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IMPORTANT DECISION OF THE COMMON MARKET COUNCIL  
ON TRADE NORMALIZATION UNDER AMP AND GMS

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INTRODUCTION

During the Eleventh Meeting of the Common Market Council held in Georgetown, Guyana, 14 - 15 September 1977, among the many decisions taken by the Council figure one on the findings and recommendations of a joint study "CARICOM/ECLA Study of the Payments Arrangements for AMP Trade" Doc. AMP 77/16/6 April 22, 1977. This paper was formerly presented to the Sixteenth Meeting of Officials on the Agricultural Marketing Protocol in Georgetown, Guyana on May 3, 1977 for their consideration and comments. However, prior to that on November 17, 1976 ECLA's Office for the Caribbean had presented a paper on the matter based on a survey carried in several of the Leeward and Windward Islands and in Trinidad and Guyana entitled: "Preliminary Findings of and Reflexion on an Investigation related to Outstanding Payments for Agricultural Goods traded under the AMP and GMS" ECLA/POS/76/8.

I reproduce here the most significant considerations of the joint CARICOM/ECLA study mentioned above which provides a suitable background and explains the Common Market Council's decision and, in extenso, the mandatory decision of the Common Market Council.

This decision is meant to have a far-reaching impact on the improvement and normalisation of intra-regional trade under the AMP and GMS. If the measures indicated herein are thoroughly and seriously implemented they will affect all aspects of the whole marketing system in agricultural and livestock products in CARICOM member countries from the production stage up to the receiving end, that is delivery in the importing country. This would call, among other things, for the following improvements in the existing marketing system:

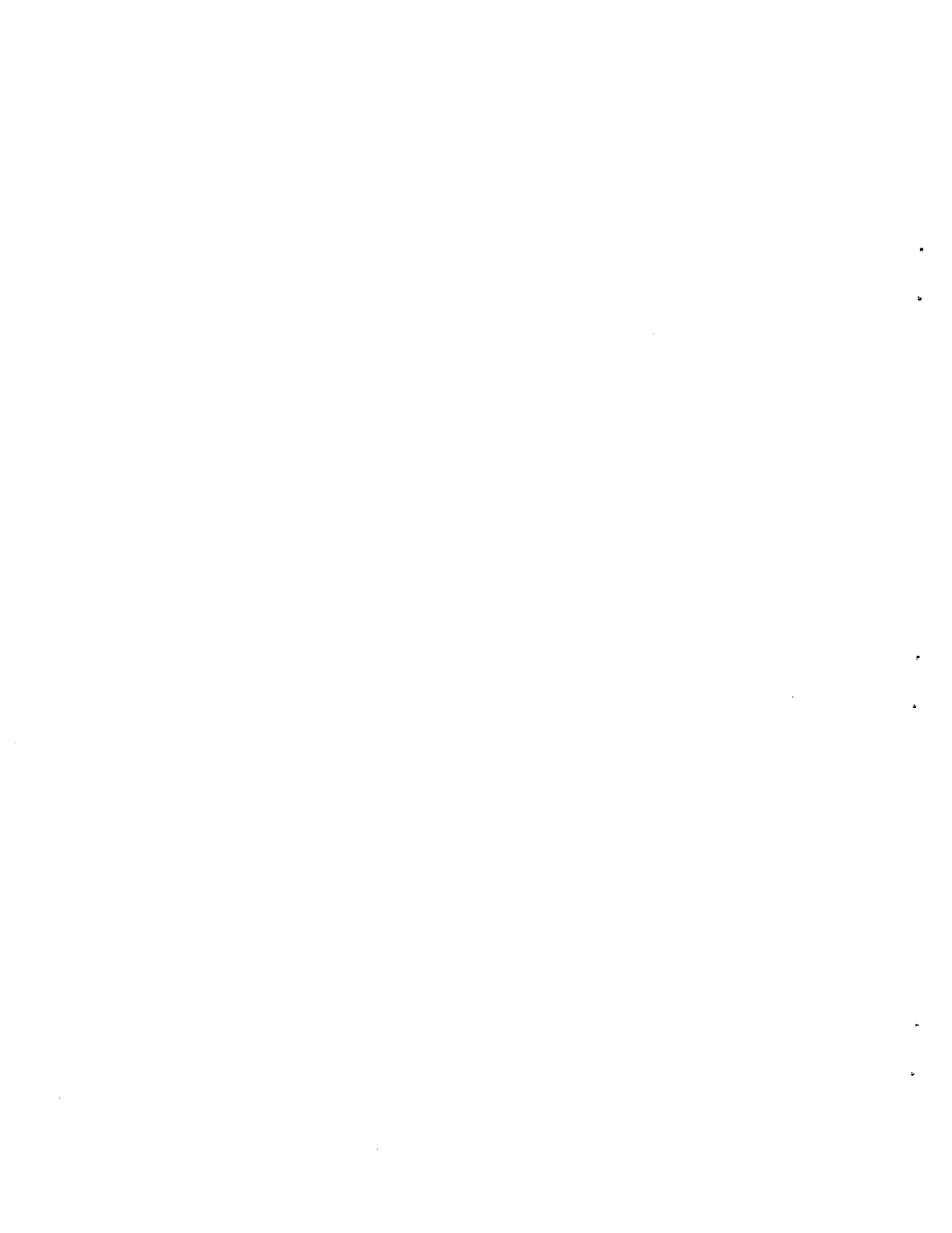
1. Better and effective control of the quality of the products collected at farm gate or purchased at established sheds by the Marketing Agency;
2. Application of proper grading at the buying sheds and depots of the Marketing Agency;
3. Appropriate packaging in order to avoid bruises and/or other damages to the exported goods;
4. Improvement in transportation to and from the exporting Marketing Agency and from there to the ship or other carrier;
5. Effective control and supervision, on the part of the Agent\* representing the Importing Marketing Agency, of the quality and volume of each product to be shipped; (This control should be made at random alongside the carrier or at the Custom House in the presence of the Quarantine Officer before delivery of any certificate of acceptability).
6. Careful supervision of loading and stowing on board the carrier of the goods;

However, those suggested improvements would not come overnight. Up to now Jamaica and recently Trinidad had issued a booklet on standards or grading for trade in agricultural products; and, under the AMP, a list of products with relatively loose norms or minimum definitions of grades concerning sizes which does not seem to have been observed among the trading partners. Apparently none of the LDC's has issued such standards. They are forced to conform as much as they can to the norms fixed by their trading partners mostly the MDC's. This suggests that in order to normalize trade between the LDC's and MDC's there is ample room for technical assistance in the marketing of agricultural commodities under the AMP and in the Caribbean as a whole, besides limited

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\* One CEPAL Caribbean recommendation was that the Marketing Board of the importing country should immediately appoint a purchasing agent in the exporting country.

efforts spent by UN agencies on a country-by-country basis. In fact, the problem calls for a general attempt at solving the problem at regional level. Technical assistance at that level with a view to harmonizing the existing standards on grading and to look into all aspects of marketing in agricultural products first in the CARICOM countries, carrying it up to the implementation stages would be highly welcomed. For, what is lacking in the region, the projects, however promising they may be, do not pass the test of implementation, because of many factors among which could be cited: Lack of know-how, inadequate manpower and training facilities, non-provision of a system of appropriate control and supervision. Hence a detailed feasibility study is required including provision for on-the-spot training and assistance for implementation.



CARICOM/ECLA STUDY OF THE

PAYMENTS ARRANGEMENTS FOR

AMP TRADE





## BACKGROUND

### Origin of the Study

Concern was expressed informally on the matter on many previous occasions but it was at the Eleventh Meeting of Officials on the Agricultural Marketing Protocol - Grenada, 16-18 October 1974 - that the problem of outstanding payments to the LDCs' Marketing Boards was officially put forward. This meeting took the matter to the Fifth CARICOM Council Meeting which mandated the CARICOM Secretariat to study special financial arrangements for servicing agricultural trade in the area. Such proposal was then taken to the Third Meeting of Ministers of Finance, which referred it to the Committee of Governors of Central Banks and Heads of Monetary Authorities for consideration. At the Fourth Meeting of the Standing Committee of Ministers responsible for Finance in Basseterre, St. Kitts on 10 May 1976, on the basis of the recommendation of the Committee of Governors of Central Banks and of Heads of Monetary Authorities, the Standing Committee of Ministers responsible for Finance reached the following conclusion regarding financing/credit/discounting arrangements to facilitate the growth of intra-regional trade in agricultural products:

"The Committee agreed that -

(I) the CARICOM Secretariat should, with the assistance of the ECLA Office for the Caribbean, undertake a study to document the underlying factors and the volume of debts/payments between the various pairs of Marketing Boards;

(II) every effort should be made to ensure that production in the LDCs was not adversely affected;

(III) Marketing Boards whose payments are in arrears should be identified and this should be brought to the attention of the relevant Government which should ensure that the necessary steps are taken to expedite the settlement of arrears." (Document REP. 76/4/48 MF)

### Approach

The study was undertaken on the basis of a mail survey to all Common Market Countries and on-the-spot investigation in Guyana, St. Lucia, St. Vincent and Trinidad and Tobago.

While the on-the-spot survey was conducted in a limited number of countries and over a short period because of budgetary constraints on the two institutions, care was taken to ensure that the combined result of the two surveys covered all the major participants in AMP trade.

#### FINDINGS

The major findings from the investigations are:

(i) There are several cases of outstanding balances - some dating back to 1973 (See Table I).

(ii) The Marketing Boards operate open or rolling accounts to cover AMP Trade (Guyana and Barbados operated a "Contra-account" for some time but this has now been closed). Payments made are on the accumulated balances and are thus not related to specific shipments. Generally there are no agreed limits on these accounts, and payments (amount and timing) are decided unilaterally by the importing marketing board (See Table 2).

(iii) There is little correspondence between Marketing Boards. Complaints are seldom made officially and promptly. Further, complaints are seldom substantiated and there is a tendency to take unilateral decisions with respect to payments in those cases where the importer is not satisfied with the shipment.

(iv) There are sometimes difficulties in clearing AMP products as a result of administrative problems such as late arrival of invoices.

(v) Existing administrative machinery seems incapable of dealing with many of the problems which arise during the course of normal AMP trade. There is the tendency to resort to the highest political authority and several claims have been settled in this manner.

(vi) Most of the AMP trade is carried by small vessels. Most of these vessels are not equipped with refrigeration or cold storage facilities. The carriers do not sign for losses. Handling and stowage of goods have been highly suspect and there have been several complaints as a result.

(vii) Packaging seems to be defective given the kind of transportation used for AMP products. Packaging for AMP trade is sometimes inferior to packaging for export of the same products to third countries.

(viii) AMP products are occasionally insured. Generally however there is no insurance available in the area for these kinds of perishables.

(ix) The main reason advanced by importing countries for contested cases is that all or part of shipments have been declared by Customs Authorities as unfit for consumption. There have been specific complaints by Trinidad and Tobago against St. Vincent to the effect that:-

- (a) shortage of weight as a result of foreign matter such as pieces of iron, stone and wood in the packages;
- (b) non-compensation for shrinkage; and
- (c) AMP commodities are sometimes stowed in the bottom of schooners with other cargoes placed on top.

St. Vincent has contested these things. It has not been possible to analyse these claims thoroughly and to determine responsibility.

(x) Record-keeping in importing and exporting countries is seldom up-to-date to facilitate the reconciliation of accounts. Thus there are often difficulties in dealing with claims expeditiously. In addition to these specific findings the Working Group is of the view that there are some other general problems which bear upon the payments system. In fact the problem of deferred payments cannot be treated in isolation as it is the end result of the interplay of several factors involved in the trading of these perishables. It is doubtful whether the problem of deferred payments can be solved unless strong action aimed at improving the marketing structure and trade of AMP and GMS products including the shipping arrangements is taken. Specifically the Working Group is of the view that:

- (i) the AMP and GMS arrangements do not ensure any specific protection of goods traded under those schemes which are not in conformity with normal,

sound commercial practices. The goods transacted under those schemes should, on delivery on board the ship be irreproachable as far as their sanitary and packing conditions are concerned. The former should be duly certified at the exporting end and at the receiving port their conditions should satisfy or approach the norms of quality set for similar products that can be obtained from outside the region;

- (ii) under the FOB principle the exporting country is free from all responsibilities with regard to the shipment once it is on board the vessel.

During the voyage any loss of cargo due to pilferage on board should be the sole responsibility of the carrier. However it is recognised that with the present state of transportation in the Region it might be difficult to enforce claims against carriers and so it is recommended that where upon arrival losses are certified as having occurred the exporting marketing agency should share such losses.

- (iii) given the short distances between the countries which most actively participate in AMP trade, there is no reason if goods are received on board in good, healthy and sanitary conditions, packed and stowed properly, why these goods should not reach their destination in good condition.

#### CONCLUSIONS AND RECOMMENDATIONS

(i) The problem of payment is only one element of the general set of problems bedeviling the operations of the AMP. Much of the difficulties which are manifested in delayed payments arise as a result of other difficulties in the system. There are, however, some genuine payments difficulties arising from a shortage of funds particularly in the case

of certain Marketing Boards which depend on subvention from the Central Government. An efficient payments regime itself depends upon solutions to certain other problems.

(ii) Generally settlement of accounts for products traded under the AMP occurs with a delay of one to two months. Particularly in the case of the main importer these monthly or two-monthly payments are never sufficient to clear the entire account. There is thus a backlog which when taken in conjunction with current outstanding balances produces significant liquidity problems for the exporting Marketing Boards.

(iii) Inadequacy of the system of collection and handling of the produce from farms to Marketing Boards and from the latter to ships.

(iv) Absence or non-application of a reasonable grading system and of proper packaging.

(v) Insufficiency and inadequacy or unavailability of storage capacity and refrigerated space at Marketing Boards, on ships and on wharves of both exporting and importing countries.

(vi) Lack of coordination between shipping and collection of produce.

(vii) Necessity for streamlining the administrative process with regard to the processing of invoices, timely distribution and payment thereof.

(viii) Inexistence of an insurance scheme for perishable agricultural products.

(ix) Lack of coordination between Marketing Boards; lack of proper business practices and weak accounting systems.

(x) Absence of responsibility for cargo once it has left the exporter. Contrary to normal practice the FOB Contract is sometimes not honoured, thus de facto it neither provides protection for the exporter nor places any obligation on the importer.

On the basis of these conclusions and in the light of the fundamental nature of certain of the problems it is necessary to make a comprehensive set of recommendations. Cognisance however is taken of the need to differentiate between those recommendations which if implemented expeditiously could significantly improve the operations of the system and those recommendations which can only be implemented in the longer term.

#### SHORT-TERM RECOMMENDATIONS

It is recommended that:-

I The importing Marketing Boards should proceed immediately to appoint an agent (permanent or on a commission basis) in each of the countries from which it imports a significant amount of AMP products. The responsibilities of the agent would be:-

- (a) to inspect cargoes prior to shipping to ensure that such cargoes are of the quality and standard required by the importer and that the Certificate issued by the quarantine authorities in the exporting country is in accordance with the health requirements of the importing country;
- (b) accept the cargo on behalf of his principal and issue the export marketing board with two copies of a Certificate of acceptability at the time of shipment (the Certificate should state among other things:
  - (i) the nature of the commodity and its volume;
  - (ii) the date and time of loading;
  - (iii) name of carrier;
  - (iv) the Declaration that the goods were received and placed on board in a good condition);
- (c) ensure that the relevant documents accompanying the cargo are placed on board the ship and delivered to the Captain of the ship;

- (d) ensure that the goods are carefully handled and properly stowed on board the ship.

II The exporting marketing boards should transmit by AIR through a pouch system two copies of the invoices together with a copy of the agent's Certificate of Acceptability to the importing marketing board. The pouch must be delivered in the Post Office Box of the importing marketing agency as soon as it arrives at the Post Office.

III The importing marketing agency and/or its customs broker must inspect the commodity on arrival and certify its condition (usually this is done in the presence of the quarantine officer at hand in the port).

IV In view of the difficulties in substantiating outstanding claims and the fact that trade under the AMP has been on the FOB basis it is recommended that goods shipped prior to 31st December, 1976 against which no substantiated claims have been made (that is, evidence of loss or putrefaction within twenty-four hours of arrival) should be met in full according to the exporter invoice.

V The importing marketing board should expeditiously verify the quantity of cargo received and obtain from the customs authorities a Certificate substantiating any shortage which might have arisen as a result of pilferage or disappearance of cargo. Any claim in respect of pilferage or disappearance of cargo should be made against the carrier.

#### MEDIUM TERM

The following proposals are recommended for implementation in the medium term. However, in view of the fact that preparatory work on these proposals will take some time, it is recommended that such preparatory work should be commenced immediately:

- (i) each exporting country should establish a Register of suppliers for the various types of products as a means of estimating supplies available for export and ultimately developing

a system of contract farming;

- (ii) expedite the development and implementation of a regional system of sorting, grading and packing for products traded under the AMP. In the interim, exporting countries should make every effort to institute a rational system of sorting, grading and packing;
- (iii) at the regional level action should be expedited to improve small vessel shipping as well as the service provided by the regional shipping service to the AMP exporting countries. In this regard it should be noted that a number of AMP exporting countries have weekly commitments to supply their trading partners. Efforts should also be expedited to provide refrigeration facilities at both exporting and importing ports where such does not now exist or is inadequate. Consideration should be given to a system of priority berthing for ships with CARICOM products particularly AMP products;
- (iv) once the short-term recommendation particularly the recommendation pertaining to the appointment of agents by the importing country have been instituted - it is recommended that a system under which the Central Bank or Monetary Authority in the exporting country discounts the bill (invoices and other supporting documents of the exporting marketing agency) should be instituted.

#### LONG TERM

In the long term it is recommended that a special Insurance Scheme under the general Insurance Scheme envisaged for the Common Market should be instituted to cover perishable cargo traded under the AMP.



Table 1

AMP OUTSTANDING BALANCES AS AT DECEMBER 1976

<u>EXPORTERS</u>	ST. VINCENT	MONTserrat	ANTIGUA	GUYANA
<u>IMPORTERS</u>	Balances as of 13.12.76			Balances as of 13.1.77
TRINIDAD	<u>Date: Dec. '76</u> <u>Rolling Acct. Bal.</u> 46,949.23  <u>NB. See Table 2:</u>  Summary of Accts. St. Vincent/Trinidad	<u>Date: Jan. '75</u> Jan. '75 Tomatoes 5000 lbs ) Feb. '76 White Potatoes 55000 " ) Apr. '76 White Potatoes 49500 " ) May '76 Carrots 11000 " ) <u>NB. Bal. due prior to '74</u>	<u>Date</u> Feb. '76 Perishables 8,425 lbs EC\$4,695.50  EC\$ 54,878.66  10,008.58	<u>Date</u> June '75 \$10,317.49
DOMINICA	<u>Date</u> Prior to Jan '74 Balance EC\$1,743.70 *Feb. '74 1300 lbs of Sweet Potatoes 295.86 *Certificate of food seizures registered that date	<u>Date</u> Jan. '76 Tomatoes 3400 " Jan. '76 Carrots 275 "	<u>Date</u> Various Perishables 10,300 lbs. for EC\$6,823.28	<u>Date</u> Aug. '75 \$ 1,286.39
<u>ST. KITTS</u>	-	<u>Date</u> July '76 Carrots 1000 lbs July '76 Tomatoes 400 " July '76 Pineapples 210 "	-	-

Table 1 Cont'd

EXPORTERS	ST. VINCENT	MONTSERRAT	ANTIGUA	GUYANA
IMPORTERS		Balances as of 13.12.76		Balances as of 13.1.77
<u>ANTIGUA</u>	<u>Date</u> July '75 EC\$494.00	<u>Date</u> Aug. '76 Carrots 600 lbs Limes 500 " <u>NB.</u> Partial Payment	-	<u>Date</u> Jan - Aug '75 <sup>1/</sup> \$2,522.84
BARBADOS	Incomplete Information		<u>Date</u> ... Perishables 26,005 lbs <u>NB.</u> Partially paid; balance due 8,273.30 since 23.3.76	<u>Date</u> Aug. '75 \$7,413.33
GUYANA	<u>Date</u> Nov. '76 Peanuts EC\$158,871.35	-	-	-
<u>ST. LUCIA</u>	<u>Date</u> Since July '76 only EC\$6.00	-	-	<u>Date</u> June '75 \$4,900.00

1/ Claim is not against the Antigua Central Marketing Corporation  
but rather against the Chief Veterinary Officer.

Table 2

SUMMARY OF ACCOUNTS: ST. VINCENT MARKETING BOARD - TRINIDAD

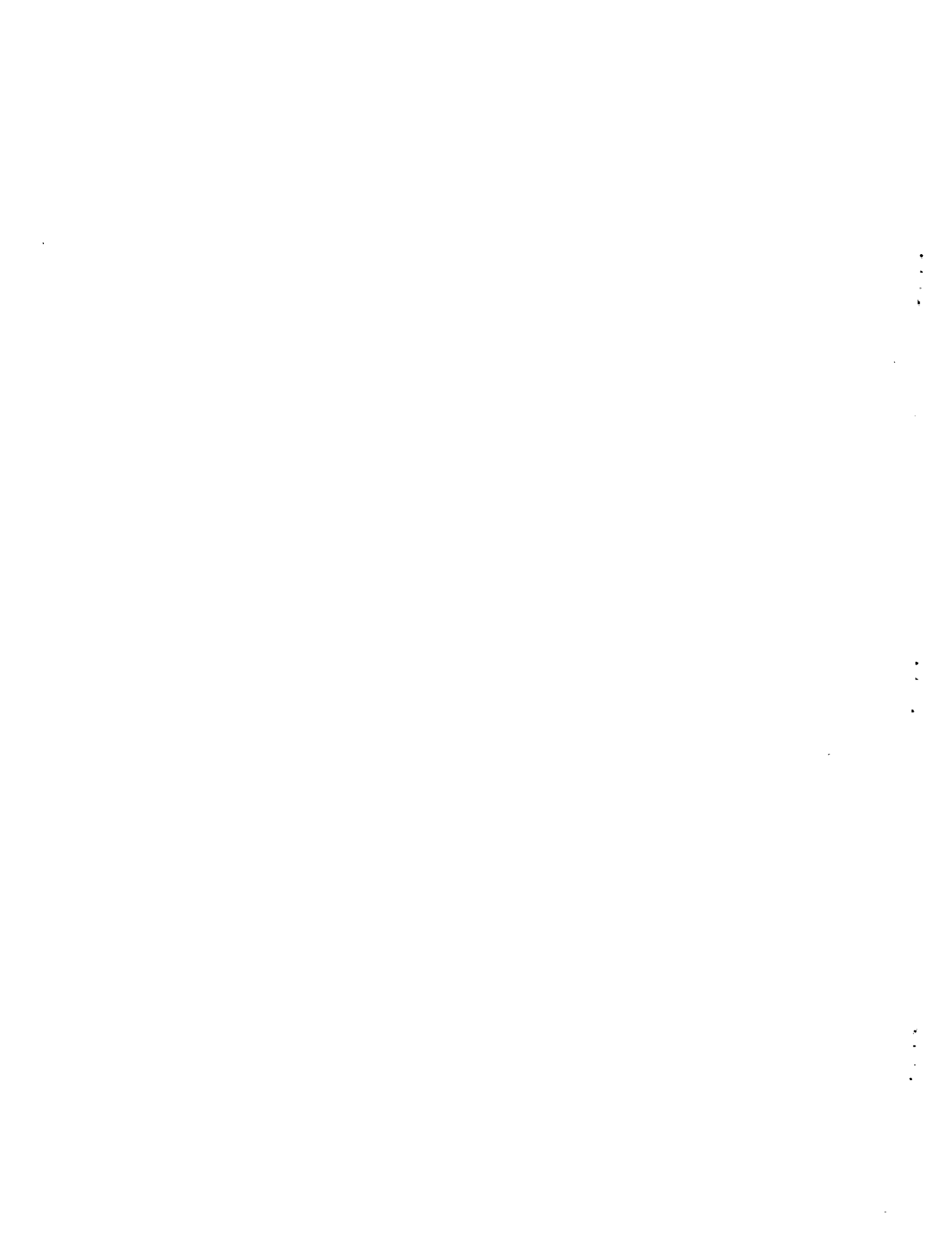
<u>END MONTH/YEAR</u>	<u>TOTAL DEBITS</u>	<u>TOTAL CREDITS</u>	<u>END OF MONTH BALANCE</u>
December 1973	91,676.55	-	80,104.41
January 1974	94,176.64	-	174,281.05
February 1974	79,100.97	52,257.16	201,124.86
March 1974	110,208.44	149,280.67	161,053.63
April 1974	134,309.30	214,997.46	80,365.47
May 1974	128,234.89	24,894.44	183,705.92
June 1974	87,752.00	97,262.23	174,195.69
July 1974	146,912.06	175,412.47	145,695.28
August 1974	79,721.75	143,656.98	86,005.06
September 1974	64,956.61	105,265.28	45,797.79
October 1974	48,605.49	43,788.62	50,614.66
November 1974	41,043.37	54,194.02	37,464.01
December 1974	44,553.63	50,698.11	31,319.53
TOTALS: 1974	1,059,585.20	1,111,707.40	31,319.53

Table 2 Cont'd

END MONTH/YEAR		TOTAL DEBITS	TOTAL CREDITS	END OF MONTH BALANCE
January	1975	96,068.42	43,409.00	83,978.95
February	"	123,502.61	96,002.58	113,478.99
March	"	128,721.32	88,427.52	153,772.78
April	"	111,649.43	252,971.86	12,450.35
May	"	62,097.62	52,498.76	22,049.21
June	"	62,030.38	47,587.95	36,491.64
July	"	41,505.61	-	77,997.25
August	"	13,879.35	77,383.44	14,493.16
September	"	66,576.85	35,109.48	45,960.53
October	"	57,632.14	57,756.32	45,836.33
November	"	28,248.61	13,427.95	60,656.99
December	"	62,784.14	116,298.38	7,142.75
TOTALS:	1975	854,696.48	880,873.24	7,142.75

Table 2 Cont'd

END MONTH/YEAR	TOTAL DEBITS	TOTAL CREDITS	END OF MONTH BALANCE
January 1976	105,035.01	94,884.83	17,292.93
February "	148,332.05	74,962.63	90,662.35
March "	290,692.41	60,285.43	321,069.33
April "	137,450.20	278,906.80	179,612.73
May "	118,715.00	68,803.00	229,524.73
June "	188,060.00	191,564.50	226,020.23
July "	114,231.50	107,577.50	232,674.23
August "	103,102.50	179,581.50	156,195.23
September "	41,246.50	-	197,441.23
October "	41,801.00	62,325.50	176,916.73
November "	78,353.50	145,039.00	110,231.23
December "	35,106.00	98,388.00	46,949.23
TOTALS: 1976	1,402,125.67	1,362,318.49	46,949.23



EXCERPT FROM "SUMMARY OF CONCLUSIONS OF THE ELEVENTH MEETING  
OF THE COMMON MARKET COUNCIL OF MINISTERS"  
GUYANA 14-15 SEPTEMBER 1977

(c) AMP Study of Outstanding Payments  
for Agricultural Commodities

COUNCIL:

Agreed that -

- (i) the importing Marketing Boards should proceed immediately to appoint an agent (permanent or on a commission basis) in each of the countries from which it imports a significant amount of AMP products. The responsibilities of the agent would be:
  - (a) to inspect cargoes prior to shipping to ensure that such cargoes are of the quality and standard required by the importer and that the Certificate issued by the quarantine authorities in the exporting country is in accordance with the health requirements of the importing country;
  - (b) accept the cargo on behalf of his principal and issue the export Marketing Board with two copies of a Certificate of Acceptability at the time of shipment (the Certificate should state among other things:
    - (i) the nature of the commodity and its volume;
    - (ii) the date and time of loading;
    - (iii) name of carrier;
    - (iv) the declaration that the goods were received and placed on board in a good condition);

- (c) ensure that the relevant documents accompanying the cargo are placed on board the ship and delivered to the Captain of the ship;
- (d) ensure that the goods are carefully handled and properly stowed on board the ship;
- (ii) the exporting Marketing Boards should transmit by air through a pouch system two copies of the invoices together with a copy of the agent's Certificate of Acceptability to the importing Marketing Board. The pouch must be delivered in the Post Office Box of the importing marketing agency as soon as it arrives at the Post Office;
- (iii) the importing marketing agency and/or its Customs broker must inspect the commodity on arrival and certify its condition (usually this is done in the presence of the quarantine officer at hand in the port);
- (iv) in view of the difficulties in substantiating outstanding claims and the fact that trade under the AMP has been on the f.o.b. basis it is recommended that goods shipped prior to 31 December 1976 against which no substantiated claims have been made (that is, evidence of loss or putrefaction within twenty-four hours of arrival) should be met in full according to the exporter invoice;
- (v) the importing Marketing Board should expeditiously verify the quantity of cargo received and obtain from the Customs Authorities a Certificate substantiating any shortage which might have arisen as a result of pilferage or disappearance of cargo. Any claim in respect of pilferage or disappearance of cargo should be made against the carrier;



Further agreed that -

- (i) each exporting country should establish a register of suppliers for the various types as a means of estimating supplies available for export and ultimately developing a system of contract farming;
- (ii) expedite the development and implementation of a regional system of sorting, grading and packing for products traded under the AMP. In the interim, exporting countries should make every effort to institute a rational system of sorting, grading and packing;
- (iii) at the regional level, action should be expedited to improve small vessel shipping as well as the service provided by the regional shipping service to the AMP exporting countries. In this regard, it should be noted that a number of AMP exporting countries have weekly commitments to supply their trading partners. Effort should also be expedited to provide refrigeration facilities at both exporting and importing ports where such does not now exist or is inadequate. Consideration should be given to a system of priority berthing for ships with CARICOM products, particularly AMP products;
- (iv) once the short-term recommendation particularly, the recommendation pertaining to the appointment of agents by the importing country has been instituted, it is recommended that a system under which the Central Bank or Monetary Authority in the exporting country discounts the bill (invoices and other supporting documents of the exporting marketing agency) should be instituted;

Decided that an examination should be made to determine whether the Multilateral Clearing Facility which came into being on 16 June 1977 could be used by Marketing Boards for settling transactions among them.

