

**Trade and development nexus:
reflections on the performance of
trade in goods under the
CARIFORUM-European Union
Partnership Agreement
A CARIFORUM perspective**

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Economic Commission for Latin America and the Caribbean (ECLAC)

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Abstract

Given the asymmetry in the levels of development and capacity which exist between the EU and CARIFORUM States, the architects of the CARIFORUM-European Union (EU) Economic Partnership Agreement (EPA)¹ anticipated the need for review and monitoring of the impacts of implementation. Article 5 and other provisions in the Agreement therefore specifically mandate that monitoring be undertaken to ensure that the Agreement benefits a wide cross-section of the population in member countries.

The paper seeks to provide a preliminary assessment of the impact of the EPA on CARIFORUM countries. In so doing, it highlights some critical information and implementation gaps and challenges that have emerged during the implementation process. The analysis however, is restricted to goods trade. The services sector will be the subject of a separate report.

The paper draws on a combination of quantitative and qualitative analyses. While the paper undertakes a CARIFORUM-wide analysis for the most part, five CARIFORUM member states including Barbados, Dominican Republic, Guyana, Saint Kitts and Nevis and Saint Lucia are examined more closely in some instances. These economies were selected by virtue of economic structure and development constraints, as a representative subset of CARIFORUM, which comprises the CARICOM membership as well as the Dominican Republic.

A. Results of analysis

The EPA has not been ratified by all CARICOM countries and its implementation has generally lagged behind the stipulated timelines. This partly reflects severe human, technical and institutional capacity constraints in a number of countries, particularly in the smaller countries of the Organization of Eastern Caribbean States (OECS). It also suggests a dispersion of policy focus on EPA implementation, while countries sought to address the more pressing fallout from the global financial crisis.

¹The Economic Partnership Agreement (EPA) between the CARIFORUM States and the European Union (EU) was signed in October 2008. The leading aim of the agreement is to promote trade, investment and development cooperation between the CARIFORUM and the EU in their mutual interest. It seeks to promote the sustainable development of CARIFORUM by facilitating export development and regional integration.

The results of the analyses undertaken give credence in many instances to the concerns expressed by CARIFORM Member States, during the negotiating process, with respect to the challenges faced by small vulnerable economies in their efforts to capitalize on market access opportunities furnished by FTAs, particularly those with developed country partners. Moreover, the study provides evidence that the EPA has generated disparate benefits to CARIFORUM Member States, with the Dominican Republic largely benefiting due to its ability to achieve the requisite economies of scale, its capacity to implement comprehensively the broad provisions of the agreement and its level of trade preparedness.

For the majority of CARICOM countries (with the possible exception of Trinidad and Tobago), the Agreement has yet to deliver the broad-based welfare and trade gains expected. Specifically, the empirical analyses have unmasked a clear disparity between the competitiveness of the Dominican Republic and CARICOM commodity exports in the EU market. The Dominican Republic's merchandise exports, has generally proved to be relatively more competitive in the EU market under the EPA than its CARICOM counterparts. In the presence of the EPA, the Dominican Republic's comparative advantage and trade complementarity with the EU has improved, while that of CARICOM has remained weak and in decline.

Indeed, the majority of the Dominican Republic exports to the EU can be categorized as rising stars², inferring that the Dominican Republic exports are gaining export share in the same commodities that the EU are increasing their import demand. In contrast, most of the OECS's exports to the EU are classified as missed opportunities,³ suggesting that export shares are falling in commodities where demand in the EU is rising. Missed opportunities for the OECS countries may be attributed to their small economic size; their fragmented and inefficient production systems; and their inability to achieve the economies of scale needed to substantively improve their competitive position in the larger EU market and to capitalize on emerging export opportunities.

The Dominican Republic also outperforms the selected CARICOM countries in the EU market both in terms of the number of commodities that recorded an improvement in their comparative advantage from the 2003-2007 period relative to the post EPA period. In fact all of the selected CARICOM countries experienced a decline in the number of commodities for which they held comparative advantage, while exports demonstrating comparative advantage for the Dominican Republic in the EU market increased from 208 to 255 commodities. In addition, 121 commodities moved from the comparative disadvantage class into the comparative advantage class for the Dominican Republic over this period.⁴

Trade complementarity between the CARIFORUM and the EU is generally low, suggesting that the EU may not be a natural trading partner of the region. However, the Dominican Republic has had demonstrable increase in trade complementarity with most of the EU countries. In light of the results, it can be concluded that the EPA will not likely lead to a welfare enhancing outcome for CARICOM. Further, the CARIFORUM-EU EPA has not succeeded in substantively increasing intra-regional trade.

As regards trade in services, the Dominican Republic is shown to have done better than the selected CARICOM countries. The analysis revealed that the Dominican Republic has comparative advantage in all of the service sectors classified by the United Nations Commercial Trade Statistics. Although the indicators did decline for the Dominican Republic over the 2003-2007 and EPA periods,

²An export commodity that gains market share in a dynamic commodity market, i.e. where the share of world demand has increased from a base year to a final year in relation to other commodities.

³An export commodity that loses market share in a dynamic commodity market.

⁴These results raise an important concern in the context of effective market access for CARICOM exports of agricultural products in the EU, and the Region's trepidation that non-tariff barriers erected by the EU pose a significant challenge for the primary products and manufactured goods in which CARICOM enjoy a comparative advantage to enter the EU market. If this is not addressed in a holistic manner moving forward, market access will continue to present a challenge even for the agricultural and primary products which are characterized as rising stars and demonstrate comparative advantage for some CARICOM countries.

comparative advantage remained much higher for all the service sectors compared to the selected CARICOM countries.

The results of other methodologies⁵ which examined the impact of the agreement on CARIFORUM exports are consistent with the evidence that the EPA had a significant impact on the Dominican Republic's export to the EU. However, the same was not found for the CARICOM region. This demonstrated insignificant impact of the EPA. CARICOM's exports could be problematic for CARICOM Member States.

The results also demonstrate that the EU has a larger spillover impact on the Dominican Republic than CARICOM, suggesting that the Dominican Republic may be able to benefit more from any growth in the EU associated with the EPA. This can be partially attributed to CARICOM's static comparative advantage and the small size of its economies. For CARICOM to benefit more meaningfully from the EPA, it may be necessary to institute a productive capacity development and trade-related infrastructure (e.g. maritime/air transport, energy, ICT and quality infrastructure) modernization programme. In the absence of this, there is likely to be greater erosion of trade to the EU relative to other areas.

In addition, a loss in tariff revenues is expected for all the selected CARIFORUM countries examined, as a result of tariff liberalization associated with the EPA and the diversion of imports away from non-EU sources towards to the EU market. Moreover, the net welfare is negative for all countries examined, which implies that improvements in welfare for consumers in the selected CARIFORUM countries are likely to be small.

B. Conclusion and recommendations

Indications are that the EPA had a differential impact on the members of CARIFORUM. The Dominican Republic has largely benefitted because of its capacity to implement the Agreement and its trade preparedness. However, for the majority of CARICOM countries the Agreement has yet to deliver the broad-based welfare and trade gains expected.

The Dominican Republic's merchandise exports, partially due to economies of scale, has generally proved to be competitive in the EU market, generating increased export shares in areas where the EU's import demand is expanding. In the presence of the EPA, the Dominican Republic's comparative advantage and trade complementarity with the EU has improved. In contrast, CARICOM's comparative advantage and trade complementarity has remained weak, and is in decline for all the countries examined, during the EPA period. In many instances CARICOM has been losing market share for commodities where EU demand is trending upwards. The size of the Caribbean economies seems to limit the benefits that accrue from EU growth spillovers. Further, the CARIFORUM-EU EPA has not succeeded in substantively increasing intra-regional trade.

The EPA review process provides a unique opportunity for both Parties to collectively reshape the Agreement to take into consideration the prevailing economic circumstances of CARIFORUM economies in terms of the identified bottlenecks⁶ and structural rigidities. This is

⁵ The gravity model

⁶To make the EPA more amendable to **private sector development**, the information dissemination machinery within CARIFORUM has to be made more dynamic, robust and effective. Adoption of this "*EPA made simple*" approach will undoubtedly increase the efficacy of information dissemination thereby making the implementation process smoother.

Visa requirements for consultants, artists, professionals and entrepreneurs from the CARIFORUM region to enter the EU market were also highlighted as an important issue for policy consideration, especially for stakeholders from the Dominican Republic and Guyana.

Domestic **fiscal challenges** have limited the policy space of government officials and constrained resources for **EPA implementation** initiatives. Accordingly, government officials from the affected countries suggested that effective EPA implementation would require a longer time frame; greater level financial and technical assistance; increased research and

essential for achieving the development goals of the Agreement. In moving forward, policy efforts should be targeted towards the optimization of the benefits accruing from the development support and market access enshrined in the EPA. Critical in this regard, is crafting and instituting practical measures which safeguard the current progress made by some CARIFORUM economies, while simultaneously broadening the development gains to encompass a larger number of CARIFORUM countries. This may require recasting some features of the EPA, in order to make the Agreement more amenable to broadening the competitiveness of the region as a whole.

In many CARICOM member states, efforts to capitalize on the export opportunities in the EU have invariably been undermined by a combination of poor economic infrastructure, low and declining competitiveness, weak institutions, fragmented production systems and limited productive capacity. These factors have constrained the ability of countries to capitalize on market opportunities, trade complementarity and comparative advantages where they exist. Assisting the region to modernize key economic infrastructure in the areas of maritime and air transport, renewable energy, and ICT will go a long way in reversing this trend and contribute to increased regional production and market integration. Particular attention should be given to non-traditional areas such as the creative industries and sport to take advantage of the region's competitive advantage in these areas. In addition, innovation, research and development as well as technology transfer should be seen as indispensable levers for enhancing CARIFORUM-wide total factor productivity. Streamlining the EU-CARIFORUM EPA's development support and the EU's Aid for Trade efforts to focus on these key points of intervention, would go a long way to integrating CARIFORUM member states into the wider Western hemispheric and global value chains.

Facilitating increased export levels would require diversification in many CARIFORUM countries and would necessitate development and institutional cooperation between the regions to be streamlined. Incentives, loan guarantees, export financing, and increased coherence in the area of intellectual property, as well as business to business contacts have emerged as key policy interventions necessary for the successful development of CARIFORUM SMEs. These issues should engage the attention of the EPA review process. It is also essential that a framework for the periodic conduct of market intelligence and export potential research be commissioned and a mechanism for the dissemination of the results established. This will ensure that the regional private sector is made aware of new instruments that may affect their exports in the European markets in a timely and systematic manner and measures be put in place to benefit from opportunities or mitigate potential threats.

It is imperative that a programme of cooperation be instituted to ensure that Caribbean exporters are able to meet the EU's stringent SPS and TBT requirements. To certify the achievement of these, the regional quality infrastructure has to be systemically modernized, to address legislation, staff upgrade and lack of regulation. Greater support (institutional and financial) should be provided for strengthening the capacity of CARIFORUM countries to effectively implement and administer the Agreement, particularly for EPA implementation Units and Business Support Organization (BSOs) within CARIFORUM. Areas of specific focus include, *inter alia*, data collection, and demand studies on the EU, dissemination of information on market opportunities in the EU and instituting concrete measures to safeguard CARIFORUM food security.

It is also important to put in place appropriate mechanisms to monitor EPA implementation and its impact on development and growth in CARIFORUM States. This monitoring regime will also be useful in facilitating the comprehensive five-year reviews of the Agreement, which are mandated in the Joint Declaration on Signing of the EPA. However, the key challenge is formulating and instituting the requisite mechanism and attendant overarching institutional framework for monitoring EPA-related outputs, outcomes or development results. Intuitively, when set against the objectives of the EPA as set out in Article 1, key performance indicators should relate to the agreement's impact on

analysis on the impact of the EPA on the domestic economy; capacity building programs for small businesses; and a monitoring mechanism.

CARIFORUM's trade with the EU and within CARIFORUM; the impact on Government revenue; the impact on investment flows; the impact on the level of development aid in the context of the EPA; the impact on labour and environmental issues. Although monitoring arrangements should be established in each CARIFORUM country, these must be compatible with an overall CARIFORUM monitoring regime and provide for independent assessment.

I. Introduction

The Economic Partnership Agreement (EPA) between the CARIFORUM States and the European Union (EU) which was formally signed in October 2008 is a trade and development arrangement, which provides CARIFORUM economies' goods and services exports favorable, reciprocal and asymmetric access into EU markets. The wide-ranging Agreement, which marked a fundamental shift in the nature of the three decade old trade and development relationship between CARIFORUM countries and member states of the EU sought to satisfy the requirements of General Agreement on Tariffs and Trade (GATT) Article XXIV⁷ as well as bring the EU's regime governing trade with CARIFORUM countries into conformity with the World Trade Organization (WTO) Most Favoured Nation (MFN) principle. The aim of the agreement is to promote trade, investment and development cooperation between CARIFORUM and the EU. It also makes provision for EU development support to, among other things, strengthen institutions and improve the competitiveness of economic operators in CARIFORUM. Hence, it is within this context that any evaluation of the impact of the agreement, efficacy of EPA implementation and the arrangements for monitoring the outcomes of that implementation should be undertaken.

Given the asymmetry in development and capacity between the EU and CARIFORUM States, the Agreement anticipated the need for review and monitoring of the impacts of implementation. Accordingly, Article 5 and other provisions in the Agreement specifically mandate that monitoring should be undertaken to ensure that the Agreement benefits a wide cross-section of the population in member countries. In view of the fact that the EPA has now been in force for six years, this paper will look briefly at some of market access commitments undertaken by Parties, initial discernible impacts, as well as challenges facing CARIFORUM countries in respect of implementing commitments, as well as capitalize on market access opportunities under the arrangement and also make a few observations about the monitoring of EPA implementation. However, before doing so it is important to provide a brief explanation of the underlying methodological approach that has underpinned the analysis utilized, and which also provided the basis of a wider study on the status of implementation of the EPA undertaken by the UN ECLAC Subregional Headquarters for the Caribbean.

⁷ Article XXIV of the GATT requires customs unions and free trade areas to eliminate duties and other respective regulations of commerce on substantially all trade between the parties, either immediately or over a reasonable length of time, in order to satisfy the free trade criterion.

A. Methodology

This paper utilizes a combination of qualitative and quantitative methods of analysis. These include consultations with private and public sector stakeholders; econometric analyses such as the computation of the Revealed Comparative Advantage (RCA) and Trade Complementarity indices; and the employment of Vector Autoregressive Modeling, Partial Equilibrium Analysis and Gravity models; other quantitative and qualitative analyses; as well trade and sustainable development benchmarks and indicators of performance, to review the impact of the CARIFORUM-EU Economic Partnership Agreement (EPA) on CARIFORUM countries. It is important to note that the empirical work was constrained by data gaps and time limitations, which did not allow for the use of a computable general equilibrium framework. The paper also succinctly evaluates bottlenecks and challenges encountered in implementing the Agreement and in so doing provides an assessment the initial impacts of the EPA on CARIFORUM Member States.

Five CARIFORUM States including Barbados, Dominican Republic, Guyana, Saint Kitts and Nevis and Saint Lucia were chosen for more targeted examination in some instances with a view to identifying bottlenecks and peculiar challenges that have bedeviled implementation of commitments under the Agreement. These economies were selected based on their economic structure and development constraints, as a representative subset of CARIFORUM.

The impact of tariff reductions and the change in consumer surplus is also assessed through a partial equilibrium model. An in-depth analysis into the inter-temporal changes of comparative advantage, export competitiveness and trade complementarity at the commodity level over 2003-2007 and EPA periods are examined using various trade indices. The paper also employs a gravity model to assess the significance of the EPA in influencing CARIFORUM exports to the EU, and a vector autoregressive model to quantify the impact of growth spillovers from the EU, North America and commodity prices on CARIFORUM countries.

II. Background

A. Trade and development relationship between CARIFORUM and the European Union (EU)

It is important to view the EPA from the broader context of the historical trading relationship between Caribbean economies and Europe. The special trade and development relationship between CARIFORUM countries and the European Union (EU) began in 1975 when six (6) CARICOM Member States joined other developing countries from Africa and the Pacific in concluding the first of four successive five-year Lomé Conventions with the EU. The Lomé Conventions were followed, in June 2000, by the Cotonou Agreement, which laid the foundation for the EPA. In the interim, the Caribbean members of the ACP Group had expanded from six to fifteen and had been transformed into the Caribbean Forum of ACP States (CARIFORUM). Similarly, the 1975 nine-member European Economic Community has also expanded to become the 28-member European Union⁸.

With regard to development cooperation, the EU and the African, Caribbean and Pacific (ACP) Group of States share a long history of trade and economic cooperation, which dates back to the signing of the Treaty of Rome in 1957. This Treaty established the first European Development Fund (EDF) which sought to provide support and contribute to the development of the former colonies of the European Economic Commission (EEC). It is estimated that over the period 1975 to 2013, the European Commission has made available in excess of 5 billion euros for assistance to the Caribbean subregion, including regional and national programmes, and support for the rum industry and banana production. Within recent time the European Investment Bank (EIB) has also provided development assistance and investment funds. However, the most important instrument has been is national programmes and bilateral aid, which accounts for 52per cent of the ODA received by Caribbean countries between 1975 and 2013. The next largest contribution was that of EIB loans and investment (25.1per cent), followed by regional programming (9per cent) see table 1.

⁸Twenty-seven EU Member States signed the EPA in 2008, but Croatia became the 28th EU member state on 1st July 2013.

TABLE 1
EUROPEAN UNION DEVELOPMENT COOPERATION
IN THE CARIBBEAN, 1975-2013
(millions of euros)

Instrument of cooperation	1975-2001	2002-2007	2008-2013	Total	Share
National programmes/bilateral aid	1 234	571	1 166	7.20	51.8
Regional programming	353	---	165	0.24	9.0
Export stabilization mechanism	252	---	---	0.19	4.4
Structural adjustment	165	---	---	0.44	2.9
Special framework of assistance for bananas	132	---	---	10.00	2.3
Programme of support for rum industry	70	---	---	0.25	1.2
Emergency aid	117	---	---	n.a.	2.0
Drugs control	25	---	---		0.4
Caribbean Investment Facility (CIF)	---	---	40		0.7
Development cooperation (not including EIB)	2 348	571	1 371		74.9
European Investment Bank	854	157	428		25.1
Development cooperation (including EIB)	3 202	728	1 800	1.20	100.0

Source: Duran et al, (2014) based on European Commission, Regional Strategy paper 2003-2007; European Investment Bank (2011, 2012), and information on funds spent under multi-annual programmes of 2002-2007 and 2008-2013.

B. Salient characteristics of the CARIFORUM-EU EPA

First paragraph has no indentation, but should be justified. The negotiation of the EPA, which among other things sought to mainstream trade and development in CARIFORUM countries, began in September 2002 with an 18-month period of discussions at the All-ACP level and continued at the regional level from April 2004, was completed on 16th December 2007. Thus CARIFORUM became the only ACP region to conclude EPA negotiations before the 31st December 2007 deadline, which had been agreed at the WTO. The EPA was formally signed in Barbados on 15th October 2008 by 13 of the 15 CARIFORUM countries, member states of the European Union, and the European Commission. Guyana signed the Agreement in Brussels on 20th October 2008 and Haiti signed in December 2009. Following the completion of the necessary domestic arrangements in the Caribbean and in the EU, those countries which had signed the EPA established 29th December 2008 as the start date for provisional application of the Agreement.

It is worth recalling that the Economic Partnership Agreement (EPA) is a trade and development arrangement between Caribbean Forum of African Pacific States (CARIFORUM) and the European Union, which provides favourable access to the EU markets for goods and services from CARIFORUM countries and reciprocal market access into CARIFORUM for EU exports. The EPA also provides for development support to strengthen trade-related institutions and enhance the competitiveness of economic operators in CARIFORUM. Fostering the sustainable development of CARIFORUM economies and the promotion of regional integration are leading objectives of the EPA. Enhanced development cooperation coupled with anticipated expanded bilateral trade and investment inflows were thought to be necessary antecedents for attaining these objectives. The

enhancement of EU development cooperation support for CARIFORUM and the stimulation of trade and investment flows between CARIFORUM and the EU are expected to be major contributors to the attainment of sustainable development.

The negotiators of the EPA were fully aware of the need to build into the Agreement an appropriate mechanism to monitor its implementation and to determine the extent to which the Agreement is achieving its objectives. Continuous monitoring is an important aspect of the implementation of any policy, at the macro or micro level, in order to evaluate the extent to which the policy is being implemented and to determine the outcomes and impact of the particular policy. Periodic reviews are integral components of ongoing monitoring and present policy makers with detailed pictures at specific points along the implementation timeline.

Consequently, in order to evaluate the impact of the EPA on CARIFORUM States and to determine any necessary amendments and/or adjustments, the Agreement includes a specific article addressing continuous monitoring and a Joint Declaration, which commits the Parties to a five-yearly comprehensive review of the Agreement.

In the first place, article 5 of the EPA asserts that: “The Parties undertake to monitor continuously the operation of the Agreement in order to ensure that the objectives of the Agreement are realized, the Agreement is properly implemented and the benefits for men, women, young people and children deriving from their Partnership are maximized”.

Secondly, the Joint Declaration on the Signing of the Economic Partnership Agreement annexed to the Agreement effectively acknowledges the need for continuous monitoring and periodic reviews to assess the extent to which the Agreement is achieving its objectives. Indeed paragraph 5 of the Joint Declaration states: “We understand that, in the context of our continued monitoring of the Agreement within its institutions, as provided for under article 5 of the Agreement, a comprehensive review of the Agreement shall be undertaken not later than five (5) years after the date of signature and at subsequent five-yearly intervals, in order to determine the impact of the Agreement, including the costs and consequences of implementation and we undertake to amend its provisions and adjust their application as necessary” (see annex I).

While Paragraph 5 of the Joint Declaration embodies the commitment to a review, the preceding paragraphs are of equal significance as they represent recognition by the Parties of factors that will impact implementation of the EPA, the supportive role it must play if the development objectives of CARIFORUM States are to be realized, the centrality of the regional integration process and that special account must be taken of the different levels of development among the Parties to the Agreement, notably the needs of the small vulnerable economies, including, in particular, Haiti as a Least Developed Country, as well as those designated as less developed under The Revised Treaty of Chaguaramas.

The EPA objectives and the provisions identified above with respect to the monitoring and review of the Agreement allows CARIFORUM latitude as well as a mechanism for negotiating for changes in the Agreement if from the subregion’s perspective the objectives of EPA were not being met. This notwithstanding, the EPA did provide CARIFORUM with distinct market access gains, elements of which will be examined in the next sub-section.

C. Overview of market access commitments (goods)

The market access (goods) provisions of the EPA allows for the reciprocal grant of tariff preferences by the EU and CARIFORUM, in contrast to the one-way duty free access in the EU market enjoyed by CARIFORUM (and other ACP) states under the Cotonou Agreement. It should be noted that under successive Lomé and the Conotou Agreements, 99.5 per cent of the EU market was liberalized to the ACP. Consistent with provisions set out in the Conotonou Agreement, the EC has committed to granting duty free and quota free access with respect to goods from CARIFORUM States, which meet

agreed rules of origin, with specific modalities put in place for sugar and rice. Duty-free, quota-free access for rice was applied from January 1, 2010, while bananas on the other hand was subject to duty-free quota-free access in the EU from the onset of the application of the Agreement.

At the end of 10 years CARIFORUM is scheduled to liberalize 61.1 per cent of EU imports; 82.7 per cent at the end of 15 years; and at the end of the implementation period (25 years), 86.9 per cent. In addition, other charges applied at the border (not including value added tax and Consumption Tax), which include Customs Fees and Stamp Taxes are also be liberalized. Guyana and Suriname will remove export duties on goods exported under the EPA.

In addition, on the CARIFORUM side, a number of items have been excluded from liberalization of customs duties altogether. These items include spirits and spirituous beverages, aerated beverages and a number of agricultural products, all of which collectively represent less than 15 per cent CARIFORUM's imports from the EU. CARIFORUM also enjoyed a three (3) year moratorium, across the board, on tariff reduction commitments. Apart from this general deferment of the initiation of tariff liberalization, tariffs reduction commitments on motor vehicles imported from the EU are also subject to a ten (10) year moratorium for all CARIFORUM States; while there is also a 10 year moratorium on certain petroleum products with respect to Haiti. A number of products however, were zero-rated in CARIFORUM States from the date of application of the Agreement.⁹

With respect to rules of origin,¹⁰ cumulation¹¹ conditions have been relaxed. In addition, there are also relaxed qualifying conditions on a number of CARIFORUM exports, including those applicable to flour, biscuits and other bakery products; jams and jellies; chocolate confectionery; juices and drinks; garments, of both knit and non-knit fabric; and air conditioning units. However, restrictions were placed on CARIFORUM cumulation in respect of a number of sugar containing products, which were outlined in Annex X to the Protocol I of the EPA, until 2015. Arrangements for certification and verification of origin, which obtained under the Cotonou Agreement, have need retained.

Having placed the EPA in its correct context and briefly highlighted salient elements of the market access opportunities (goods) it has provided, consideration will now be given to the performance of CARIFORUM member states under the Agreement.

⁹ Mc Lean S., An Initial Overview of the Economic Partnership Agreement Between the CARIFORUM States and the European Community and its Member States, Caribbean Community Secretariat, 2008.

¹⁰ Rules, laws, regulations and administrative rulings applied by governments to determine the country of origin of goods, services and investment. Such rules commonly outline the processes that have to be carried out in order for a good to qualify for preferential access.

¹¹ A system of rules of origin which allows the production or transformation of a product in two or more specified countries.

III. Assessment of the performance of the CARIFORUM-EU EPA

The CARIFORUM group comprises all members of the Caribbean Community (CARICOM) and the Dominican Republic. As the analysis undertaken in the previous section demonstrated, these economies are generally highly open small island developing economies with unsophisticated production structures, large service sectors and persistent fiscal imbalances. Further, these economies are net food importers (annex II provides a comprehensive assessment of the trade and economic performance of CARIFORUM countries and annex III shows trends in real merchandise trade balances with the EU and the world for selected CARIFORUM countries).

Implementation of commitments under the EPA has been uneven across CARIFORUM, with only Antigua and Barbuda, Belize, the Dominican Republic, Guyana, Saint Lucia and St Vincent and the Grenadines having ratified the agreement thus far. Bearing this in mind, analyses undertaken by UNECLAC, using panel data gravity models, suggest that the EPA has not had a significant effect on the Caribbean's exports. Similarly, it was demonstrated that preferences under the Lomé Convention (2005) have also had an insignificant impact on CARIFORUM exports. This should be a source of concern given that the EPA is seen by many as a tool for quickening the pace of integration of Caribbean economies into the multilateral trading system.

A. Assessment of export competitiveness

The TradeCAN software,¹² which assesses the export competitiveness of countries, allows for interesting conclusions to be drawn with respect to the composition and international competitiveness of the subregion's exports. Annex IV simplifies the nomenclature utilized in the analysis. The findings suggest that the majority of the Dominican Republic exports to the EU can be categorized as rising stars,¹³ indicating that the Dominican Republic exports are gaining export share in the same

¹² TradeCAN is a trade software and calculations are derived from 4 digit SITC merchandise trade data

¹³ An export commodity that gains market share in a dynamic commodity market, i.e. where the share of world demand has increased from a base year to a final year in relation to other commodities.

commodities in which the EU are increasing their import demand. It is noteworthy however, that banana exports dominated this category for the Dominican Republic, accounting for in excess of 60 per cent. At the aggregate level, it would appear that in the presence of the EPA, a significant proportion (59 per cent) of CARICOM's exports is positioned as rising stars. In addition, the subregion's missed opportunities (e.g. spirits and liqueurs and sugars) and declining stars (e.g. rice and minerals)¹⁴ and retreats (e.g. petroleum oils, aluminium ores and concentrates) in the EU market have also contracted (see table 2).

TABLE 2
CARIFORUM'S COMPETITIVENESS MATRIX
(2001-2003 to 2008-2010)

CARICOM competitiveness matrix					
		Stagnant Sectors		Dynamic Sectors	
		2001-2003	31.28	2001-2003	68.72
		2008-2010	21.30	2008-2010	78.70
Market Share Gain		Declining Stars		Rising Stars	
2001-2003	40.87	2001-2003	6.90	2001-2003	33.97
2008-2010	65.95	2008-2010	3.96	2008-2010	61.99
Market Share Loss		Retreats		Missed opportunities	
2001-2003	59.13	2001-2003	24.38	2001-2003	34.75
2008-2010	34.05	2008-2010	17.34	2008-2010	16.71
Dominican Republic's competitiveness matrix					
		Stagnant Sectors		Dynamic Sectors	
		2001-2003	17.65	2001-2003	81.78
		2008-2010	3.92	2008-2010	96.05
Market Share Gain		Declining Stars		Rising Stars	
2001-2003	57.95	2001-2003	10.13	2001-2003	47.82
2008-2010	67.12	2008-2010	3.08	2008-2010	64.04
Market Share Loss		Retreats		Missed opportunities	
2001-2003	41.48	2001-2003	7.52	2001-2003	33.96
2008-2010	32.85	2008-2010	0.84	2008-2010	32.01

Source: Calculations from TradeCAN (2012).

^a This is based on the percentage of exports in the final year.

Further probing shows that CARICOM's rising stars are dominated by petroleum gases, which accounts for 46 per cent of CARICOM's merchandise exports to the EU, iron and steel powders and bananas.

Differences in resource endowment and levels of development amongst CARICOM countries have invariably influenced their relative competitiveness in the EU market. Moreover, most of the OECS's exports to the EU are classified as missed opportunities,¹⁵ suggesting that export shares are falling in commodities where demand in the EU is rising. At the country level, for the period 2008-2010, Dominica has been the only exception to this trend. However, whilst 68 per cent of its exports are rising stars these are primarily two commodities, bananas (61 per cent) and chilled vegetables (4 per cent). However, Dominica's missed opportunities included cocoa beans and cocoa butter. Saint Vincent and the Grenadines exports two commodities to dynamic sectors in the EU; these are ships and boats, and bananas. A large proportion of Grenada's exports are also in dynamic sectors of the EU market. For Saint Kitts and Nevis, the rising stars account of only 14 per cent of exports, when compared to 26 per cent of its exports which are gaining market share in stagnant sectors in the EU.

¹⁴ Refers to an export commodity that gains market share in a stagnant commodity market.

¹⁵ An export commodity that loses market share in a dynamic commodity market.

The high proportion of missed opportunities in goods for the OECS countries may be attributable to their small economic size and relative inefficiency of production systems as well as their inability to achieve the requisite economies of scale needed to substantively improve their competitive position in the larger EU market and capitalize on emerging export opportunities. Generally, these results do not appear to be encouraging for merchandise exports from the OECS countries in the EU market.

An examination of individual country competitive matrices provides a clearer understanding of the countries and products that underpin the seemingly large number of the subregion's exports, which are gaining increased market share in dynamic sectors of the EU market. The results reveal that, with the exception of Jamaica, most exports of other CARICOM countries (Trinidad and Tobago, the Bahamas and Barbados) to the EU are classified as dynamic export products.¹⁶ These dynamic products underpin the rising stars category. At the country level, Trinidad and Tobago dominates the CARICOM region rising star class with its exports of petroleum gasses. In addition, almost 55 per cent of Belize commodity exports to the EU are rising stars, which include bananas and fruit juices. For Guyana, while 50 per cent of its exports to the EU are in dynamic sectors, products categorized as missed opportunities (which includes sugar) account for 35 per cent of the country's exports. Rice is reported as a rising star, but only contributes 6 per cent of total exports. This suggests that most of Guyana's exports to the EU market are experiencing a decline in export share in dynamic commodity markets in the EU.

For Suriname, gold (missed opportunity) accounts for the largest share (43 per cent) of total exports to the EU, however, its export shares is falling in a dynamic EU market. The main rising stars (19 per cent of exports) in the EU Market are bananas, crustaceans and molluscs, fish, chilled vegetables, rice, copper, ores and concentrates, which together. However, an estimated 33 per cent per cent of Suriname exports (aluminium ores and concentrates and rice) gained export share in a stagnant EU market (i.e are declining stars). On the other hand, Jamaica's goods exports are primarily in stagnant sectors, with retreats¹⁷ (aluminium ores and concentrates) accounting for 48 per cent. A mere 11 per cent of Jamaica's exports to the EU of products in the rising star category and 32.99 per cent of products in missed opportunity class. The main rising stars for Jamaica are chemical products, crustaceans and molluscs, beer, vegetables, oranges and non-alcoholic beverages.

Contrastingly, 96 per cent of the Dominican Republic's goods exports to the EU are in dynamic sectors, and 61 per cent of total exports are rising stars in the EU market. The rising star category is comprised mainly of bananas, spirits and liqueurs, footwear and sugars. Bananas, however, are the leading export commodity in this category.

B. Revealed comparative advantage

Using computations of Revealed Comparative Advantage¹⁸ (RCA) indices, the analysis has also unmasked a clear disparity between the competitiveness of the Dominican Republic's and CARICOM's exports in the EU market. When considering goods exports of CARIFORUM countries, in the presence of the EPA, the Dominican Republic's comparative advantage with the EU has improved, while that of CARICOM has remained weak and declining.

More pointedly, the Dominican Republic outperformed CARICOM countries in the EU market both in terms of the number of commodities¹⁹ that recorded comparative advantage and improvements in comparative advantage across the 2001-2007 and 2008-2012 periods. In fact all of

¹⁶According to TradeCAN, a sector is dynamic if its share in the world demand has increased over a period of time while a sector experiencing a fall in the share of world demand is referred to as a stagnant sector.

¹⁷Refers to an export commodity that loses market share in a stagnant commodity market

¹⁸A country is considered to have a revealed comparative advantage when its share of exports of a good exceeds the equivalent share of exports of the world.

¹⁹At the HS 6 digit level of disaggregation during the EPA period (2008-2012)

the selected CARICOM countries examined more closely in this paper experienced a decline in the number of commodities for which they held comparative advantage, while exports demonstrating comparative advantage for the Dominican Republic in the EU market increased from 208 to 255 commodities. Additionally, 121 commodities moved from the comparative disadvantage class into the comparative advantage class for the Dominican Republic from across the 2001-2007 and 2008-2012 periods. The country also retained comparative advantage for 116 commodities between the two periods concerned.

Under the trade regime prevailing during the period 2001-2007, there were 58 commodities from Saint Lucia with comparative advantage in the EU market. This contracted to 32 commodities under the EPA, with forty commodities which commanded comparative advantage during the Lomé period migrating into a state of comparative disadvantage in the EPA period. The primary commodities such as bananas, coconuts, rums, avocados, sweet potatoes account for most of its comparative advantage, while the loss in comparative advantage from the 2001-2007 period to the 2008-2012 period occurred mainly in the manufactured commodities such as sugar production, expandable metal and horticultural agriculture sectors.

Similarly, Saint Kitts and Nevis gained comparative advantage in 23 products while retaining comparative advantage in 8 commodities across the periods examined. Comparative advantage was lost in the agriculture and manufactured commodity sectors i.e. expandable metal and horticultural agriculture; as well as in value-added manufactured e.g. surf board, digital data processing, wooden furniture, armored reinforced safes etc. The commodities in which Saint Kitts and Nevis' gained comparative advantage were mainly small manufactures.

The results also indicate that under the EPA, Barbados has comparative advantage in 109 commodities when compared to the period 2001-2007 where the exports of 122 commodities revealed comparative advantage. Barbados, however, managed to retain, and in most instances increase, comparative advantage in primary products such as animals and animal products, vegetable products and foodstuffs.

Guyana's comparative advantage in the EU is also dominated by primary products. However, despite losing comparative advantage in 37 commodities during the EPA period, the Guyanese economy gained comparative advantage in 13 commodities while retaining comparative advantage for 28 commodities, relative to 2001-2007. Furthermore, the commodities in which Guyana retained and gained comparative advantage were mostly primary products such as animals, animal products, vegetables and vegetable fats and foodstuffs.

These results raise an important concern in the context of effective market access for CARICOM exports of agricultural products in the EU, and underpin the Region's disquiet that non-tariff measures in the EU pose a significant challenge for the primary products and manufactured goods in which CARICOM enjoy a comparative advantage to enter the EU market. If this is not addressed in a holistic manner in future, market access will continue to present a challenge even for the agricultural and primary products which are characterized as rising stars and demonstrate comparative advantage for some CARICOM countries.

Deeper empirical analysis may however be needed in order to yield useful insights into the underlying dynamics of CARIFORUM-EU trade. Theory suggests that if countries share a strong level comparative in diverse products, that is, a high level of bilateral trade complementarity then greater trade can be generated from free trade agreements. To empirically examine this issue, trade complementarity indices (TCI) were constructed, which relate to the comparative advantage of the exporting country (CARICOM countries) to the comparative disadvantage of the importing partner, weighted against world trade.

C. Trade complementarity

Examination of the results reveal that the TCI values for CARICOM are just marginally above the threshold value of (1), which indicates that bilateral trade complementarity²⁰ between CARIFORUM and EU are generally low thereby suggesting that the EU may not be a natural trading partner of the region.

Trade complementarity between Barbados and 6 EU members (Czech Republic, Germany, Hungary, Italy, Poland and Slovakia) are below one for the two periods under consideration. With the exception of Luxemburg, Latvia, Netherland and Slovenia, a general but marginal improvement in trade complementarity is recorded with the other EU members in the presence of the EPA (i.e. across periods 2003-2007 and 2007-2012). Barbados' highest level of bilateral trade complementarity is with Cyprus. Guyana on the other hand, has trade complementarity indices below one (1) with 18 of the selected EU countries for both time periods. Moreover, of the 6 EU countries where complementarity was above one during 2003-2007, trade complementarity was eroded for 5 EU countries during with the implementation of the EPA period; which indicates that alternative sources of supply in the world are becoming more competitive than Guyana's exports in the EU market. Taken collectively, all things remaining the same, the results seem to suggest that EPA may not lead to increased exports for CARICOM. In contrast, the Dominican Republic has demonstrated relatively higher and increasing trade complementarity with most of the EU countries. More specifically, the country's trade complementarity improved with 19 EU members during the period of EPA implementation (see annex V).

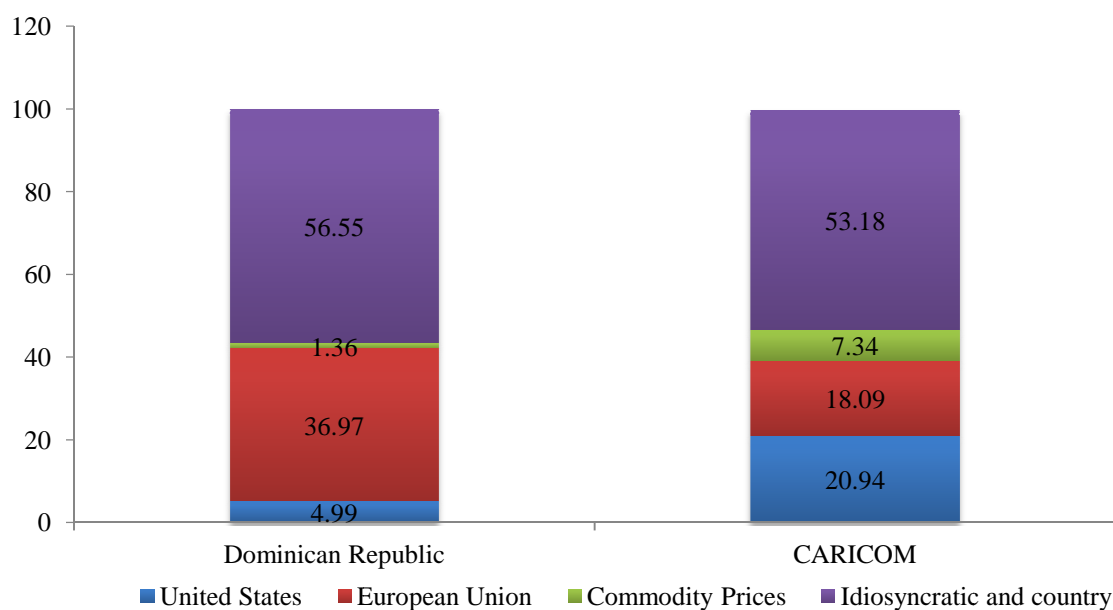
D. Variance decomposition

Let us now consider the impact of growth spillovers from the EU, USA and commodity prices on the CARICOM subregion using the variance decomposition²¹ function. To this end, the variance decomposition of the aforementioned external shocks on real GDP growth of the CARICOM region and the Dominican Republic are outlined in figure 3. The results suggest that a relatively higher share of the Dominican Republic's growth variation originates from the EU as compared to the CARICOM region. In particular, the EU contributes to about 37per cent of the growth variation for the Dominican Republic. In contrast these shocks only account for 18per cent of the GDP growth variation in the CARICOM. The size of CARICOM's response to shocks from the EU is therefore much lower than that of the Dominican Republic.

²⁰Trading partners are considered to be natural if their trading structure is characterized by complementarity. That is, if one country tends to import what their prospective partner exports. (Schiff (2001).

²¹ i.e. a variance decomposition of external shocks on the real GDP growth of CARICOM and the Dominican Republic, averaged over the first three periods.

FIGURE 1
VARIANCE DECOMPOSITION FOR CARICOM AND DOMINICAN REPUBLIC



Source: UN ECLAC, 2014

E. Revenue and welfare effects

A loss in tariff revenues is also expected for all of the selected CARICOM countries examined in detail, as a result of tariff liberalization associated with the EPA and the diversion of imports from non-EU sources towards to the EU market. Moreover, the net welfare is negative for all countries examined, indicating that the improvements in welfare for consumers in the selected CARIFORUM countries will likely be relatively smaller (table 3 refers).

TABLE 3
REVENUE AND WELFARE EFFECTS OF 5 CARIFORUM COUNTRIES
FROM THE EPA WITH EU
(Millions of dollars)

	Gross Welfare (CS)	Change in Revenue	Change in Net Welfare
Dominican Republic (2010)	17.229	-106.546	-89.317
Guyana (2011) ²²	1.945	-12.983	-11.039
Saint Kitts (2009)	0.326	-1.809	-1.483
Saint Lucia (2007)	1.174	-10.699	-9.525
Barbados (2007)	6.110	-29.579	-23.468

Source: Simulations using WITS, SMART and authors' own calculations

²² Dodson (2013) applied the partial equilibrium model, pioneered by Greenaway and Milner (2003), in the assessment of the impact of the EPA on Guyana. Utilizing three groups of HS data, namely agricultural commodities, raw materials and manufactured products, he estimated the revenue and net welfare effects for Guyana. Dodson (2013) estimated an expected loss of revenue for Guyana valued at US\$32.62 million and an expected fall in net welfare valued at US\$31.01 million. Compared to the values estimated in this study utilizing the SMART model, Dodson's values for Guyana are almost tripled. This disparity in results may be due to the differing values for elasticity of import substitution and elasticity of import demand utilized in this study and Dodson (2013). For instance, Dodson (2013) utilized values of 4.2, 0.9 and 6.0 for the agricultural commodities, raw materials and manufactured commodities respectively, while this paper utilizes the SMART default value of 1.5. Furthermore, Dodson (2013) utilized trade data for 2008 while this paper utilizes data for 2011.

The results of the analyses undertaken in the paper are wide-ranging, lending credence in many instances to the views expressed by CARIFORM Member States, during the negotiating process, with respect the challenges faced by small vulnerable economies in capitalizing on market access opportunities furnished by FTAs, particularly with developed country partners. Moreover, the paper seemingly provides evidence that the EPA has generated disparate benefits to CARIFORM Member States, with the Dominican Republic largely benefiting due to its ability to achieve the requisite economies of scale, capacity to implement the agreement and its trade preparedness.

For the majority of CARICOM countries (with the possible exception of Trinidad and Tobago), the Agreement has yet to deliver the broad-based welfare and trade gains expected. Specifically, the empirical analyses have unmasked a clear disparity between the competitiveness of the Dominican Republic and CARICOM commodity exports in the EU market. The Dominican Republic's merchandise exports, has generally proved to be relatively more competitive in the EU market under the EPA than its CARICOM counterparts. In the presence of the EPA, the Dominican Republic's comparative advantage²³ and trade complementarity with the EU has improved, while that of CARICOM has remained weak and declining.

F. Conclusion

It has also been clearly demonstrated that the EU has had a larger spillover impact on the Dominican Republic than on CARICOM, suggesting that the Dominican Republic will likely benefit more from any growth in the EU associated with the EPA²⁴. This can be partially attributed to CARICOM's static comparative advantage and the small size of its economies. For CARICOM to benefit more meaningfully from the EPA, it may be necessary for the subregion to bridge key structural gaps which have constrained domestic productive capacity and export competitiveness in individual economies. In the absence of this, the risk of creeping temptation within CARICOM to refocus trade and integration efforts on North and Latin American markets rises, given the stronger positive spillovers generated with the US and greater trade complementarity with Latin America.

The Agreement also appears to have little impact on the strengthening of the regional integration process. Considering that the EPA has essentially failed to deliver the intended trade and welfare gains to economies of the Caribbean Community over its first six years of implementation, it may be useful to examine the challenges which have undermined the sub-region's efforts to capitalize on the market and investment opportunities furnished by the EPA.

²³ The theory of comparative advantage, first proposed by David Ricardo in 1817, asserts that a country is more likely to export goods that it can produce relatively efficiently.

²⁴ An econometric model used to capture the linear interdependencies among multiple time series.

IV. EPA implementation challenges and areas of development focus

EPA implementation in all CARIFORUM States, with the possible exception of the Dominican Republic, has been lacking in urgency. However, it is important to take into account the fact that the first five years of implementation of the EPA took place during the worst economic and financial crisis since the Great Depression (1929) and that several CARICOM economies are yet to recover from the economic downturn. Many subregional economies have therefore not been able to allocate sufficient resources - personnel or financial - to the implementation of the EPA and export expansion.

Across CARICOM countries, the challenges inhibiting optimization of the trade and welfare gains to be derived from the EPA are multifaceted. More pointedly, on the evidence of the empirical analyses undertaken by ECLAC, it would appear that, in continuation of a trend observed over three decades of duty-free and quota-free non-reciprocal market access under successive Lomé and Cotonou Agreements, the Caribbean Community has made little progress in exploiting the market access opportunities for non-commodity exports under the EPA. Primarily, there is an absence of production and trade competitiveness, as well as export readiness among many subregional economic operators.

A. Declining export competitiveness

In demonstrating the Caribbean Community's declining export competitiveness with the European Union, the analyses have served to further highlight the challenges faced by many small vulnerable economies in capitalizing on market access opportunities furnished by FTAs, particularly with developed country partners. Furthermore, the business community in many CARIFORUM countries has not been sufficiently proactive in exploring EPA-related opportunities.

Reversing sub-region's poor performance under the EPA thus far, as well as its overall declining export competitiveness, may require an increased focus at the regional level on modernizing its trade-related infrastructure, building production capacity, transforming production systems and diversify exports into value-added products with a view to tapping into regional and global value-chains. On the ground, however, many CARICOM member states generally have not been able to allocate sufficient resources - personnel or financial - to either the implementation of the EPA or the

export expansion. There are significant costs associated with the removal of supply-side constraints and repositioning regional economies into more value-added activities.

There, however, must be cognizance that these represent initiatives, which subregional economies need to undertake in the interest of their growth and development. This notwithstanding, it would be useful if moving forward the two Parties should seek to ensure increased coherence between the areas of EPA development cooperation focus, the levels of resources made available by EU member states and the Aid for Trade priorities of the Caribbean. It is equally imperative that EPA Implementation Units and like entities, in cooperation with key facilitating agencies, such as the Caribbean Export Development Agency, National Export Promotion Agencies, and other business support organizations (BSOs), strive for meaningful improvement in the competitiveness and export readiness of applicable economic operators. This is one of the key objectives of the EPA.

The benefits deriving from the Economic Partnership Agreement and other trade agreements will neither be achievable nor sustainable without a “business-friendly environment” and a strong business sector, which can adjust to the challenges that will result from regional and international trade liberalization. Therefore, beyond the Caribbean Export private sector develop programme, there are a number of initiatives which should be pursued in order to develop a production facilitation and export-oriented environment in CARIFORUM countries. Some of the most pertinent of these will be examined hereunder.

B. Stimulating private sector interest

One of the major EPA implementation challenges across CARIFORUM has been the determination of how best to motivate economic operators become more proactive in seeking out and taking advantage of EPA-related business opportunities. The reticence of the business community to actively target market export opportunities under the Agreement seems to be linked to an information dissemination deficit, which has been manifested at almost every level in the public and private sectors across CARIFORUM. This has had a discernible negative impact on EPA implementation because it is the economic operators, who must exploit the trade and investment opportunities in the Agreement.

What is more worrisome is consultations have revealed that that more than five years after the signature of the EPA on 15th October 2008, the Agreement remains largely misunderstood and underutilized. The business community has complained that they don’t know enough about the Agreement, particularly how to access the benefits, while public sector representatives have been commenting on what they perceive as the absence of information on how to benefit from EPA-related resources.

The easy availability of detailed information on market, regulatory and other requirements is critical for exporters looking to enter EU markets. This is particularly important for CARIFORUM SMEs trying to market their products in the large sophisticated markets in the EU. In addition, the advantage of forging strategic alliances, either at the production level or in the foreign market or at both ends, is something that should be explored by the region’s commodity producers and manufacturers.

C. Trade facilitation

Enhancing CARIFORUM trade facilitation²⁵ constitutes another plank of EPA implementation requiring urgent attention. The trade-dependent nature of Caribbean economies means that trade

²⁵ Removing obstacles to the movement of goods across borders, through, *inter alia*, simplification of customs procedures, cooperation on sanitary and phytosanitary measures and technical standards etc.

facilitation assumes great importance and this will grow if the analysis from global value chains remains valid. Yet, according to the World Bank Doing Business report, Caribbean states have sub-optimal trade facilitation regimes. Freight costs are high while customs procedures result in costly delays. In light of the completion of the WTO Trade Facilitation Agreement, it remains to be seen if CARIFORUM States would make a link between implementation of the WTO Agreement and that of the EPA. As such, it is important to further reinforce CARIFORUM-EU cooperation in respect of strengthening the sub-region's legislative, regulatory and administrative capacity in the areas of customs and trade facilitation.

D. Innovation and intellectual property

Encouraging the development and use of innovation and intellectual property is critical to increasing Caribbean export production, enhancing competitiveness and graduating up the value chain. In this context, developing Caribbean Geographic Indicators (GIs)²⁶ could be a tool for both marketing of Caribbean products and securing premium prices. Yet, not one GI has ever been registered in the Caribbean, in spite of the availability of EU-funded schemes to assist. Hence it would appear that the subregion has been unable to effectively capitalize on the commitment made the Parties in the EPA, to facilitate the mutual recognition of traditional intellectual property rights such as trademarks patents, Geographical Indications etc.

In addition, with the EPA in place, CARIFORUM countries can now participate in EU innovation programmes. However, thus far, there is no evidence to suggest that the subregion has been able to either make any appreciable use of these facilities. Further, while fostering enterprise competitiveness; ITC research and ITC-based research infrastructures; and commercialization of innovative products are areas identified on development cooperation this has not been adequately harnessed to the propel the subregion's productive base from the periphery of the product frontier (i.e. essentially primary commodities) to more sophisticated, high unit value, goods (and services).

E. Non-tariff barriers

Stakeholders in many CARIFORUM States expressed concern at the extent to which technical barriers to trade (TBT)²⁷ and sanitary and phyto-sanitary (SPS)²⁸ measures in the EU, as well as the absence of modern pan-CARIFORUM SPS and TBT infrastructure (e.g. laboratory facilities, legislation, staff and regulations etc.) have had a negative effect on their export diversification and export promotion efforts, and more importantly limited export opportunities for goods both intra-regionally and into EU markets. The absence of health and food safety legislation and regulations has emerged as one of the principal obstacles to CARICOM food exports to the EU market. In order to capitalize on market access opportunities in Europe under the EPA, many CARICOM states therefore require the institution of appropriate SPS regimes that satisfy EU health and food safety requirements. To certify the achievement of same, the regional quality infrastructure, including laboratory and testing facilities, will have to be systemically modernized.

The absence of a modern sanitary and phyto-sanitary (SPS) regime, health and food safety legislation and regulations, in many CARICOM that has acted as one of the principal obstacles preventing a number of regional producers dairy, poultry, fish, meat and similar protein products from exporting their food products to the EU market. These issues clearly need to be addressed if the region is to move up the value chain into the production and export of more high value added, innovation-

²⁶ These are place names, or words associated with a place, used to identify products which have a particular quality, reputation or other characteristics because they come from that place, e.g. Champagne or Tequila.

²⁷ These are impediments to trade resulting from the existence of standards and conformity assessment systems.

²⁸ Border control measures necessary to protect human health, animal or plant life or health.

intensive products for the EU market. It is important to note, however, that the EPA did not create the need for modern Sanitary and Phyto-sanitary (SPS) regimes in CARIFORUM. In fact, it has been known for more than two decades that such regimes were necessary to facilitate regional companies interested in exporting certain food products to the EU.

Although a Caribbean Agricultural Health and Food Safety Agency (CAHFSA) has been established and is supposed to facilitate the strengthening of national agricultural health and food safety systems in regional Member States, much work remains to be done and it is uncertain when CARICOM countries will have appropriate regimes in place to satisfy EU SPS requirements. There are embryonic SPS projects being undertaken in countries such as Barbados, but this type of regime, involving an extensive 'suite' of legislation and regulations, provision of laboratory facilities, and staff training, is rather costly and extremely burdensome on a small economy.

In this regard, the Agreement offers possibilities for support through, inter alia, sharing of expertise; development of centres of expertise for the assessment of goods; development of the capacity of the private sector to satisfy regulatory and market requirements; and enhancement of the ability of the private sector to comply with international standards.

It is noteworthy that a number of initiatives have been undertaken, which have been geared at strengthening national and CARIFORUM-wide quality infrastructure in order to facilitate trade under the EPA. In particular, the 10th EDF financed EPA-specific "Technical Barriers to Trade" Programme, a project coordinated by the CARICOM Regional Organization for Standards and Quality (CROSQ) has sought to increase the use of services of internationally recognised Regional Quality Infrastructure Institutions in the CARIFORUM States.

It is also instructive to note that in an attempt to sub-regional capacity, the IICA in implementing the 10th EDF EPA Programme "Sanitary and Phyto-Sanitary Measures" component has been working closely with the Ministry of Agriculture to implement a SPS capacity building programme. The initiative, which seeks to support to the CARIFORUM states in the implementation of commitments undertaken under the EPA has three components: (a) upgrading existing and developing model SPS-related legislation; (b) strengthening the system for the delivery of agricultural health and food safety activity or services regionally and nationally; and (c) capacity building of both the public and private sector institutions in SPS areas to meet international requirements and standards. It is anticipated that this project will assist in making the SPS infrastructure and regime sufficiently robust so as to ensure that food exports satisfy the differentiated (across countries) and often rigorous SPS requirements of the EU market.

This notwithstanding, in view of the growing concerns raised by stakeholders in CARIFORUM, mechanisms should be instituted to ensure that the regional private sector is made aware of new instruments that may affect their exports in the European markets in a timely and systematic manner and measures be put in place to benefit from opportunities or mitigate against potential threats. The EU should also be encouraged to work with the subregion to design and implement a programme of development cooperation, of broader scope than the current the 10th EDF financed EPA-specific "Technical Barriers to Trade" Programme being coordinated by the CARICOM Regional Organization for Standards and Quality (CROSQ), which will build the capacity of Caribbean exporters to meet the EU's often stringent SPS and TBT requirements.

F. CARIFORUM regional integration process

It is important to recall that one of CARIFORUM's objectives during the EPA negotiating process was the safeguarding of the integrity of its own regional integration process. To this end, there has been a noticeable improvement in the operations of the CARIFORUM Directorate and functional cooperation between CARICOM and the Dominican Republic since mid-2011. However, during the first three years of the provisional application of the EPA, there were a number of CARIFORUM

governance issues, which constituted a major bottleneck impeding progress in implementing the Agreement.

In this regard, despite improvements in functional cooperation, the application of Article 238.2 of the EPA, the “Regional Preference” provision, continues to be a matter of concern for CARIFORUM countries, particularly the Dominican Republic. The provision, which has given rise to many of the CARIFORUM governance issues, is set out in Article 238.2 as follows: “Any more favourable treatment and advantage that may be granted under this Agreement by any Signatory CARIFORUM State to the EC Party shall also be enjoyed by each Signatory CARIFORUM State”.

Some concern had been raised, on the CARICOM side, about the implications of Article 238 of the EPA for the internal trading arrangements within CARICOM and between CARICOM States and the Dominican Republic. The CARIFORUM Directorate commissioned three studies on this matter in an effort to inform Member States of the viable options in seeking to apply the provisions of Article 238. The Studies addressed the legal aspects of Regional Preference, the considerations with respect to Trade in Goods and the implications for Trade in Services.

The Legal Opinion provided to the CARICOM Secretariat confirms the validity, legality and reach of Article 238. The legal Consultant pointed out that the EPA and the CARICOM-DR FTA impose different rather than incompatible obligations and underlined the fact that Article 238 overtakes prior international instruments concluded between the Parties on the same subject matter. Further, the study on trade in goods concluded that the implications of undertaking the Article 238 obligations are relatively benign for CARICOM States, possibly resulting in minimal revenue losses.

Article 238 of the EPA elaborates a logical position, basically that it would be unreasonable and illogical to extend more favourable treatment to the other Party in an international trade agreement than one is prepared to extend to regional negotiating partners. This is a situation where an implementation difficulty arises, partially due to the inability of the Parties to agree upon an appropriate vehicle for implementing this particular treaty obligation thereby resulting in a negative impact on the flow of trade and investment.

G. French Caribbean outermost regions

Another critical issue which has had a deleterious effect on the subregion’s exports under the EPA, has been the issue of Octroi de Mer (dock charges) levied by the French Caribbean Outermost Regions (FCORs) i.e. French Guiana, Guadeloupe and Martinique. These territories represent possible key export markets for many of the smaller CARICOM economies attempting to diversify their exports. However, the FCORs apply lower rates of Octroi de Mer on goods produced in their territories relative to the same goods imported for CARIFORUM States. Although the measure is permissible under Article 239³⁰ of the EPA, some CARIFORUM States contend that the manner of application of the Octroi de Mer will be injurious to CARIFORUM export interests and restrict exports under the EPA. At a minimum, the EU and CARIFORUM should seek to utilize the EPA review for dialogue provided by the EPA review process to establish a framework for reaching a mutually acceptable solution.

²⁹ CARIFORUM countries have agreed to confer on all other CARIFORUM States concessions granted to the EU under the EPA. The implementation of this regional preference was to be staggered across one, two and five years for the Dominican Republic and CARICOM MDCs; CARICOM LDCs; and Haiti respectively.

³⁰ Article 239 of the EPA – Outermost regions of the European Community.

H. Conclusion

The Region may also be guilty of seeking to implement its EPA commitments in a legal and mechanistic manner, invariably focusing on the enacting of laws necessary to satisfy liberalization commitments. In so doing, many CARIFORUM States may have missed the opportunity to leverage a series of economic reforms aimed at increasing competitiveness and bolstering productive and regulatory capacity. This is a key issue, for one of the fundamental gains derived from the EPA has to be an appreciable improvement in the competitiveness and export capacity of a significant number of the region's goods producers.

In view of the performance of CARICOM taken as a whole under the EPA, the areas articulated above have emerged as key policy and cooperation priorities for the region, which are central to strengthening the positive growth spillovers with Europe. Streamlining the EU-CARIFORUM EPA's development support and the EU's Aid for Trade efforts to focus on these key points of intervention, would go a long way to integrating CARICOM member states into the wider western hemispheric and global value chains.

Such a shift in development focus has the potential to contribute to rebalancing the disparity in comparative advantage and trade complementarity (with the EU), that currently exists between the Dominican Republic and CARICOM economies as a whole; and among CARICOM countries, particularly between the more developed countries (MDCs)³¹ and less developed countries (LDCs) of the Caribbean Community; thus both increasing the welfare gains that accrue to the Caribbean Community and fostering a more equitable distribution of same. (Appendix VI explores some further steps towards a more effective EPA).

The effectiveness of CARIFORUM Member States in addressing the implementation challenges identified above will determine, to a significant degree, whether or not the EPA achieves its stated objectives in the medium-term. This is the background against which EPA monitoring should be pursued.

³¹ These include Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.

V. Conclusion and way forward

Indeed, while the CARIFORUM states may have anticipated that the periodic reviews would lead to major modifications in the EPA if the objectives were not being achieved; it would seem that the first five-year review may have come too soon for such expectations to be met. What should therefore be of primary importance to the CARIFORUM region, at this time, is the use of the findings of the ECLAC and EU impact studies to review the implementation of the CARIFORUM-EU EPA, to recalibrate where necessary the development priorities of CARIFORUM States for EU development cooperation, European Development Funds and for Aid for Trade resources. The results of the analyses suggest that the existence of systemic structural gaps, supply side constraints and market access challenges which have led to the declining competitiveness and trade complementarity of many CARICOM economies with the EU, thereby constraining the sub-region's export expansion. These are fundamental issues which the EU and CARIFORUM can work together to meaningfully address.

In view of the foregoing, the EPA review process, which is scheduled to be concluded in the first quarter of 2015, has provided a unique opportunity for both Parties to jointly examine the trade performance under the EPA and identify bottlenecks and structural rigidities which should be addressed moving forward. The EU-CARIFORUM trade and development dialogue, as well as subsequent policy efforts should be targeted towards the optimization of the benefits accruing from the development support and market access enshrined in the EPA. Critical in this regard is crafting and instituting practical measures which safeguard the current progress made by some CARIFORUM economies, while simultaneously broadening the development gains to encompass a wider spectrum of CARIFORUM countries. This may require recasting, in some areas, fundamental features of the EPA in order to make the Agreement more amenable to addressing structural gaps in productivity, competitiveness and interconnectivity.

A. The role of structural transformation and aid for trade

In many CARICOM member states, efforts to capitalize on the export opportunities in the EU have invariably been constrained by a combination of poor economic infrastructure, low and declining competitiveness, weak institutions, fragmented production systems and limited productive capacity. These factors have moderated the ability to transform production systems to capitalize on market opportunities, trade complementarity and comparative advantages where they exist. Many of

CARIFORUM economies are therefore unable to compete effectively in the EU and other major markets. This has led, in many instances, to an increasing propensity to focus inwardly on the regional market.

Accordingly, the real benefits of the EPA may lie in optimizing the use of EU technical assistance and development cooperation to address infrastructural limitations where they exist, improve competitiveness and facilitate joint production within CARICOM, thereby setting subregional economies along a path towards structural change for sustainable development.

It is essential therefore that the EU becomes more engaged in helping the region to build its supply side capacity. In this regard, CARICOM may wish to convey to the EU the need for increased coherence between the areas of EPA development cooperation focus, the levels of resources made available by EU member states and the Aid for Trade priorities of the Caribbean. While in the Joint Declaration on Development Cooperation annexed to the EPA the Parties recognized ‘that funds allocated to the Caribbean Regional Indicative Programme (CRIP) and 10th EDF are to be complemented by Aid for Trade contributions by Member States of the European Union (EU)’, the quantum of EU Aid for Trade (Aft) resources made available since the signing of the EPA has been disappointing.

This is particularly so given the subregion’s expectation that EPA-related and EU generated Aft resources would have been a significant source of funding of projects geared at increasing regional production, productivity, competitiveness and market integration; enhancing key economic infrastructure, particularly in the areas of maritime and air transport, renewable energy, and ICT; and increasing the production of regional public goods in the aforementioned areas. The goal here seemed to be the coupling of the accelerated production of key public goods with appropriate regulatory reforms. It is therefore important that during the second five year implementation period that the EU Member States are encouraged to fulfil their EPA commitments by making substantive complementary Aft resources available to the region.

Every effort must be made by CARIFORUM to link this request to the Aid for Trade commitment of the EU in the Joint Declaration on Development Cooperation annexed to the EPA. An important element of that Joint Declaration is yet to be implemented. In light of the findings of this paper, CARIFORUM should also consider engaging the EU on their commitment in paragraph 4 of that Declaration regarding the establishment of a regional development fund, accessible to all CARIFORUM States. This Fund would provide a medium for mobilizing and channelling Economic Partnership Agreement related development resources from the European Union and other potential donors.

B. Private sector development and export expansion

The Caribbean Export Development Agency, in implementing the 10th EDF Regional Private Sector Development Programme, has implemented several initiatives geared at building the productive capacity of the private sector and deepening of integration of CARIFORUM countries into the global economy. It is anticipated that under the 11th EDF the Agency will again be given responsibility for private sector development. This fact, given the peculiar needs of CARIFORUM States, the process of export facilitation within the context of the EPA may require a more focused approach to addressing the underlying impediments to export expansion.

In this respect, incentives, loan guarantees, export financing, region-wide export strategies and increased coherence in the area of innovation and intellectual property have emerged as key

policy interventions necessary for the successful development of CARIFORUM SMEs³². It is also essential that a framework for the periodic conduct of market intelligence, including in-depth analyses of the export potential of the European market, and a mechanism for the dissemination of the results established. This information should be compiled into a database of, inter alia, tariffs and non-tariff measures; market entry requirements; business and trade regulations; buyers, suppliers and distributors; business support organizations; and sector profiles.

C. Building institutional capacity and improving EPA implementation

It is also important that there be greater cooperation towards the strengthening the capacity of CARIFORUM countries to effectively implement and administer the Agreement in general. This is also necessary particularly for EPA implementation units, Coalition of Service Industries and Business Support Organization (BSOs) within CARIFORUM. It may be useful to reflect on issues and provisions that remain to be satisfactorily addressed in EPA implementation, as well as key issues that have been engaging the Parties in the Joint Trade and Development Committee (TDC) and which are yet to be resolved. One such issue which may require a practical solution is the Octroi de Mer issue discussed earlier. Given that these dock charges are allowed under the EPA³³, as a minimum the EU and CARIFORUM should seek to use the EPA review process and the attendant monitoring mechanism to be developed to establish a framework for reaching a mutually acceptable solution.

D. Monitoring mechanism for EPA implementation

Monitoring is a critical aspect of the Trade Policy cycle in order to determine the extent to which outputs are being realized and assess the impact on the attainment of policy objectives. Periodic reviews are integral components of ongoing monitoring. Consequently, it should be recalled that in order to evaluate the impact of the EPA on CARIFORUM States and to determine any necessary amendments and/or adjustments, the Agreement includes a specific provision (Article 5) in addressing continuous monitoring and a Joint Declaration, which commits the Parties to a five-yearly comprehensive review of the Agreement. The first of these five-year reviews is scheduled to take place in the last quarter of 2014.

It is therefore important to put in place appropriate mechanisms to monitor EPA implementation and its impact on development and growth in CARIFORUM States. This monitoring regime will also be useful in facilitating the comprehensive five-yearly reviews of the Agreement, which are mandated in the aforementioned joint declaration. The key challenge however, is to develop the requisite mechanism and attendant overarching institutional framework for monitoring EPA-related outputs, outcomes or development results. Intuitively, when set against the objectives of the EPA as set out in Article 1, key performance indicators should relate to the agreement's impact on CARIFORUM's trade with the EU and within CARIFORUM; the impact on Government revenue; the impact on investment flows; the impact on the level of development aid in the context of the EPA; the impact on labour and environmental issues. Although monitoring arrangements should be established in each CARIFORUM country, these must be compatible with an overall CARIFORUM monitoring regime and provide for independent assessment.

³² In addition, innovation, research and development as well as technology transfer and absorption should be seen as indispensable levers for enhancing CARIFORUM-wide total factor productivity.

³³ i.e. Article 239 of the EPA addresses the Outermost regions of the European Community. More specifically, Article 239.4 states that "Nothing in this Agreement shall prevent the EC Party from applying existing measures aimed at addressing the structural social and economic situation of the outermost regions pursuant to Article 299(2) of the Treaty establishing the European Community".

Collaborative action with the EU in areas such as those mentioned above, which in many instances goes beyond the ambit of CARIFORUM-EU EPA, would go a long way to towards making trade a vehicle for growth and sustainable development of the sub-regional economies.

Annexes

Annex 1

Joint Declaration on the signing of the Economic Partnership Agreement annexed to the Agreement

The Parties acknowledge that the signature of the Economic Partnership Agreement (the 'Agreement') signals the changing dynamics of the global economy as well as the continuing importance of our cooperation to the realisation of the development objectives of the CARIFORUM States.

As we affix our signature to the Agreement, we emphasise that it must be supportive of the development objectives, policies and priorities of the CARIFORUM States, not only in its structure and content, but also in the manner and spirit of its implementation.

To that end and as indicated in article 4 of the Agreement, its implementation will pay due regard to the integration processes in CARIFORUM, including the aims and objectives of the CARICOM Single Market and Economy as outlined in the Revised Treaty of Chaguaramas. In such implementation, special consideration will be given to reinforcing the regional integration schemes of the CARIFORUM States and ensuring their further sustainable advancement.

We declare our commitment to work closely, within the institutions of the Agreement, to achieve its aims and objectives taking special account of the different levels of development among our countries, notably the needs of the small vulnerable economies, including, in particular, Haiti as a Least Developed Country, as well as those designated as less developed under The Revised Treaty of Chaguaramas.

We understand that, in the context of our continued monitoring of the Agreement within its institutions, as provided for under article 5 of the Agreement, a comprehensive review of the Agreement shall be undertaken not later than five (5) years after the date of signature and at subsequent five-yearly intervals, in order to determine the impact of the Agreement, including the costs and consequences of implementation and we undertake to amend its provisions and adjust their application as necessary.

Annex 2

Examination of trade and economic performance of CARIFORUM countries

Caribbean goods trade with the EU is highly concentrated in a narrow spectrum of few items, with the top-five products accounting for 90per cent or more of total trade for most countries. Dominica and the Dominican Republic have lower levels of concentration, albeit the top five goods still account for more than 60per cent of trade. The leading export products from the Caribbean to the EU are fuels and mining products, particularly gas and petroleum, bananas, sugar, rum, gold, corundum, aluminium oxide and hydroxide, iron ore and fertilizers. More specifically, the exports the OECS economies are highly concentrated in agricultural products destined for the EU, especially fruit and nuts, chiefly bananas, as well as prepared food products (Durán, Mc Lean et al 2014).

In contrast, CARIFORUM countries import a wide range of goods from the European Union, including industrial products such as medical equipment, electrical appliances and machinery, passenger vehicles, pharmaceutical products and medications, plastics, and consumer durables (printers and furniture, among others). Agro-industrial imports include alcoholic beverages, milk and cream, and fresh and preserved vegetables. The main CARIFORUM importers are the Dominican Republic, Jamaica, Suriname and Trinidad and Tobago, which together account for 83per cent of the total. In the OECS economies, imports of food and medications account for more than a third of the total, and largely comprise milk, cream, cheese, meat and cereals.

Within CARICOM, Trinidad and Tobago (54per cent), The Bahamas ((10per cent), Suriname (9per cent) and Jamaica (8per cent) are the major goods exporters to the EU. The OECS countries, as well as Guyana, account for 6per cent of the region's exports to the EU in 2011 to 2013. The EU represents a major export market for Saint Lucia (57per cent), Grenada (33per cent), Saint Vincent and the Grenadines (31per cent), Belize (26per cent), Suriname (26per cent) and Jamaica (25per cent). From 2011 to 2013, OECS exports to the EU have declined by 16per cent, with much larger reductions in exports by Saint Lucia (-69per cent), Saint Vincent and the Grenadines (-31per cent) and Dominica (-28per cent). Only Trinidad and Tobago, Guyana and Jamaica managed to generate trade surpluses during the period under review (Durán, Mc Lean et al 2014), (see table A.1 and figure A.1).

TABLE A.1
TRADE WITH EUROPEAN UNION, 2011-2013^a
(millions of US dollars and percentages)

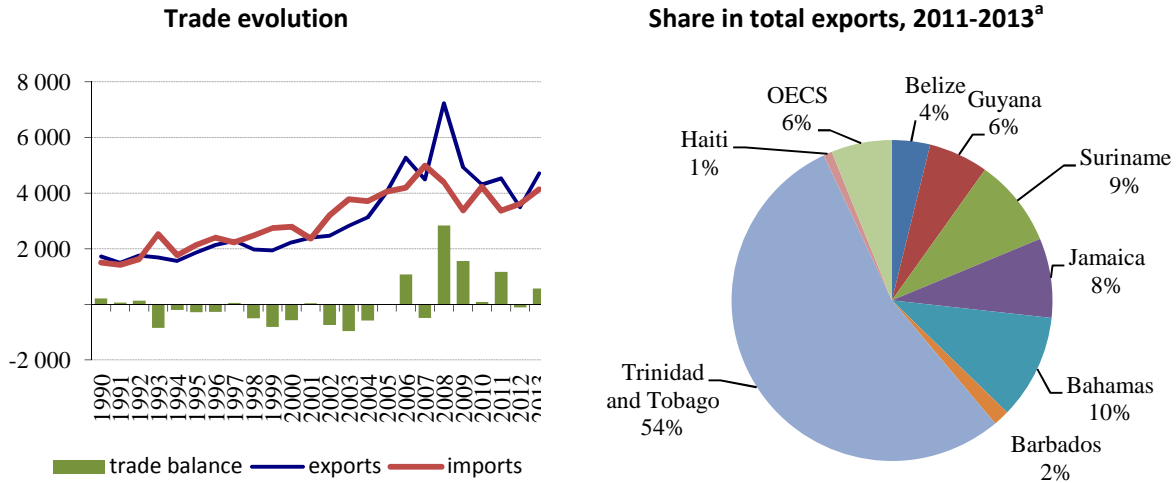
	Trade (2011-2013) ^b			EU share in total trade		Annual growth rate (2008-2013)	
	Exports	imports	trade balance	exports	imports	exports	imports
Bahamas	447	796.3	- 349	16.4	7.4	1.9	4.2
Barbados	69	179.1	- 110	10.2	4.6	-4.2	-5.4
Belize	163	163.3	- 1	25.9	8.0	21.2	15.6
Guyana	255	148.8	106	18.2	13.3	-0.7	2.0
Jamaica	340	335.3	5	24.8	8.3	15.6	-7.9
Haiti	37	246.6	- 210	3.8	8.0	22.1	-17.6
Suriname	377	519.4	- 143	25.7	34.4	-3.3	31.7
Trinidad and Tobago	2 296	777.4	1 519	11.9	11.7	2.5	13.6
OECS	261	536	- 276	11.4	9.2	-16.0	39.9
Antigua and Barbuda	132	264.9	- 133	7.0	11.3	12.2	47.8
Dominica	14	25.5	- 12	18.5	11.7	-27.6	-11.2
Grenada	13	22.1	- 9	33.0	13.5	15.6	-0.5
Montserrat	1	6.0	- 5	15.1	35.2	-12.6	124.3
Saint Kitts and Nevis	15	83.8	- 69	15.9	17.4	94.7	81.5
Saint Lucia	64	51.3	13	57.0	2.4	-69.3	-4.3
Saint Vincent and the Grenadines	22	82.6	- 61	31.0	18.5	-30.6	42.6
CARICOM	4 244	3 703	541	13.8	9.5	2.0	10.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of COMTRADE Database.

^aFigures were obtained through mirror statistics, using the European Union as the reporter and CARICOM countries as partners.

^b Annual average.

FIGURE A.1
CARICOM: TRADE WITH THE EUROPEAN UNION, 1990-2013
(Millions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of COMTRADE Database.

^a Annual average.

Examination of trends in key economic and development indicators in selected CARICOM countries over the period 2003-2012 seems to suggest that overall the EPA seemed to have been ineffective in accelerating economic growth. However, it is instructive to note that the period 2008-2012, i.e. coincided with the onset of the global economic and financial crisis, which had a major impact on regional economic and trade performance.

It was found that Real GDP (domestic output) growth rates were also significantly lower during the EPA implementation period (2008-2012) and in some instances negative (Barbados) with the exception of Guyana. Guyana and Suriname are the only CARICOM country that experienced a relatively higher growth rate (4per cent) during 2008-2012 relative the previous five years. However, this was due to a high commodity prices influenced by strong demand out of China, rather than the EPA. The Dominican Republic recorded sluggish growth rates before 2005, following which a stronger growth performance was recorded, especially in 2006 and 2007. During the period coinciding with EPA implementation, the growth rate of the Dominican Republic was marginally lower at 4.97per cent as compared to 5.29per cent for 2003-2007.³⁴ The real growth trends in CARIFORUM on average, was 0.71per cent during 2008-2012, compared to 4.27per cent over 2003-2007 (see table A.2).

³⁴ Since the signing of the EPA with the EU in 2008, domestic output in the selected CARIFORUM countries have shown signs of improvement. In particular, when compared to the 2003-2007 period (defined here as 2003-2007 years when the conditions of the Lome convention held), the Dominican Republic experienced a large increase of 36per cent in their real average per annum domestic output in the period 2008-2012 (EPA years). Guyana and St. Kitts and Nevis both saw increases of about 10per cent each while St. Lucia's real GDP increased by 13per cent. Domestic output in Barbados, however, increased less than a 1per cent in the EPA years, relative to the 2003-2007 period. From 2007 onwards, the real GDP growth rates of Barbados, St. Kitts and Nevis and St. Lucia have slowed. This decline is directly attributable to the higher prices faced (higher food and energy prices) coupled with the deepening of the financial crisis in 2008.

TABLE A.2
REAL GDP GROWTH RATE
(constant local currency units)

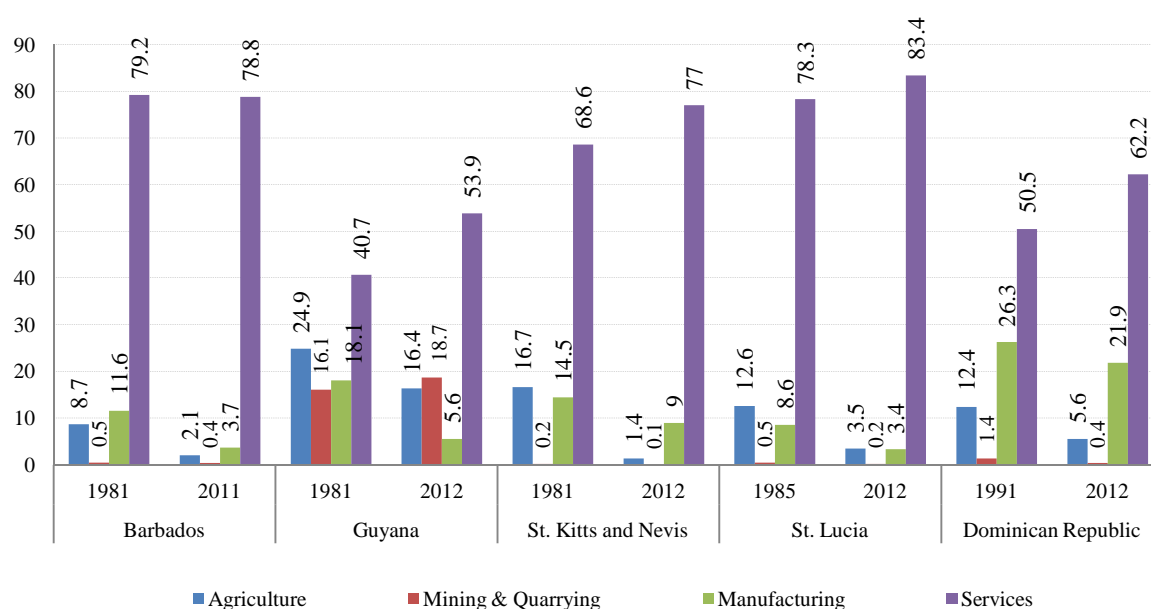
	Barbados	Dominican Republic	Guyana	Saint Lucia	Saint Kitts and Nevis
2001	-2.55	1.81	2.25	-4.80	-4.80
2002	0.67	5.79	1.05	0.11	0.11
2003	1.97	-0.25	-1.01	4.45	4.45
2004	1.43	1.31	3.29	8.40	8.40
2005	4.00	9.26	-1.96	-1.89	-1.89
2006	5.71	10.67	5.13	8.57	8.57
2007	1.67	8.47	-3.64	1.62	1.62
2008	0.34	5.26	1.98	5.11	5.11
2009	-4.14	3.45	3.32	0.36	0.36
2010	0.25	7.75	4.37	0.23	0.23
2011	0.76	4.48	5.44	1.39	1.39
2012	0.01	3.89	4.82	-3	-3
2003-2007	1.84	5.29	0.73	2.35	2.35
2008-2012	-0.56	4.97	3.98	0.81	0.81

Source: Own derivations World Development Indicators (2013).

The services sector dominates economic activity in these economies.³⁵ With the exception of the services sector, all other sectors (agriculture, mining and quarrying and manufacturing) experienced a contraction during 2008-2012 for the Dominican Republic, Saint Kitts and Nevis and Saint Lucia. It should be noted, however, that the Dominican Republic has the largest manufacturing sector of the selected CARIFORUM economies. (See figure A.2).

³⁵It should be noted that Guyana is largely a goods based economy and the services produced are largely non-tradable. Services generally account for 21per cent of total exports and 10per cent of GDP (2008-2010).

FIGURE A.2
STRUCTURAL COMPOSITION OF GDP IN SELECTED CARICOM COUNTRIES
(percentages)



With regard to unemployment, it is noteworthy that during the two periods under examination, unemployment for the selected countries was high. Barbados saw a less than 1 per cent increase in unemployment, while the Dominican Republic experienced a 2.6 per cent decline during 2008-2012. Nevertheless, these were related to changes in the prevailing global and domestic economic conditions rather than the EPA. On average, the inflation rate for CARIFORUM fell from 6.9 per cent over 2003-2007 to 5.1 per cent during 2008-2012.

Barbados and Saint Lucia's merchandise trade deficit with the EU both contracted from the first period (2003-2007) to the next (2008-2012). In contrast, the deficit for Saint Kitts and Nevis and the Dominican Republic both widened; though marginally for the former (14.3 per cent), and dramatically for the latter (163.6 per cent). Further, of the countries examined, the country which generated a merchandise trade surplus prior to the signing of the EPA, Guyana, experienced a contraction of 17.8 per cent in same during EPA implementation (see annex III).

The current account deficits as a percentage of GDP for the selected economies, has widened for the Dominican Republic, Guyana, and Saint Kitts and Nevis. More specifically, since the signing of the EPA, the Dominican Republic has seen the largest increase in the current account deficit while Guyana and Saint Kitts and Nevis also experienced marginal increases in their current account deficit in 2008-2012.³⁶ The current account deficit contracted slightly for Barbados and Saint Lucia. On average, the current account deficit for CARIFORUM countries marginally increased between periods (see table A.3).

³⁶Absence of reliable services trade data constrained the ability to compute trade balances with Europe.

TABLE A.3
CURRENT ACCOUNT BALANCE
(billions of dollars and percentage of GDP)

	Billions of dollars					Percentage of GDP				
	Barbados	Dominican Republic	Guyana	Saint Kitts and Nevis	Saint Lucia	Barbados	Dominican Republic	Guyana	Saint Kitts and Nevis	Saint Lucia
2000	-0.114	-1.026	-0.091	-0.069	-0.095	5.3	4.2	15.1	15.8	12.4
2001	-0.116	-0.741	-0.102	-0.11	-0.108	5.8	2.9	17.4	23.3	15.2
2002	-0.164	-0.798	-0.084	-0.137	-0.106	7.2	3.1	13.8	25.8	14.7
2003	-0.121	1.036	-0.06	-0.126	-0.148	5.5	4.9	10.2	24.9	18.9
2004	-0.266	1.034	-0.032	-0.08	-0.091	10.3	4.6	8	13.6	10.7
2005	-0.293	-0.549	-0.125	-0.08	-0.129	10.6	1.4	17.7	11.9	14.3
2006	-0.203	-1.297	-0.199	-0.089	-0.309	8.2	3.6	19.1	13.4	30.6
2007	-0.121	-2.179	-0.167	-0.125	-0.345	5.4	5.2	12.6	16.5	30.6
2008	-0.417	-4.519	-0.258	-0.204	-0.34	10.7	9.9	18.8	27.6	29.2
2009	-0.247	-2.332	-0.183	-0.189	-0.137	6.8	5	13.1	25.4	11.7
2010	-0.35	-4.33	-0.217	-0.151	-0.203	5.8	8.4	12.6	19.4	16.9
2011	-0.375	-4.38	-0.344	-0.112	-0.244	11.2	7.9	16.5	11.8	20.1
2012	-0.255	-3.97	-0.368	-0.099	-0.234	4.8	7.3	15.7	11.4	22.2
7-Mar	-0.201	-0.391	-0.117	-0.1	-0.204	8	3.94	13.52	16.06	21.02
12-Aug	-0.329	-3.966	-0.274	-0.151	-0.232	7.86	7.68	15.34	19.12	20.02

Source: Central Bank of Barbados, Dominican Republic Central Bank, Bank of Guyana, Eastern Caribbean Central Bank (2013).

Each of the five CARIFORUM countries reviewed recorded persistent fiscal deficits except for Saint Kitts and Nevis. This no doubt has influenced the high levels of indebtedness observed in these economies. However, it is worth noting that the debt to GDP ratios for Guyana and Saint Kitts and Nevis declined from 101per cent and 148per cent in the period 2003-2007 to 63per cent and 137per cent in the subsequent period, 2008-2012, respectively. During 2012, Saint Kitts and Nevis undertook an extensive debt restructuring process to reduce their debt burden. Over the time periods examined, the debt to GDP ratios of the other countries increased, the margin of which was highest for Barbados.

The terms of trade for the Dominican Republic and Saint Kitts and Nevis have been on the decline while Barbados and Saint Lucia have experienced fluctuations during the period reviewed. The increasing price of the main export items of Guyana has contributed to the favourable terms of trade trends experienced since 2008. The terms of trade has been lower during 2003-2007 when compared to the period 2008-2012 for Barbados and Guyana, but has declined for the Dominican Republic, Saint Kitts and Nevis and Saint Lucia across the two periods identified.

In considering the change in FDI inflows from the 2003-2007 period to the EPA period, Guyana experienced the largest increase of 181per cent³⁷, followed by the Dominican Republic (137per cent), Barbados (40per cent) and Saint Kitts and Nevis (30per cent). FDI inflows for Saint

³⁷Guyana benefited from a rise in commodity demand and prices which would have attracted substantive FDI.

Lucia, however, contracted by 15per cent. The average change in FDI inflows for CARIFORUM countries was 38per cent between the periods 2003-2007 and 2008-2012 (table A.4 refers).

TABLE A.4
FOREIGN DIRECT INVESTMENT, NET INFLOWS
(percentage of GDP)

	Barbados	Dominican Republic	Guyana	Saint Kitts and Nevis	Saint Lucia
2000	0.62	3.97	9.42	23.10	7.03
2001	0.60	4.33	8.04	19.35	8.30
2002	0.55	3.45	6.03	16.69	7.18
2003	1.78	2.88	3.52	16.38	13.62
2004	(0.34)	4.12	3.82	11.21	8.92
2005	6.12	3.29	9.31	17.34	8.61
2006	7.93	4.26	7.02	17.36	23.15
2007	10.01	5.46	8.76	19.61	24.16
2008	10.17	5.97	8.74	24.16	13.84
2009	9.98	3.63	10.27	18.42	12.55
2010	15.09	4.05	11.93	18.70	9.17
2011	7.64	4.12	6.42	15.25	6.69
2004-2007	5.93	4.28	7.23	16.38	16.21
2008-2011	10.72	4.44	9.34	19.13	10.56

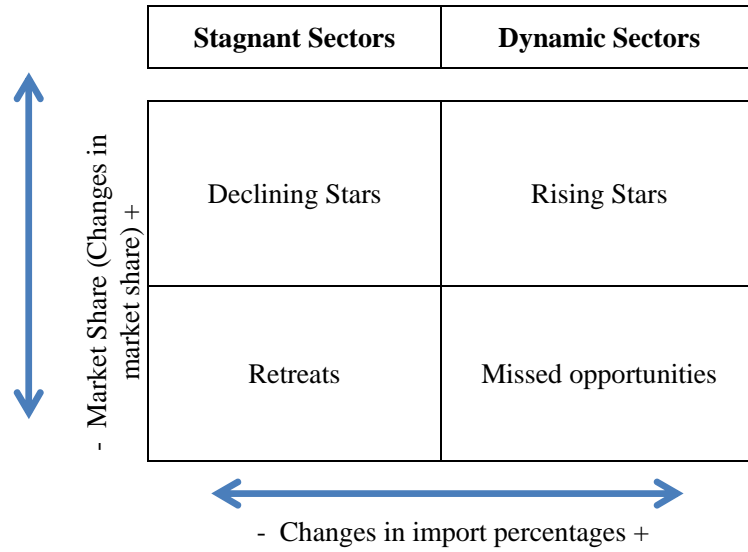
Source: World Bank Development Indicators (2013)

Annex 3
TABLE A.5
REAL MERCHANDISE TRADE BALANCE TO
CARIFORUM, EUROPEAN-27 AND THE WORLD
(In millions of US dollars)

Year	Barbados			Dominican Republic			Guyana			Saint Kitts and Nevis			Saint Lucia		
	CARIFORUM	EU-27	World	CARIFORUM	EU-27	World	CARIFORUM	EU-27	World	CARIFORUM	EU-27	World	CARIFORUM	EU-27	World
2000	(156.69)	(165.61)	(1,141.19)	36.14	-	(5,579.45)	(26.09)	83.29	(61.52)	(37.24)	(11.61)	(177.18)	(75.69)	(44.34)	(354.41)
2001	(151.17)	(165.78)	(1,029.65)	114.79	(518.77)	(117.46)	(41.64)	56.49	(127.93)	(34.32)	(17.82)	(164.02)	(64.59)	(25.42)	(272.00)
2002	(86.05)	(162.48)	(953.59)	144.31	(442.80)	1,492.52	(20.72)	41.27	(138.88)	(29.74)	(6.99)	(165.35)	(63.57)	(34.68)	(307.77)
2003	(227.12)	(190.99)	(1,161.88)	88.42	(423.93)	1,783.07	(76.61)	100.26	(105.85)	(38.44)	(11.02)	(164.18)	(72.88)	(54.57)	(403.04)
2004	(37.69)	(149.44)	(981.22)	181.85	(365.88)	(876.44)	(77.08)	152.51	(99.37)	(35.81)	(11.22)	(142.79)	(84.22)	(54.26)	(406.03)
2005	(289.83)	(179.74)	(1,460.26)	235.36	(319.21)	(2,342.09)	(176.83)	138.34	(254.82)	(42.63)	(19.48)	(180.42)	(84.47)	(53.16)	(446.18)
2006	(290.30)	(174.82)	(1,318.46)	404.72	(475.43)	(3,983.83)	(122.20)	66.20	(197.74)	(40.96)	(15.89)	(191.18)	(126.51)	(57.48)	(527.54)
2007	20.27	(171.26)	(925.96)	555.58	(332.10)	(5,688.99)	(69.59)	53.16	(128.52)	(39.79)	(19.54)	(204.18)	(128.52)	(46.61)	(499.90)
2008	(287.83)	(175.47)	(1,368.74)	184.21	(701.57)	(7,218.84)	(129.67)	60.87	(232.75)	(47.99)	(17.31)	(233.60)	(158.92)	(28.71)	(531.05)
2009	(163.38)	(119.35)	(981.88)	140.63	(701.50)	(9,869.97)	(96.06)	39.51	(173.05)	(32.48)	(16.40)	(212.65)	-	-	-
2010	(27.07)	(110.84)	(873.27)	97.50	(803.76)	(11,167.65)	(146.94)	36.39	(228.58)	(26.43)	(14.92)	(195.47)	-	-	-
2011	(451.74)	(147.68)	(1,402.99)	(397.38)	(1,035.19)	(11,055.48)	(101.42)	27.55	(246.13)	(23.30)	(12.37)	(166.23)	-	-	-
2012	(508.41)	(144.82)	(1,415.35)	-	(1,302.56)	-	(80.84)	30.92	(305.33)	-	-	-	-	-	-
2003-2007	(164.93)	(173.25)	(1,169.56)	293.19	(383.31)	(2,221.65)	(104.46)	102.09	(157.26)	(39.52)	(15.43)	(176.55)	(99.32)	(53.21)	(456.54)
2008-2012	(287.69)	(139.63)	(1,208.44)	6.24	(908.92)	(9,827.99)	(110.99)	39.05	(237.17)	(32.55)	(15.25)	(201.99)	(158.92)	(28.71)	(531.05)

Source: Derivations from UN Comtrade database (2013), deflated using each country's respective deflator.

Annex 4 Trade competitiveness matrix



Source: Cimoli and Mario (2004).

Annex 5

TABLE A.6
TRADE COMPLEMENTARITY ANALYSIS
FOR CARIFORUM-EU TRADE, 2001-2010

EU countries	Agreement	Barbados	Guyana	Saint Kitts and Nevis	Saint Lucia	Dominica
Austria	Pre-EPA	1.072	0.723	1.064	1.023	1.035
	EPA	1.137	1.073	1.036	1.088	1.147
Belgium	Pre-EPA	1.209	1.177	0.747	1.219	1.004
	EPA	1.382	0.668	0.603	1.121	1.170
Bulgaria	Pre-EPA	1.118	0.869	1.013	0.839	0.948
	EPA	1.203	0.736	0.741	0.820	1.206
Cyprus	Pre-EPA	1.926	0.935	0.799	1.564	1.645
	EPA	2.033	0.725	0.897	2.191	1.813
Czech Republic	Pre-EPA	0.997	0.394	1.532	0.953	0.863
	EPA	0.956	0.339	1.629	0.852	0.896
Germany	Pre-EPA	0.873	0.542	0.908	1.114	1.029
	EPA	0.911	0.557	0.862	0.895	0.967
Denmark	Pre-EPA	1.322	1.045	0.986	1.428	1.136
	EPA	1.483	0.778	1.030	1.421	1.293
Spain	Pre-EPA	1.049	1.048	0.843	1.041	1.106
	EPA	1.150	0.764	0.921	1.048	1.239
Estonia	Pre-EPA	1.668	0.993	1.739	1.654	1.295
	EPA	1.659	0.939	1.517	1.851	1.564
Finland	Pre-EPA	1.069	0.586	1.193	1.079	1.116
	EPA	1.095	0.447	1.244	1.033	1.009
France	Pre-EPA	1.078	0.692	0.820	1.129	1.127
	EPA	1.217	0.609	0.825	1.089	1.189
United Kingdom	Pre-EPA	1.120	0.892	0.895	1.440	1.124
	EPA	1.334	0.733	0.955	1.397	1.170
Greece	Pre-EPA	1.240	0.751	0.565	1.239	1.036
	EPA	1.450	0.693	0.645	1.155	1.224
Hungary	Pre-EPA	0.931	0.344	1.922	0.773	0.676
	EPA	0.916	0.372	2.005	0.749	0.775
Ireland	Pre-EPA	1.270	0.771	1.025	1.168	0.894
	EPA	1.700	0.923	0.933	1.323	1.223
Italy	Pre-EPA	0.851	1.206	0.762	0.838	1.175
	EPA	0.942	0.895	0.696	0.828	1.231
Lithuania	Pre-EPA	1.141	0.715	0.819	1.267	0.789
	EPA	1.193	0.596	0.721	1.249	1.047
Luxemburg	Pre-EPA	1.485	0.449	0.820	1.772	1.195
	EPA	1.466	0.650	0.923	1.805	1.372
Latvia	Pre-EPA	1.858	0.789	0.931	2.028	1.204
	EPA	1.859	0.980	0.984	1.798	1.393
Malta	Pre-EPA	1.732	1.124	1.171	1.472	1.132

Table A.6 (continued)

EU countries	Agreement	Barbados	Guyana	Saint Kitts and Nevis	Saint Lucia	Dominica
Netherlands	EPA	1.843	1.118	1.181	1.815	1.315
	Pre-EPA	1.008	0.558	0.693	1.200	1.073
Poland	EPA	0.877	0.544	0.802	1.109	1.100
	Pre-EPA	0.956	0.468	0.940	1.082	0.775
Portugal	EPA	0.965	0.424	1.032	0.958	0.951
	Pre-EPA	1.174	1.158	0.958	1.171	0.883
Slovakia	EPA	1.186	0.893	0.843	1.037	1.055
	Pre-EPA	0.953	0.663	1.274	0.881	0.781
Slovenia	EPA	0.979	0.716	1.796	0.871	0.929
	Pre-EPA	1.214	0.989	0.979	1.083	1.123
Sweden	EPA	1.194	1.303	0.829	1.265	1.129
	Pre-EPA	0.973	0.559	0.943	1.191	0.994
	EPA	1.025	0.530	1.068	1.076	0.943

Source: Calculations from the World Integrated Trade Solutions (2013).

Annex 6

Possible steps towards a more effective EPA

In seeking to make a reasoned assessment of what actions might be necessary in order to make the EPA more effective, it is important first to understand the objectives, which the region had originally established and to determine whether they were or are reasonable and realistic. Accordingly, having decided to negotiate an EPA with the EU, CARIFORUM wanted to ensure that the Agreement was structured to reflect a number of the key principles, which feature in the region's pursuit of its development goals and a strategic approach to its international trade policy. The major guiding principles will be examined hereunder, within the context of EPA implementation.

A. Sustainable development

CARIFORUM emphasized before and during the negotiations that the ultimate objective in negotiating an EPA was to ensure sustainable economic development and to alleviate poverty in its member states³⁸. Therefore, facilitation of the region's structural transformation in order to reduce acute economic vulnerability and foster international competitiveness was paramount. Accordingly, the sustainable development of CARIFORUM States is the ultimate long term objective of the EPA. However, one cannot realistically draw any definitive conclusions with respect to the Agreement's impact on sustainable development in the first five-year review. However, assessments of progress can be made with respect to those factors which contribute to sustainable development, such as trade flows, investment, loss of Government revenue, employment and the like.

In this regard, Barbados, Guyana, Suriname, Dominica, Saint Lucia and Saint Vincent have all experienced a contraction, on average, in goods exports over period 2008-2013. Further, it is estimated that the loss in revenue due to the implementation of EPA tariff reduction commitments will offset any gains in consumer welfare due to declining import prices (from the EU).

B. Asymmetry

The region insisted that any EPA should reflect an asymmetric approach with respect to market access commitments for goods and services, as well as the application of trade rules. Therefore, CARIFORUM should benefit from longer transition periods; phased liberalization with respect to both goods and services; a lower threshold for the use of safeguards; and greater flexibility in the application of trade rules.

To this end, the principle of asymmetry is clearly reflected in the EPA with respect to market access commitments for both goods and services and the application of trade rules. In practice, during the first five years of EPA implementation, there has been no indication that this principle is not being followed in the implementation of the Agreement. The EU, to date, has demonstrated a willingness to abide by the relevant EPA commitments (legally binding) as well as the 'spirit of the Agreement' by exhibiting some flexibility with respect to the tardy legislative and/or administrative interventions by a number of CARIFORUM countries.

³⁸Article 3.1 of the EPA states "The Parties reaffirm that the objective of sustainable development is to be applied and integrated at every level of their economic partnership and especially the general commitment to reducing and eventually eradicating poverty in a way that is consistent with the objective of sustainable development".

C. Respect for CARIFORUM's regional integration process

One of CARIFORUM's objectives during the EPA negotiating process was the safeguarding of the integrity of its own regional integration process. Accordingly, CARIFORUM fought a long battle with the EU to ensure respect for the "variable geometry" which characterised the region (i.e. CARICOM, the OECS, the CARICOM-Dominican Republic Free Trade Agreement, and the special situations of the Bahamas and Haiti).

During the first three years of the provisional application of the EPA, there were a number of CARIFORUM governance issues, which constituted a major bottleneck impeding progress in implementing the Agreement. These issues were substantially addressed at the 18th meeting of the CARIFORUM Council of Ministers, held in Belize on 1st April 2011. There has been a noticeable improvement in the operations of the CARIFORUM Directorate and functional cooperation between CARICOM and the Dominican Republic since mid-2011.

Nevertheless, despite improvements in functional cooperation, the application of Article 238 of the EPA, the "Regional Preference" provision, continues to be a matter of concern for CARIFORUM countries, particularly the Dominican Republic. The provision, which has given rise to many of the CARIFORUM governance issues, is set out in Article 238.2 as follows: "Any more favourable treatment and advantage that may be granted under this Agreement by any Signatory CARIFORUM State to the EC Party shall also be enjoyed by each Signatory CARIFORUM State".

Some concern had been raised, on the CARICOM side, about the implications of Article 238 of the EPA for the internal trading arrangements within CARICOM and between CARICOM States and the Dominican Republic. The CARIFORUM Directorate commissioned three studies on this matter in an effort to inform Member States of the viable options in seeking to apply the provisions of Article 238. The Studies addressed the legal aspects of Regional Preference, the considerations with respect to Trade in Goods and the implications for Trade in Services.

The Legal Opinion provided to the CARICOM Secretariat confirms the validity, legality and reach of Article 238. The legal Consultant points out that the EPA and the CARICOM-DR FTA impose different rather than incompatible obligations and he underlines the fact that Article 238 overtakes prior international instruments concluded between the Parties on the same subject matter. Further, the study on trade in goods concluded that the implications of undertaking the Article 238 obligations are relatively benign for CARICOM States, possibly resulting in minimal revenue losses.

Article 238 of the EPA elaborates a logical position, basically that it would be unreasonable and illogical to extend more favourable treatment to the other Party in an international trade agreement than one is prepared to extend to regional negotiating partners. This is a situation where an implementation difficulty arises, apparently because of the EPA, but in reality the problems are self-created by some Member States seeking both to derogate from a logical position and to avoid a treaty obligation.

The fundamental problem seems to be a lack of understanding between some CARICOM Member States and the Dominican Republic about the way in which each other's institutions work. Consequently, although the respective private sectors are finding a way to do business, there is no doubt that uncertainty at the level of officials is having a negative impact on the flow of trade and investment.

D. Phased CARIFORUM tariff liberalisation

The subregion, mindful of the possible negative impact of trade liberalisation on government revenue and on emerging industries, wanted to ensure that liberalisation of its tariffs would be phased in such a

manner as to allow space for the necessary reform of national tax regimes as well as for the nurturing of fragile domestic production enterprises.

The desired phasing of CARIFORUM's tariff reduction schedules has been enshrined in the EPA. However, from a CARIFORUM perspective, the real issue is the impact of tariff reductions on trade flows between the Parties and on tariff revenues. During this first five-year period, the impact would appear to have been minimal in both cases.

With respect to trade flows, as the ECLAC EPA review study indicates that, for many of the regional exporters of goods, the EU market has not been viewed as a preferred market. On the other side, there is also no indication that EU manufacturers are queuing to export to CARIFORUM. In the circumstances, understandably, there has been no significant change in the overall value of CARIFORUM exports to or imports from the EU.

With respect to losses in tariff revenues, a purely theoretical analysis might lead to the conclusion that the EPA will lead to trade diversion towards EU exporters and a resulting reduction in tariff revenue because of the lower or eliminated tariff rates. However, the reality of the buying traditions of regional importers and the fact that the small regional markets are likely to be unappealing to European manufacturers (the Dominican Republic could be an exception) might dampen any possible trade diversion. It is too early in the implementation process and the available data is too sketchy to draw firm conclusions about the likelihood of this type of outcome.

E. Stimulating private sector interest and expanding exports

One of the major EPA implementation challenges across CARIFORUM has been the determination of how best to motivate economic operators become more proactive in seeking out and taking advantage of EPA-related business opportunities. The reticence of the business community to actively target market export opportunities under the Agreement seems to be linked to an information dissemination deficit, which has been manifested at almost every level in the public and private sectors across CARIFORUM. This has had a discernible negative impact on EPA implementation because it is the economic operators, who must exploit the trade and investment opportunities in the Agreement.

Even more worrisome is that consultations have revealed that that more than five years after the signature of the EPA on 15th October 2008, the Agreement remains largely misunderstood and underutilized. The business community has complained that they don't know enough about the Agreement, particularly how to access the benefits, while public sector representatives have been commenting on what they perceive as the absence of information on how to benefit from EPA-related resources.

In an effort to address these concerns, a number of sensitization sessions have been organized by the regional and national EPA Implementation Units. Seminars and workshops have also been delivered in cooperation with various business support organizations. Nevertheless, it is now evident that what is needed is more "actionable" information on the available benefits and on how best to take advantage of the EPA-related commercial opportunities. Therefore, workshop presenters and other experts must go beyond discussing the provisions of the Agreement and focus more on "how to do business" issues. Case studies of successful EU market entry could constitute an integral part of these more practical presentations.

In addition, efforts must be made to provide potential exporters with in-depth analyses of the European markets so that they become equipped to identify and exploit export opportunities. The data provided could cover issues such as: Tariff and Non-Tariff barriers; Market entry requirements; Business and Trade Regulations; Buyer, Supplier and Distributor databases; Database of Business Support Organisations in the particular market; and profiles of target sectors.

The availability of detailed information on market, regulatory and other requirements is critical for exporters looking to enter EU markets. This is particularly important for CARIFORUM SMEs trying to market their products in the large sophisticated markets in the EU. In addition, the advantage of forging strategic alliances, either at the production level or in the foreign market or at both ends, is something that should be explored by the region's commodity producers and manufacturers.

The real challenge facing the subregion has been fostering private sector development and redressing its declining export competitiveness with the EU. The Caribbean Export's Private Sector Development Programme, which emphasizes competitiveness and export readiness, has been engaging in the upgrading of the subregion's economic operators. Under the current 10th EDF Regional Indicative Programme (RIP), Caribbean Export was allocated 28.3 million euro outside of its usual budget to develop and implement a private sector development programme. It is anticipated that under the 11th EDF's RIP, which is currently being programmed, Caribbean Export will again have responsibility for the private sector development. Some of the exports facilitating measures currently being implemented under the Programme include:

- ProNet, which is a training programme, consisting of nine (9) modules that is intended to build the capacity of regional manufacturing firms to enhance their competitiveness and export potential. The eventual goal of this training is to make regional firms export ready and to be in a position to take advantage of the opportunities available under the Economic Partnership Agreement (EPA).
- The creation of export platforms to assist CARIFORUM firms to take advantage of the EPA.
- Preparation of profiles of potential buyers, importers and manufacturers agents in selected EU countries and the development of export guidelines for food products exporters.
- Development of a Regional Trade and Market Intelligence System, which includes: Development of a CARIFORUM Market Intelligence Portal; Development of a CARIFORUM Exporter's Online Helpdesk; Establishment of National Trade Information Networks; and Institutional capacity building in the area of Trade Information and Market Research

The benefits deriving from the Economic Partnership Agreement and other trade agreements will neither be achievable nor sustainable without a "business-friendly environment" and a strong business sector, which can adjust to the challenges that will result from regional and international trade liberalization. Therefore, beyond the Caribbean Export private sector development programme, there are a number of initiatives which should be pursued in order to develop a production facilitation and export-oriented environment in CARIFORUM countries, including:

- Improvements in Customs procedures and trade facilitation: Customs Departments must be strengthened to enable them to embrace current best practice in Customs administration and to place more emphasis on Trade facilitation. This would streamline customs procedures, increase customs efficiency and reduce logistics costs associated with exporting from the subregional Customs jurisdictions.
- Regional and National EPA Implementation Units and like entities should seek to cooperate with facilitating regional agencies (Caribbean Export, IICA, CROSQ etc) and national business facilitation or business support organizations in a concerted effort to improve the competitiveness and export capability of applicable economic operators. In addition, the National EPA Implementation Units and like entities should work with the relevant public and private sector institutions to bring about any requisite institutional

strengthening and improve their efficacy in the areas of trade promotion and business facilitation.

- The EPA rules of origin have been made much more flexible than those previously applied under the Cotonou Agreement with respect to textiles and garments and slightly more flexible for biscuits, some for agricultural products and fisheries. There are also provisions for “cumulation” with other ACP countries, EU Member States, and certain neighbouring developing countries. EPA implementation entities, in cooperation with Business Support Organizations, should use these improved export regimes to encourage manufacturers to consider alternative equipment and raw material sources in order to improve the export competitiveness of their products.
- EPA Implementation Units should also partner with business facilitating agencies and, where possible, the region’s overseas missions, in promoting and structuring relationships between CARIFORUM services suppliers or goods exporters and European counterparts in order to facilitate the types of “win-win” strategic collaborative initiatives that can benefit both parties.

Another important issue affecting CARIFORUM exporters is the proliferation of non-tariff measures, such as Technical Barriers to Trade (TBT) and Sanitary and Phyto-Sanitary (SPS) measures, in EU markets. Throughout the region, many stakeholders have complained that whilst the tariff barriers have been removed, the TBT and SPS measures which have either persisted or since been erected, are prohibitive to market access in some instances. Agricultural exporters, in Saint Kitts and Nevis, Guyana and the Dominican Republic, in particular, have indicated that SPS measures are the main barriers to penetrating the EU market.

In addition, stakeholders from the five selected countries lamented that the lack of the appropriate quality infrastructure in many CARIFORUM States e.g. laboratory facilities, legislation, staff and regulations, have contributed significantly to this problem. In earnest, it is the absence of a modern sanitary and phyto-sanitary (SPS) regime, health and food safety legislation and regulations, in many CARICOM that has acted as one of the principal obstacles preventing a number of regional producers dairy, poultry, fish, meat and similar protein products from exporting their food products to the EU market. An evaluation of the readiness of CARIFORUM food exporters to compete effectively in the EU and other international markets underlines the need to put in place appropriate SPS regimes, which can satisfy health and food safety requirements in the EU, so that the region’s exporters of food products can enjoy effective market access.

As such, there should be a greater level of information on the EU’s quality and health-related MTMs should be disseminated; and laboratory facilities in CARIFORUM modernized or established. This would in some way assist exporters to overcome these challenges. These issues clearly need to be addressed if the region is to move up the value chain into the production and export of more high value added, innovation-intensive products for the EU market. It is important to note, however, that the EPA did not create the need for modern Sanitary and Phyto-sanitary (SPS) regimes in CARIFORUM. In fact, it has been known for more than two decades that such regimes were necessary to facilitate regional companies interested in exporting certain food products to the EU.

Although a Caribbean Agricultural Health and Food Safety Agency (CAHFSA) has been established and is supposed to facilitate the strengthening of national agricultural health and food safety systems in regional Member States, much work remains to be done and it is uncertain when CARICOM countries will have appropriate regimes in place to satisfy EU SPS requirements. There are embryonic SPS projects being undertaken in countries such as Barbados, but this type of regime, involving an extensive ‘suite’ of legislation and regulations, provision of laboratory facilities, and staff training, is rather costly and extremely burdensome on a small economy.

The need to put in place appropriate SPS regimes, both at the regional and national levels, is a major challenge for CARIFORUM States, but it must be treated as a priority and is an area where the EU is likely to be oriented towards providing development support. Effective market access is an essential component of the EPA and that market access is of limited value if the region's products are unable to overcome common non-tariff barriers.