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TOWARDS FULLER CUSTOMS UNION OPERATIONS  
WITHIN THE OECS

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The OECS Heads of Government decided at the second meeting of the Authority that full Customs Union conditions should be established to serve the seven island group that forms the Organization of Eastern Caribbean States (OECS). The Customs Union would result from an upgrading in the operations of the Eastern Caribbean Common Market (ECCM). The obvious approach therefore would be to:

- (a) Examine the ECCM Agreement and its working;
- (b) Determine what further elements would need to be incorporated; and
- (c) Outline the modifications to the ECCM framework for the arrangements that would be brought into operation.

2. It would seem that there has not yet been a full articulation at decision-making level of how it is envisaged that customs union would operate in the OECS area given that the countries are not contiguous sharing a common land mass. It must be borne in mind too that their experiences within the ECCM and their commitments in CARICOM are directly relevant and in large measure could be determinational to further steps that may be proposed for the intra-OECS integration process.

3. In considering the operational framework for Customs Union in the particular circumstances of the OECS, it is of importance to recall accurately that the primary objective stated in Article 2 of the ECCM Agreement was "to facilitate the maximum inter-change of goods and services by the progressive approximating of the economic policies of Member States", and to bear in mind the principles stated at Article 3.

4. The major principles incorporated into Article 3 in the ECCM Agreement are:

- (i) Elimination, as between participants, of Customs duties and of quantitative restrictions on the importation and exportation of goods, as well as of all other measures with equivalent effect;
- (ii) Establishment of common customs tariff and common commercial policies towards countries not parties to the Agreement, to be effected within three years;

- (iii) Abolition, as between members of the Common Market of obstacles to the free movement of services and capital, and the phased removal of obstacles to the freedom of movement of persons within the Common Market;
- (iv) The progressive harmonization of investment and development policies, including industrial development, development planning, and treatment accorded to non-resident business establishments;
- (v) The co-ordination of currency and financial policies;
- (vi) The progressive harmonization of taxation policies and incentive legislation in order to promote the equitable distribution of industries among member states;
- (vii) A co-operative approach to infra-structural development especially in the fields of transport and communication;
- (viii) A common policy to agricultural development.

In particular Articles 5 and 7, respectively, prohibit the charging of import duties in intra-ECCM trade, and provides for progressive establishment of a common customs tariff on goods originating in non-member territories and countries.

5. In a customs union, the members not only eliminate all tariffs among themselves, but also form a common tariff against the outside world. To achieve this it is necessary for them to agree on a common tariff nomenclature or schedule, and a set of identical tariff rates. Immediately a comparison can be made of the generally accepted characteristics of a customs union, as against the formal provisions of the ECCM Agreement. The ECCM already has a common nomenclature, and has long since agreed identical tariff rates for the majority of goods on the schedule. Parallel with the common rate, however, there operates special duty for a range of agreed items where individual country or countries are accorded the privilege to apply a country rate of its choice. More precisely the choice was open to charge the common rate or the special duty or any rate between these two.

6. In light of the decision of the Authority that the ECCM arrangements should work more effectively as a customs union, the first task is to ascertain that throughout the ECCM area the common tariff is being applied for the goods on which rates were agreed. And the second task is to examine and negotiate on the special duty rates for the purpose of establishing common rates in their place. Clearly the review would have to take into account application of the various provisions for non-discriminatory treatment among the participating countries.

7. Table 1 is a list of the goods in the ECCM tariff which attract Special Duty. This information should be treated as preliminary subject to further check by the OECS/Economic Affairs Secretariat. The common import duties that should be applied by the ECCM countries on imports from third countries are shown in the column headed "Rate of duty". Individual countries granted the right to apply special import duty instead of the ECCM common rate, show the "Special Duty" in their country tariff. To the list should be added rum, brandy, whiskey, gin and vodka (all within tariff number 22.09) for which common import duties had not been established. Table 2 shows the general rates on these items at time of negotiation of the ECCM common rates of duty. /At that time the ECCM Common External Tariff was a two-tier tariff/.

8. It would immediately be seen that for some goods the special duty rate is above the negotiated common rate, thereby providing (theoretically at least) a measure of protection to the internal supply. Conversely, there are some other goods where the special duty is below the negotiated common rate, indicative that some country or countries dispensed with the measure of protection afforded by the common rate. In addition it is invariably the case that the common tariff is quoted on 'ad valorem' basis while the special duty is quoted in specific terms. In such cases it is not possible to determine which is the higher in the absence of additional information. It has to be borne in mind that wherever there is divergence between the common tariff rate and the special duty there is the possibility of trade diversion with goods entering the ECCM from external sources at the point where the lower of the two is operative.

9. It is notable that the group of spirits falling under tariff number 22.09 are the only items on which decision was not reached on common rates of duty. An examination as to whether there has been any significant change in the circumstances that prevented decision being reached, would seem a necessary action. This action, together with the other two mentioned at paragraph 6 above would constitute the point of departure for achieving completely common tariff throughout the ECCM area.

A preliminary judgement would therefore suggest that aside from completing unification of the tariff provisions, main areas for focus would be on the side of implementation.

10. In the normal sense, a customs union is envisaged as placing one customs boundary around a group of countries, and eliminating all the previous inter-country customs activities that fall within the new wider customs boundary. Consequently, there results not just a common external tariff, but also one set of customs rules, a single set of customs procedures, and ideally a unified customs service.<sup>1/</sup> Such a development, possible in the case of States that are contiguous and share a single land mass, are much more difficult of achievement with geographically separate entities. It can of course be pointed out that the parallel situation exists in an archipelagic state; but there is also the consideration that a prior basis of unity existed.

11. There might be some initial doubt as to the feasibility of considering a prescription of customs union for the OECS, incorporating the whole range: common tariff, single customs rules, uniform customs procedures, and unified customs service. Certainly the common application of a single set of customs rules and procedures ought to be attainable. Whether a unified customs service is attainable would need considerable in-depth examination given the differences between the individual customs services, and the fact that in each country the customs service is an integral part of a wider administrative structure.

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<sup>1/</sup> The often quoted example is the integration of the Zollverein initiated in 1834 and which culminated in the unification of Germany under Bismark, 1870.

12. Accordingly it would not seem overly ambitious to contemplate preparation of a uniform set of customs rules and procedures to be applied by the customs officers in all the OECS countries. It would be expected that there already exists considerable similarity in the customs rules and procedures, in part due to the similar historical emergence of the countries, and in part to the integrative process of the ECCM over the past 15 years. This area of action ought not to be too difficult for acceptance, always bearing in mind the possibility that the implementation could involve some changes in national legislations - affecting customs services operations.

13. The further course of action, unification of the customs services, is one that would require some prior articulation at decision-making level, inasmuch as it involves wider issues of administration. Further, given their geographical separateness, of necessity there will continue to be customs services in all of the ECCM countries.

14. The foregoing only gives attention to those ECCM principles indicated at (i) and (ii) of paragraph 4 above. Consideration of the principles at (iii) through (viii) require a wider perspective than the issue of customs union operations, the specific subject to which this note is addressed.

Table 1  
List of items that attract Special Duty

| <u>Tariff Number</u> | <u>Description of Goods</u>  | <u>Rate of Duty</u> | <u>Special Duty</u> | <u>Unit for Statistics</u> |
|----------------------|--|---------------------|---------------------|----------------------------|
| <u>02.01.1</u>       | <u>Meat:</u>   |                     |                     |                            |
| 02.01.11             | Of bovine animals  | Free                | 15%                 | kg                         |
| 02.01.12             | Of sheep   | Free                | 15%                 | kg                         |
| 02.01.13             | Of goats   | Free                | 15%                 | kg                         |
| 02.01.14             | Of swine   | Free                | 15%                 | kg                         |
| 02.01.15             | Of horses, asses, mules and hinnies  | Free                | 15%                 | kg                         |
| <u>02.01.2</u>       | <u>Edible offals:</u>  |                     |                     |                            |
| 02.01.21             | Pig trotters   | Free                | 15%                 | kg                         |
| 02.01.29             | Other  | Free                | 15%                 | kg                         |
| <u>02.02.1</u>       | <u>Dead poultry:</u>   |                     |                     |                            |
| 02.02.14             | Other parts of chicken   | Free                | 15%                 | kg                         |
| 02.02.15             | Chicken, whole   | Free                | 15%                 | kg                         |
| 02.02.16             | Other poultry, whole   | Free                | 15%                 | kg                         |
| 02.02.19             | Other  | Free                | 15%                 | kg                         |
| <u>09.02</u>         | <u>TEA</u>   | 5%                  | \$0.33 per kg       | kg                         |
| <u>11.01</u>         | <u>CEREAL FLOURS:</u>  |                     |                     |                            |
| 11.01.1              | Of wheat or of meslin  | 5%                  | Free                | kg                         |
| <u>21.05</u>         | <u>SOUPS AND BROTHS, IN LIQUID, SOLID OR POWDER FORM; HOMOGENISED COMPOSITE FOOD PREPARATIONS:</u> |                     |                     |                            |
| 21.05.3              | Homogenised composite food preparations  | 20%                 | Free                | kg                         |
| <u>22.03.1</u>       | <u>Beer</u>  | 30%                 | \$3.60 per L/gal.   | L/Gal.                     |



Table 1 (cont'd)

| Tariff Number  | Description of Goods   | Rate of Duty | Special Duty | Unit for Statistics       |
|----------------|--|--------------|--------------|---------------------------|
| <u>27.10.3</u> | <u>Motor Spirits and other light oils and preparations:</u>  |              |              |                           |
| 27.10.32       | Other aviation spirit of 100 octane and over   | 20%          | \$0.09 per l | m <sup>3</sup> and tonnes |
| 27.10.34       | Other aviation spirit under 100 octane   | 20%          | \$0.09 per l | m <sup>3</sup> and tonnes |
| 27.10.36       | Other gasoline   | 20%          | \$0.07 per l | m <sup>3</sup> and tonnes |
| 27.10.38       | Other motor spirits  | 20%          | \$0.09 per l | m <sup>3</sup> and tonnes |
| 27.10.39       | Other  | 20%          | \$0.09 per l | m <sup>3</sup> and tonnes |
| <u>27.10.5</u> | <u>Gas oils:</u>   |              |              |                           |
| 27.10.52       | Other diesel oil   | 5%           | 20%          | m <sup>3</sup> and tonnes |
| 27.10.59       | Other  | 5%           | 20%          | m <sup>3</sup> and tonnes |
| <u>30.03</u>   | <u>MEDICAMENTS (INCLUDING VETERINARY MEDICAMENTS):</u>   |              |              |                           |
| 30.03.1        | Antibiotics  | 10%          | Free         | kg                        |
| 30.03.2        | Insulin  | 10%          | Free         | kg                        |
| 30.03.3        | Quinine sulphate, quinine hydrochloride and quinine dihydrochloride, and all alkaloids (or salts thereof) derived from cinchona bark; but not including quinine compounded with other drugs  | 10%          | Free         | kg                        |
| 30.03.4        | Paludrin (or 1-(p-chlorophenyl)-5-isopropylbiguanidide hydrochloride), atebirin (or mepacrin or mepacrine hydrochloride), pamaquin (or plasmoquine or pamaquin naphthoate) and aralen diphosphate (or chloroquine diphosphate) and other products or preparations of the kind mainly used for the treatment of malaria | 10%          | Free         | kg                        |

Table 1 (cont'd)

| Tariff Number | Description of Goods   | Rate of Duty | Special Duty  | Unit for Statistics |
|---------------|--|--------------|---|---------------------|
| 30.03.5       | Salvarsan (or arsphenamine)  | 10%          | Free  | kg                  |
| 30.03.6       | Other alkaloids or derivatives thereof   | 10%          | Free  | kg                  |
| 30.03.7       | Other hormones or products with a hormone function   | 10%          | Free  | kg                  |
| 30.03.81      | Vitamin preparations   | 10%          | Free  | kg                  |
| 30.03.82      | Cod liver oil  | 10%          | Free  | kg                  |
| 30.03.9       | Other  | 10%          | Free  | kg                  |
| <u>44.05</u>  | <u>WOOD SAWN LENGTHWISE, SLICED OR PEELED, BUT NOT FURTHER PREPARED, OF A THICKNESS EXCEEDING 5mm:</u> |              |   |                     |
| 44.05.1       | Coniferous   | 5%           | \$1.20 per m <sup>3</sup> and tonnes<br>1000 sq.ft. |                     |
| 44.05.2       | Caribbean cedar (cedrela odorata)  | 5%           | \$1.20 per m <sup>3</sup> and tonnes<br>1000 sq.ft. |                     |
| 44.05.3       | Greenheart   | 5%           | \$1.20 per m <sup>3</sup> and tonnes<br>1000 sq.ft. |                     |
| 44.05.4       | Mahogany   | 5%           | \$1.20 per m <sup>3</sup> and tonnes<br>1000 sq.ft. |                     |
| 44.05.5       | Mora   | 5%           | \$1.20 per m <sup>3</sup> and tonnes<br>1000 sq.ft. |                     |
| 44.05.9       | Other  | 5%           | \$1.20 per m <sup>3</sup> and tonnes<br>1000 sq.ft. |                     |

Table 1 (cont'd)

| Tariff Number | Description of Goods   | Rate of Duty | Special Duty           | Unit for Statistics       |
|---------------|--|--------------|------------------------|---------------------------|
| <u>44.13</u>  | <u>WOOD (INCLUDING BLOCKS, STRIPS AND FRIEZES FOR PARQUET OR WOOD BLOCK FLOORING, NOT ASSEMBLED), PLANED, TONGUED, GROOVED, REBATED, CHAMFERED, V-JOINTED, CENTRE V-JOINTED, BEADED, CENTRE-BEADED, OR THE LIKE, BUT NOT FURTHER MANUFACTURED:</u> |              |                        |                           |
| 44.13.1       | Coniferous   | 15%          | \$2.40 per 1000 sq.ft. | m <sup>3</sup> and tonnes |
| 44.13.2       | Caribbean cedar (cedrela odorata)  | 15%          | \$2.40 per 1000 sq.ft. | m <sup>3</sup> and tonnes |
| 44.13.3       | Greenheart   | 15%          | \$2.40 per 1000 sq.ft. | m <sup>3</sup> and tonnes |
| 44.13.4       | Mahogany   | 15%          | \$2.40 per 1000 sq.ft. | m <sup>3</sup> and tonnes |
| 44.13.5       | Mora   | 15%          | \$2.40 per 1000 sq.ft. | m <sup>3</sup> and tonnes |
| 44.13.9       | Other  | 15%          | \$2.40 per 1000 sq.ft. | m <sup>3</sup> and tonnes |

Table 2

"General Rates" which applied when ECCM common rates were being negotiated.

22.09 Spirits (other than those of heading 22.08), liqueurs and other spirituous beverages; compound alcoholic preparations (known as "concentrated extracts") for the manufacture of beverages.

| Country                  | 22.09.10   | 22.09.20  | 22.09.30                     | 22.09.40                 | 22.09.50                   |
|--------------------------|--|---|------------------------------|--------------------------|----------------------------|
|                          | Rum* not exceeding the strength of proof (per liquid gallon) | Brandy* not exceeding the strength of proof (per liquid gallon) | Whiskey* (per liquid gallon) | Gin* (per liquid gallon) | Vodka* (per liquid gallon) |
| Antigua                  | \$4.35   | \$5.50  | \$5.83                       | \$4.40                   | \$3.96                     |
| Dominica                 | \$10.50  | \$3.90  | \$4.55                       | \$3.90                   | \$3.90                     |
| Grenada                  | \$14.62  | \$23.72   | \$23.98                      | \$16.18                  | \$16.51                    |
| Montserrat               | \$8.00   | \$8.00  | \$4.00                       | \$4.00                   | \$4.00                     |
| St. Kitts/Nevis/Anguilla | \$8.50   | \$18.25   | \$18.25                      | \$18.25                  | \$5.80                     |
| Saint Lucia              | \$12.02  | \$11.00   | \$22.68                      | \$20.92                  | \$6.96                     |
| Saint Vincent            | \$10.71  | \$10.50   | \$16.80                      | \$14.70                  | \$14.70                    |

  

| Country                  | 22.09.11                      | 22.09.21                        | 22.09.31                          | 22.09.41                      |
|--------------------------|-------------------------------|---------------------------------|-----------------------------------|-------------------------------|
|                          | Other Rum* (per proof gallon) | Other Brandy (per proof gallon) | Other Whiskey* (per proof gallon) | Other Gin* (per proof gallon) |
| Antigua                  | \$4.35                        | \$5.50                          | \$5.83                            | \$4.40                        |
| Dominica                 | \$10.50                       | \$3.90                          | \$4.55                            | \$3.90                        |
| Grenada                  | \$14.62                       | \$23.72                         | \$23.98                           | \$16.18                       |
| Montserrat               | \$8.00                        | \$8.00                          | \$4.00                            | \$4.00                        |
| St. Kitts/Nevis/Anguilla | \$8.50                        | \$18.25                         | \$18.25                           | \$18.25                       |
| Saint Lucia              | \$12.02                       | \$11.00                         | \$22.68                           | \$20.92                       |
| Saint Vincent            | \$10.71                       | \$10.50                         | \$16.80                           | \$14.70                       |



