisites for producing commercially oriented and dynamic farmers are absent and this continues to constrain development of non-traditional agriculture.

Addressing the constraints

Caribbean governments must respond in several ways to the challenges of diversification. The size of the countries and paucity of resources suggest that their efforts be supported by regional and international development agencies. Institutions such as the Caribbean Agricultural Research and Development Institute (CARDI) will need to play a pioneering role in identifying "new" production technologies and crucial research; CATCO's role as a regional marketer for both inputs and products is also critical. It must be recognized, however, that agricultural diversification is not a quick, short-run undertaking and neither will it be easy or without cost. Many of the requirements for making diversification economically feasible are similar to those for the achievement of general economic development in Caribbean countries.

The economic costs of delaying or not diversifying are potentially very large; continued dependence on a single crop linked to a single market makes Caribbean economies extremely vulnerable economies. This can lead to severe economic, political and social upheaval in the event of the loss of preferences. Some critical issues and areas for action that need to be addressed in a more comprehensive manner are identified below.

Other Areas for Action

- There is a need for in-depth sector assessments to determine the real needs of farmers, constraints to farming and the comparable advantages of the sector in individual countries. Crops chosen as priority ones for diversification should have acceptable domestic resource costs and high local value added. Export products must likewise be low in bulk (given the transportation constraint) and high in domestic value added.

- Farmers' organizations must be developed as important vehicles for bringing about agricultural diversification and a re-orientation to farming (as a commercial/business activity), as well as providing the sector with support services such as extension and research.

- The production efficiency of agricultural commodities must be substantially improved if Caribbean countries are to compete with Latin American and other producers in export markets. To achieve this, an increased "capitalization" of Caribbean agriculture is needed. Appropriate production, processing and marketing technologies must be generated and/or adopted. The extension and research functions of the ministries of agriculture must be considerably strengthened and the domestic research effort in the individual countries must be coordinated and rationalized. (viz, a "common" approach). Other public sector institutions serving agriculture should consider a reorientation whereby their programs emphasize a commercial and "business" approach to farming.

- Increased training activities will also be needed to produce a more technologically proficient farmer. In addition, for the diversification effort to be self-sustaining and given the advanced age profile of Caribbean farmers, continued efforts to attract younger, technically more proficient persons to agriculture is a *sine qua non*.

- It will to be difficult to encourage farmers to move away from traditional "protected" products into new, risky production activities. Governments will have to seriously consider alternative policy options to assist farmers with start-up costs, price and income support and marketing of non-traditional crops. An export guarantee and/or export credit schemes should be considered for non-traditional exports.

- A thorough investigation of potential markets must be carried out. Past experiences have shown that successful diversification programs are developed only after research into all aspect of production and marketing possibilities and requirements have been conducted. This, however, is not to argue for a cessation of the current diversification efforts in the OECS countries. The direction of the diversification program must be guided by rational research and identified market possibilities. A commodity systems approach is well recommended.

- Caribbean countries should also develop a strategy of targeting niche markets for its non-traditional agricultural products both in the EEC and North America. Exporting to North America may prove more economical on the whole given transportation costs and the substantial competition in fruits, vegetables and cut flowers from African countries, Thailand and Israel on the EEC market. Information on the seasonality of production in the competing countries will have to be obtained to guide programming of domestic production and marketing. This will call for a precise and efficient market intelligence network.

- With regard to traditional exports, fixed quota allocations and exogenously determined prices imply that Caribbean exporting countries can only increase returns by producing at lower. The continued survival and profitability of traditional exports will depend on improved production efficiency as well as expansion of cultivated areas.

- While efforts at the national level are important for the diversification process, a coherent and well-coordinated regional approach (within the integration movement) is also critical. Regional policies for agriculture should be pursued to rationalize production and marketing and avoid misallocation of resources if the sector is to advance the development process and compete in the non-traditional extra-regional markets.

- The strategy for agriculture should also include efforts for sustained development of the sector in the longer term. Sustainability will become an increasingly critical issue over time as pressures are placed on the demand and use of resources in production to maintain real income growth and adequate standards of living consistent with environmental protection.

Broader Policy Issues

There are other issues of general economic importance to the Caribbean region which will impinge strongly on the development of the agricultural sector. These include regional economic integration and the development of common policies which can provide the necessary framework for supporting strategies for the agricultural sector.

Regional integration

The Caribbean Community (CARICOM), which dates from 1973 and now includes thirteen English-speaking Caribbean nations, provides for a regional grouping that incorporates economic, social and political aspects. The Community's Secretariat helps to develop a Caribbean perspective on regional and international issues, administers the provisions of the Treaty that established CARICOM, and oversees the gradual maturation of the integration process. There are provisions for functional cooperation on major government policies through special committees of officials and ministers responsible for agriculture, health, education, social services, labor relations and many other areas. The economic arrangements are a hybrid of a free trade area and a customs union over time. A number of associated private, quasi-governmental institutions and programs serve to deepen the integration process.

The implementation of several regional policies to advance the integration process has been rather slow. The regional trade system has not significantly improved over the years nor has there been an ease in factor mobility. The regional payments system to facilitate trade, The Caricom Multinational Clearing Facility (CMCF), has collapsed, and efforts to revive it have so far been unsuccessful. Disparities in economic policy and economic performance have created tensions over trade and factor movements.

In general, while influenced by the decline in some of the larger regional economies, the implicit protectionism in some economies and violation of the rules of origins have hindered regional trade and the integration process. The single EEC market of 1992 has highlighted the need for joint action and the absolute necessity for Caribbean countries to pool their limited resources in research, marketing, and transportation if the region is to survive as a viable economic entity in the medium term. Fairly successful models of regional cooperation such as CARDI, WINBAN and UWI need to be replicated in other regional efforts if the Caribbean is to succeed as a united entity.

Deepening the regional integration process is especially necessary at this juncture because of the recent rapid changes in developments of the world economy such as the emergence of three mega-blocks: Europe, USA-Canada-Mexico and the emerging Asia-Pacific group led by Japan. The Uruguay Round of GATT has already marginalized Caribbean states because they lack the political and economic power to influence the negotiating process. The Caribbean cannot hope to influence the outcomes of trade negotiations if it acts as several independent small countries; only by acting as a single group can the area influence the "rules of the game" that will govern world economic activity. For example, a unified response is needed to protect Caribbean market interests in a united Europe. A similar strategy is needed as a response to President Bush's Initiative for the Americas, whereby the USA is proposing the creation of a free trade zone embracing the entire flow of capital into the region and a new approach to the debt burden problem.

Furthermore, the dramatic political and possible economic changes in Eastern Europe and the Soviet Union have shifted the focus of the "traditional" donor countries to develop new trade and aid arrangements with these areas. The major implications of this new development is the diversion/reduction of both aid and trade concessions to recipients (such as the Caribbean) so as to stimulate economic developments in the Eastern Bloc countries. There are already indications that capital flow into the area has slowed considerably in the last few years. The Caribbean will therefore need to develop alternative strategies as a single entity to adjust to this new but challenging economic environment.

The Caribbean faces the distinct possibility of becoming a mere bystander to rapid changes in world economic events if the integration process is slowed. Deepening the regional integration effort will require less disparity in economic performance and closer cooperation on several issues such as harmonization of fiscal and monetary policies, and development of common policies for agriculture, trade and finance. At present, while there are several isolated efforts to improve the regional economy, the integration movement lacks a coherent economic program for the region. This is essential, because an overall economic program provides the required framework for integrated agricultural and other sectoral programs, although certain sectoral aspects of the common approach may proceed more quickly and easily.

Common policy for agriculture

A regional study of the Caribbean recommended as long ago as 1975 that a common policy framework for agriculture be formulated as part of the process of strengthening economic integration (World Bank Report 1975). This recommendation is as appropriate today as it was then.

While several regional approaches have been and are currently being made to develop agriculture (such as the Caribbean Food and Nutrition Strategy and the current Programme for Agricultural Development), a comprehensive and coherent policy framework for the sector has been absent. National components of these efforts are considerably weakened because domestic economic and sectoral policies of member states are often "uncommon." For this reason, the regional efforts are merely a compendium of programs and projects for the sector.

A regional policy for agriculture is needed if current programs and projects are to be successful. While institutional, technical and structural constraints may preclude formulation of an effective policy, identification of general policy objectives is both urgent and a necessary step for adoption of a common approach to the area's agricultural sector. This can then be integrated into a wider framework which will identify the more specific policy approaches to the sector.

Monetary union

At the recent CARICOM summit of Heads of Government, a challenge was made by the Barbados Prime Minister for the Caribbean to achieve monetary union by 1995. The concept of a single currency for the Caribbean, proposed by William Demas, Governor of the Trinidad and Tobago's Central Bank, is gaining popularity. There is no doubt that the need to settle trade in hard currencies has been a disincentive to the development of intra-regional trade in all sectors, especially with the collapse of the CMCF.

Economic and monetary union is essential if Caribbean countries, like the EEC, are to experience the full benefits of a unified market. The OECS countries, through the ECCB, have shown that a common currency can be achieved with consequent benefits when allied with curbs on fiscal spending. Given the problems associated with getting countries to abandon their national currency in favor of a new, supranational currency and the loss of national sovereignty involved, it is essential that monetary union be not seen in terms of "a single currency or nothing."

A monetary union will also facilitate other common policies and strategies for economic development of the Caribbean. Without a monetary union, the benefits of economic integration will only be partial and they will be disproportionately between countries. Countries with relatively more stable economies, high growth rates and stronger currencies will have comparative advantages, particularly in the area of investment. The lessons of the EEC and of the OECS sub-region in this area are very clear.

A gradual move toward monetary union that includes several phases of development should be initiated. As a start, efforts can be made to fix and maintain parities between the various Caribbean currencies, allowing these to fluctuate only narrowly within certain bands. Currencies of like value should be the first to be linked. A Caribbean "Unit of Account" may be introduced later as a precursor to a true single currency. The process must be carefully managed given the complex problems involved in integrating such countries as Jamaica and Guyana —which have low currency values and enormous foreign debts— into a currency bloc. An eventual single currency is desirable, with appropriate constraints on national governments' ability to finance spending by money creation. Coordination and integration of fiscal financial policies must also proceed along with integration of production and markets. A critical issue to be addressed is the freedom of movement of capital and a policy on competition.

A strategy that supports capital and labor mobility would lead to a potential overall gain in output growth and greater efficiency in the use of human resources. There would also be some additional economies of scale and room for CARICOM-wide industries looking toward the export market. Selective labor mobility should be encouraged at first because complete mobility is not feasible at this time, as this will have economic and political overtones as people migrate toward the stronger economies with higher wages and living conditions.

Fiscal policies

Efforts are currently underway to harmonize fiscal incentives to the productive and service sectors throughout the Caribbean. The CARICOM summit has recently agreed to adopt the Common External Tariff (CET), although there was considerable resistance from some countries who anticipate its impact to increase their cost of living. The CET was expected to become operational as of January 1, 1991, but several countries have postponed its implementation.

With respect to the agricultural sector, the harmonization of fiscal policies should provide for the treatment of new investment in agriculture in a manner similar to other sectors in terms of the tax incentives offered. Historical unequal treatment has favored industrial investment at the expense of agriculture. It should encompass not only fiscal incentives and tax rebates but also such areas as government expenditure on inputs and services. It should be noted that attempts at harmonization of particular taxes or uniformity in other aspects of fiscal policy might well be counterproductive at this stage because of limited factor mobility. However, there would seem to be a clear-cut case for the CET and harmonization of incentives for investment in agriculture.

Trade cooperation

A study mandated by the CARICOM heads of government on the implications of the 1992 unification of the EEC market has highlighted the need for cooperation in the area of trade and marketing. The study warns that without "serious, informed and constructive diplomacy and lobbying," the area could face a further abrupt fall in export earnings. A unified Caribbean approach is the most appropriate strategy to deal with problems of lobbying, diplomacy, and negotiations, as this would be cost-effective and more likely to succeed.

One recommendation of the study included the establishment of a regional mechanism to facilitate cooperation among state agencies involved in trade and investment promotion, interests in rum and sugar, the private sector and agencies involved in the study and development of new technologies. Such a body would be responsible for "doing briefs on specific sectors of CARICOM member states with a view to penetrating new EEC markets." These efforts should be complemented by the establishment of a stronger "trade" presence within the foreign embassies of Caribbean countries.

7

SUMMARY AND CONCLUSIONS

Lessons for the Caribbean

Although the EEC countries have a long history of internal warfare and rivalry, they have moved gradually toward a single economic entity, which may possibly become a political union. The Community represents over 30 years of economic and political integration. It has traversed the difficult path to integration, overcoming obstacles through difficult negotiations and strengthening the institutional, policy and social environmental. What can the Caribbean integration movement, itself little more than two decades in existence, learn from the EEC experience? The economic integration of western Europe can and should inform the Caribbean exercise of several broad lessons.

- Perhaps the first basic lesson to be learned from the EEC experience is that of persistence and political commitment of individual governments toward the common goals of integration. Like the CARICOM experience, the road toward 1992 has been anything but smooth. National interests and conflictive lobbying by groups with a narrow economic and political agenda often placed stumbling blocks in the integration path. Nevertheless, the EEC has observed a sure timetable in implementing the several phases of its economic and (now political) integration, by committing itself and its resources (human and institutional) to the unification process. A major factor has been the role of various organs of the Community and strengthening of the administrative, regulatory and political role of its institutions to facilitate economic integration. As a result, Community policies and programs have increasingly transcended the national position. Individual countries have reluctantly but gradually ceded various aspects of their sovereignty so that Community regulations are strictly adhered to and are treated as law within individual countries. In this respect, individual CARICOM governments have often failed to adhere to decisions made by the CARICOM heads of government and its Secretariat is not sufficiently strong to enforce implementation and observation of agreements and regulations.

- For genuine economic integration to be achieved, as the EEC experience shows, additional policies are needed at both the national and regional levels. These include a regional policy for agriculture, regional development, transport, employment, capital, trade, competition, the environment, external relations and fiscal and monetary policy coordination. However, the implementation of these policies must of necessity be gradual since national and regional institutional capacities are very limited and countries are extremely sensitive to their economic and political implications. This is evidenced by the very modest success achieved in the proposed full political union of the OECS subregion. The Caribbean could also benefit from an in-depth study by a task force of the legal administrative and economic structure of the EEC.

- With respect to the agricultural sector, the EEC's Common Agricultural Policy highlights both the benefits and burdens of deliberate government intervention in agricultural markets, and the inherent difficulties of satisfying the divergent economic and political interests of different constituents in an integration bloc. The CAP has been centered around price support and trade measures for agricultural products. The EEC's experience with the CAP has shown that while government intervention can assist in agricultural development and growth (if such policies are formulated and implemented in such as way as to distort underlying market signals), then economic inefficiency and misallocation of scare resources will result. For example, if there is agreement on price support that includes interest rate credit subsidies, the EEC's experience demonstrates the need for additional complementary mechanisms that provide incentives for efficient production.

- The CAP highlights the problems inherent in having a common policy for heterogeneous regions possessing varying natural resource and other endowments, farming practices and social attitudes. The CAP has often been said to worsen rather than improve regional disparities in the Community. The EEC has been forced to strengthen its regional policy and increase its social funds to complement the CAP in resolving regional economic imbalances. This also demonstrates that agricultural policy per se cannot solve the problems of the sector. A study of this particular aspect of the EEC experience would be very informative given the diversities that currently exist in the Caribbean in economic conditions, comparative advantage and resource endowments.

- The CAP also demonstrates the need for a unified structure to address trade issues with third countries. The Common External Tariff of the EEC has been implemented to protect domestic EEC agriculture while custom duties on intra-EEC trade have been abolished. Myriad technical and administrative requirements have nevertheless been used in EEC member states to circumvent free intra-EEC trade. The single market of 1992 will remove such barriers. The gradual move toward unhindered EEC intra-regional trade is an important lesson for the Caribbean. For example, there have been several violations of the "rules of origins" stipulated in the CARICOM Agreement. On occasion, Caribbean countries have exported goods originating from third countries to other CARICOM states under the pretext that these were domestically produced. This has often served to injure domestic agriculture and industry in these states and to weaken the integration movement. While it can be argued that regulations in the Caribbean regarding the rules of origin were not very definitive, the experiences of the EEC in such matters can inform the Caribbean initiative.

- The EEC has gradually coordinated and is moving toward integration of the monetary, fiscal and exchange rate policies of its member countries. This is necessary for economic stability and growth of the Community. Experiences indicate that when such policies vary and are uncoordinated the Community's efforts for closer economic integration are self-defeating. The Caribbean experience also suggests that policy coordination provides additional economic benefits. The evidence shows that those countries which have adopted a coordinated monetary policy (e.g., the OECS) have contributed to a strong and stable currency, economic stability and consistent growth. Another example is the adoption of differential exchange rates for extra-regional and regional trade before by Jamaica and Trinidad and Tobago, which discriminated against regional trade. This is a critical issue which the Caribbean integration movement should address as it formulates its strategies for regional economic growth in the future.

- The success of the efforts toward economic and political integration in western Europe was also a result of a continuous process of issue dissemination, education, debate and interaction involving diverse institutions and interest groups as well as the general populace. The political commitment by member countries has been supported in general by involvement of broad sections of its people. With respect to the Caribbean, the political commitment to the integration process has not been sufficiently strong. This is reflected in the long delays in implementing decisions and regulations adopted at the area level. In view of the urgency of a regional approach to address economic and social issues, national governments as well as the regional institutions need to better market the idea of integration to Caribbean nationals. A comprehensive campaign of informative publicity including seminars, public debate and research on the benefits of integration and the necessary steps is needed. This is critical if there is to be effective political commitment to Caribbean integration.

Summary and Conclusions

The single European market of 1992 has raised the possibility of the Caribbean losing its preferential markets for its main exports, sugar and bananas. While the available evidence at this point in time does not indicate the immediate or even the medium-term loss of these markets, general developments inside and outside of Europe signal the possibility of contracting export markets for Caribbean agricultural products. These include the consequences of the single market, technological changes, efforts to reform the CAP, the possible implications of certain agreements from the GATT negotiations, and the development of special trading arrangements between the EEC with regions including the Mediterranean and North Africa, Latin America and eastern Europe.

It is envisaged that Latin American countries would be the most important rivals for agricultural market shares in Europe and North America. A major implication of such developments would be the adverse economic and social consequences which a reduced market and declining prices for the major agricultural exports would have on Caribbean economies. Given the current price advantage which Latin American agricultural producers have vis-a-vis their Caribbean counterparts, it is essential that Caribbean producers employ enhanced technologies in their production processes and improve their production efficiency as much as possible to remain competitive in external markets.

Other developments in the world economy will also provide severe challenges for the Caribbean if it is to sustain economic growth and be cost competitive in external markets.

These include the trend toward formation of mega-trading blocks and the possible enlargement of existing ones (USA-Canada-Mexico-Central America, EEC-Eastern European countries, and the Asian Group), trade and aid concessions to eastern European countries by North America and the EEC, rapid changes in technology which cannot be easily accessed by Caribbean countries and changes in consumer preferences, market requirements and regulations in importing countries.

The above possibilities have enormous implications for Caribbean economies in general, and specifically for the agricultural sector. The challenges will be many and severe, as will the opportunities which the above developments will provide to the Caribbean. How successful the Caribbean can deal with such challenges and opportunities will ultimately depend on such interrelated factors as its preparedness to meet the challenges, its choice of strategies, the political commitment of its governments, efforts to deepen the integration process and the swift execution of policy decisions.

Based on the discussions in the Chapter 4, a number of broad policy recommendations which the Caribbean needs to seriously consider if the region is to adjust successfully to the challenges of 1992 and beyond are set out below.

Two complimentary lines of action are recommended for the Caribbean: (i) to lobby for continued protection of traditional exports in the short and medium term while doing everything possible to increase production efficiency; (ii) to diversify the agricultural base and economies in general toward goods and services, which market research has firmly indicated to have significant economic and export potential. To achieve this, governments must necessarily establish the relevant support structures and provide the required incentives to the agricultural sector. These include:

a) A commitment by regional governments to strengthen mechanisms to promote intra-regional agricultural (and general) trade.

b) Adoption of a common policy for the region's agriculture and established of the necessary mechanisms and institutions of support.

c) A speedy implementation of the Common External Tariff and Rules of Origin with a view to reducing some of the price disadvantages of local production.

d) Encouragement of stronger agriculture-tourism and agro-industry linkages based on comparative advantages in regional production.

e) Reduction of the bias against the agricultural sector by affording agricultural investment and agri-business opportunities similar fiscal incentives and concessions afforded to the manufacturing, tourism and service sectors.

f) Establishment of a tax regime biased toward non-traditional agricultural exports.

g) A focus on diversification to products whose potential for production and marketing has been thoroughly researched. Priority should also be given to export products with low bulk and high domestic value added.

h) Rationalization of agricultural production on a regional scale to support national and regional specialization in production.

i) The design of support policies for agriculture that allow for a more fluid and dynamic sector constantly adjusting to domestic needs and external market preferences.

j) Establishment of consistent land use and land reform policies to avoid the divergence of prime agricultural land from agriculture; provision of incentives for investment, land management and environmental protection.

k) The granting to the CARICOM Secretariat, or an associated regional institution, of powers and the necessary support (human, financial, legal) to enforce agreements and implement common policies.

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APPENDIX I

THE INSTRUMENTS OF ACP-EEC COOPERATION

PROTOCOL 5

On Bananas

The Community and the ACP States agree to the objectives of improving the conditions under which the ACP States bananas are produced and marketed and of continuing the advantages enjoyed by traditional suppliers in accordance with the undertakings of Article 1 of this Protocol and agree that appropriate measures shall be taken for their implementation.

Article 1

In respect of its banana exports to the Community markets, no ACP State shall be placed, as regards access to its traditional markets and its advantages of those markets, in a less favourable situation than in the past or at present.

Article 2

Each of the ACP States concerned and the Community shall confer in order to determine the measures to be implemented so as to improve the conditions for the production and marketing of bananas. This aim shall be pursued through all the means available under the arrangements of the Convention for financial, technical, agricultural, industrial and regional cooperation. The measures in question shall be designed to enable the ACP States, particularly Somalia, account being taken of their individual circumstances, to become more competitive both on their traditional markets and on markets of the Community. Measures will be implemented at all stages from production to consumption and will cover the following fields in particular:

— improvement of conditions of production and enhancement of quality through action in the areas of research, harvesting, packaging and handling;

— internal transport and storage;

— marketing and trade promotion.

Article 3

For the purpose of attaining these objectives, the two parties hereby agree to confer in a permanent joint group, assisted by a group of experts, whose task shall be to keep under continuous review any specific problems arising from application of this Protocol in order to suggest solutions.

Should the banana-producing ACP States decide to set up a joint organization for the purpose of attaining the objectives of this Protocol, the Community shall support such an organization and shall give consideration to any requests it may receive for support for the organization's activities which fall within the scope of regional schemes under the heading of development finance cooperation.

PROTOCOL 6

On Rum

Article 1

Until the entry into force of a common organization of the market in spirits, products of subheadings 2208 40 10, 2208 40 90, 2208 90 11 and 2208 90 19 of the Combined Nomenclature originating in the ACP States shall be imported duty free into the Community under conditions such as to permit the development of traditional trade flows between the ACP States and the Community and between the Member States.

Article 2

a) For the purposes of applying Article 167 and by the derogation from Article 168(1) of the Convention, the Community shall each year, until December 1995, fix the quantities which may be imported free of customs duties.

These quantities shall be established as follows:

— Until 31 December 1993, on the basis of the largest annual quantities imported from the ACP States into the Community in the last three years for which statistics are available, increased, in the period until 31 December 1992, by an annual growth rate of 37% on the market of the United Kingdom and 27% on the other markets of the Community.

— However, the volume of the annual quantity shall in no case be equal to that of the previous year increased by 20 000 hectolitres of pure alcohol.

— For 1994 and 1995, the volume of the total quota shall in each case be equal to that of the previous year increased by 20 000 hectolitres of pure alcohol.

b) For the arrangements applicable from 1996, the Community shall establish, before 1 February 1995, on the basis of a report that the Commission will send to the Council before 1 February 1994, the modalities for the project abolition of the Community tariff quota, taking into account the situation and prospects on the Community rum market and of the ACP States' exports.

c) Where the application of point (a) hampers the development of a traditional trade flow between the ACP States and the Community, the Community shall take the appropriate measures to remedy the situation.

d) To the extent that the consumption of rum increases significantly in the Community, the Community undertakes to carry out a new examination of the annual rate of increase fixed by this Protocol.

e) The Community declares itself prepared to conduct appropriate consultations before determining the measures provided for in (c).

f) The Community further declares itself willing to seek with the ACP States concerned measures to allow an expansion of their sales of rum on the Community market.

Article 3

With a view to attaining these objectives, the parties agree to confer within a joint working party whose role shall be to examine continuously any specific problem arising from application of this Protocol.

Article 4

At the request of the ACP States the Community, in accordance with the provisions of Title X, Part Two, of the Convention, shall assist the ACP States in promoting and expanding their sales on the Community market.

PROTOCOL 8

containing the Text of Protocol 3 on
ACP Sugar Appearing in the
ACP-EEC Convention of Lomé
signed on 28 February 1975 and
the Corresponding Declarations
Annexed to that Convention

PROTOCOL 3

On ACP sugar

Article 1

2. The safeguard clause in Article 10 of the Convention shall not apply. The implementation of this Protocol is carried out within the framework of the management of the common organization of the sugar market which, however, shall in no way prejudice the commitment of the Community under paragraph 1.

Article 2

1. Without prejudice to Article 7, no change in this Protocol may enter into force until a period of five years has elapsed from the date on which the Convention enters into force. Thereafter, such changes as may be agreed upon will come into force at a time to be agreed.

2. The conditions for implementing the guarantee referred to in Article 1 shall be re-examined before the end of the seventh year of their application.

Article 3

1. Quantities of cane sugar referred to in Article 1, expressed in metric tons of white sugar, hereinafter referred to as "agreed quantities," for delivery in each 12-month period referred to in Article 4(1), shall be as follows:

Barbados	49,300
Fiji	163,600
Guyana	157,700
Jamaica	118,300
Kenya	5,000
Madagascar	10,000
Malawi	20,000
Mauritius	487,200
People's Republic of the Congo	10,000
Swaziland	116,400
Tanzania	10,000
Trinidad and Tobago	69,000
Uganda	5,000

2. Subject to Article 7, quantities may not be reduced without the consent of the individual States concerned.

3. Nevertheless, in respect of the period up to 30 June 1975, the agreed quantities, expressed in metric tons of white sugar, shall be as follows:

Barbados	29,600
Fiji	25,600
Guyana	29,600
Jamaica	83,800
Madagascar	2,000
Mauritius	65,300
Swaziland	19,700
Trinidad and Tobago	54,200

Article 4

1. In each 12-month period from 1 July to 30 June inclusive, hereinafter referred to as the "delivery period", the sugar-exporting ACP States undertake to deliver the quantities referred to in Article 3(1), subject to any adjustments resulting from the application of Article 7. A similar undertaking shall apply equality to the quantities referred to in Article 3(3) in respect of the period up to 30 June 1975, which shall also be regarded as a delivery period.

2. The quantities to be delivered up to 30 June 1975, referred to in Article 3(3), shall include supply en route from port of shipment or, in the case of landlocked States, across frontiers.

3. Deliveries of ACP cane sugar in the period up to 30 June 1975 shall benefit from the guaranteed prices applicable in the delivery period beginning 1 July 1975. Identical arrangements may be made for subsequent delivery periods.

Article 5

1. White or raw sugar shall be marketed on the Community market at prices negotiated between buyers and sellers.

2. The Community shall not intervene if and when a Member State allows selling prices within its borders to exceed the Community's threshold price.

3. The Community undertakes to purchase, at the guaranteed price, quantities of white or raw sugar, within agreed quantities, which cannot be marketed in the Community at a price equivalent to or in excess of the guaranteed price.

4. The guaranteed price, expressed in units of account, shall refer to unpacked sugar, cif European ports of the Community, and shall be fixed in respect of standard quality sugar. It shall be negotiated annually, within the price range obtaining in the Community, taking into account all relevant economic factors, and shall be decided at the latest by 1 May immediately preceding the delivery period to which it will apply.

Article 6

Purchase at the guaranteed price, referred to in Article 5(3), shall be assured through the medium of the intervention agencies or of other agents appointed by the Community.

Article 7

1. If, during any delivery period, a sugar-exporting ACP State fails to deliver its agreed quantity in full for reasons of force majeure the Commission shall, at the request of the State concerned, allow the necessary additional period for delivery.

2. If a sugar-exporting ACP State informs the Commission during the course of a delivery period that it will be unable to deliver its agreed quantity in full and that it does not wish to have the additional period referred to in paragraph 1, the shortfall shall be re-allocated by the Commission for delivery during the delivery period in question. Such re-allocation shall be made by the Commission after consultation with the States concerned.

3. If, during any delivery period, a sugar-exporting ACP State fails to deliver its agreed quantity in full for reasons other than force majeure, that quantity shall be reduced in respect of each subsequent delivery period by the undelivered quantity.

4. It may be decided by the Commission that in respect of subsequent delivery periods, the undelivered quantity shall be re-allocated between the other States which are referred to in Article 3.

Article 8

1. At the request of one or more of the States supplying sugar the terms of this Protocol, or of the Community, consultations relating to all measures necessary for the application of this Protocol shall take place within an appropriate institutional framework to be adopted by the Contracting Parties. For this purpose the institutions established by the Convention may be used during the period of application of the Convention.

2. In the event of the Convention ceasing to be operative, the sugar-supplying States referred to in paragraph 1 and the Community shall adopt the appropriate institutional provisions to ensure the continued application of the provisions of this Protocol. 3. The periodical reviews provided for under this Protocol shall take place within the agreed institutional framework.

Article 9

Special types of sugar traditional delivered to Member States by certain sugar-exporting ACP States shall be included in, and treated on the same basis as, the quantities referred to in Article 3.

Article 10

The provisions of this Protocol shall remain in force after the date specified in Article 91 of the Convention. After that date the Protocol may be denounced by the Community with respect to each ACP State and by each ACP State with respect to the Community, subject to two years' notice.

Special Undertakings on Sugar

Article 213

1. In accordance with Article 25 of the ACP-EEC Convention of Lomé signed on 28 February 1975 and with Protocol 2 annexed thereto, the Community has undertaken for an indefinite period, notwithstanding the other provisions of this Convention, to purchase and import, at guaranteed prices, specific quantities of cane sugar, raw or white, which originates in the ACP States producing and exporting cane sugar and which those States have undertaken to deliver to it.

2. The conditions for the implementation of the aforementioned Article 25 have been laid down by Protocol 3 referred to in paragraph 1. The text of the Protocol is annexed to this Convention as Protocol 8.

3. Article 177 of this Convention shall not apply within the framework of the said Protocol.

4. For the purpose of Article 8 of the said Protocol the institutions established under this Convention may be used during the period of application of this Convention.

5. Article 8 (2) of the said Protocol shall apply should this Convention cease to be operative.

6. The declarations contained in Annexes XIII, XI and XXII of the Final Act of the ACP-EEC Convention of Lomé signed on February 1975 are reaffirmed and their provisions shall continue to apply. These declarations are annexed as such to this Convention.

7. This Article are the Protocol 3 referred to in paragraph 1 shall not apply to relations between the ACP States and the French overseas departments.

ANNEX TO PROTOCOL 3

Declarations on Protocol 3

1. Joint declaration concerning possible requests for participation in the provisions of Protocol 3.

Any request from an ACP State Contracting Party to the Convention not specifically referred of that Protocol shall be examined [1].

2. Declaration by the Community concerning sugar originating in Belize, St. Kitts-Nevis-Anguilla and Suriname

a) The Community undertakes to adopt the necessary measures to ensure the same treatment provided for in Protocol 3, for the following quantities of cane sugar, raw, or white, originating in:

Belize	39,400 metric tons
St. Kitts-Nevis-Anguilla	14,800 metric tons
Suriname	4,000 metric tons

b) Nevertheless, in respect of the period up to 30 June 1975, the quantities shall be as follows:

Belize	14,800 metric tons
St. Kitts-Nevis-Anguilla	7,900 metric tons [2]

3. Declaration by the Community on Article 10 of Protocol 3

The Community declares that Article 10 of Protocol 3 providing for the possibility of denunciation in that Protocol,under the conditions set out in that Article, is for the purposes of juridical security and does not represent for the Community any qualification or limitation of the principles enunciated in Article 1 of that Protocol [3].

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[1] Annex XXX to the Final Act of the ACP-EEC Convention.

[2] Annex XXI to the Final Act of the ACP-EEC Convention.

[3] Annex XXII to the Final Act of the ACP-EEC Convention.

APPENDIX II

STABEX: PRODUCTS COVERED AND AMOUNTS TRANSFERRED, 1975 - 88

STABEX transfer per product, 1975-1988

Product/group of products	Years of application							
	1975-1979		1980-1984		1985-1988		1975-1988	
	Amounts	% of total	Amounts	% of total	Amounts	% of total	Amounts	% of total
1. Oils and Fats	177.595.153	45.65%	195.579.120	29.22%	377.120.483	30.53%	750.658.756	32.71%
Groundnut products	139.360.279	35.75%	133.258.043	19.91%	165.696.842	13.41%	438.315.164	19.10%
Coco/copra products	10.571.240	2.71%	31.625.346	4.72%	99.096.674	8.02%	141.293.260	6.16%
Palm products	7.800.126	2.00%	6.712.032	1.00%	77.070.841	6.24%	91.582.999	3.99%
Sesame seed	2.632.923	0.68%	3.150.900	0.47%	955.047	0.08%	6.738.870	0.29%
Cashew nuts and kernels			4.903.831	0.73%	7.619.419	0.62%	12.523.250	0.55%
Shea nuts			1.937.603	0.29%	5.821.886	0.47%	7.759.489	0.34%
Cotton seed					37.780	0.00%	37.780	0.00%
Oil cake	17.594.585	4.51%	13.991.365	2.09%	20.821.994	1.69%	52.407.944	2.28%
2. Tropical Beverages	24.391.780	6.26%	397.669.542	59.41%	636.436.294	51.15%	1,058.497.616	46.13%
Coffee	14.494.289	3.72%	246.582.657	36.84%	432.953.622	35.04%	694.030.568	30.24%
Cocoa/cocoa products	1.521.161	0.39%	148.836.782	22.24%	157.577.568	12.75%	307.935.511	13.42%
Tea	8.376.330	2.15%	2.250.103	0.34%	45.905.104	3.72%	56.531.537	2.46%
3. Textiles	63.936.851	16.40%	46.893.740	7.01%	92.100.593	7.45%	202.931.184	8.84%
Cotton	43.359.441	11.12%	36.534.333	5.46%	84.264.086	6.82%	164.257.860	7.15%
Sisal	20.577.410	5.28%	9.068.448	1.35%	3.472.194	0.28%	33.118.052	1.44%
Mohair			1.290.959	0.119%	4.364.313	0.35%	5.655.272	0.25%
4. Spices	5.207.237	1.34%	6.648.340	0.99%	12.716.947	1.03%	24.572.524	1.07%
Vanilla	2.903.720	0.74%	5.159.394	0.77%	1.732.909	0.14%	9.796.023	0.43%
Cloves	2.303.517	0.59%	851.095	0.13%	10.984.038	0.89%	14.138.650	0.62%
Nutmeg and mace			637.851	0.10%			637.851	0.03%

Product/group of products	Years of application							
	1975-1979		1980-1984		1985-1988		1975-1988	
	Amounts	% of total	Amounts	% of total	Amounts	% of total	Amounts	% of total
5. Wood	39.992.067	10.26%	390.631	0.06%	95.265.988	7.71%	135.648.686	5.91%
6. Other	16..535.087	4.24%	22.180.504	3.31%	21.977.853	1.78%	60.693.444	2.64%
Bananas	5.813.366	1.49%	14.220.660	2.12%	193.267	0.02%	20.227.293	0.88%
Beans			4.996.671	0.75%	19.186.589	1.55%	24.183.260	1.05%
Essential oils	170.596	0.04%	1.339.873	0.20%			1.510.469	0.07%
Gum arabic	848.489	0.22%					848.489	0.04%
Pyrethrum	608.802	0.16%			281.637	0.02%	890.439	0.04%
Hides and skins	9.0.93.834	2.33%	913.011	0.14%	1.928.129	0.16%	11.934.974	0.52%
Shrimps and prawns			710.289	0.11%	388.231	0.03%	1.098.520	0.05%
7. Iron ore[1/]	61.789.536	15.85%					61.789.536	2.69%

1/ No longer covered by STABEX after Lome III.

Source: Commission of the European Communities. 1990b.

This publication, produced by the Editorial Service and Print Shop of the Inter-American Agricultural Documentation and Information Center (CIDIA), was published at IICA Headquarters in September, 1991 with a press run of 1200 copies.

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