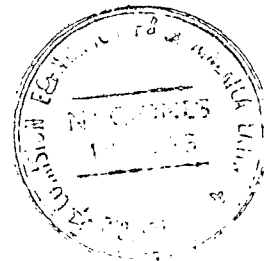


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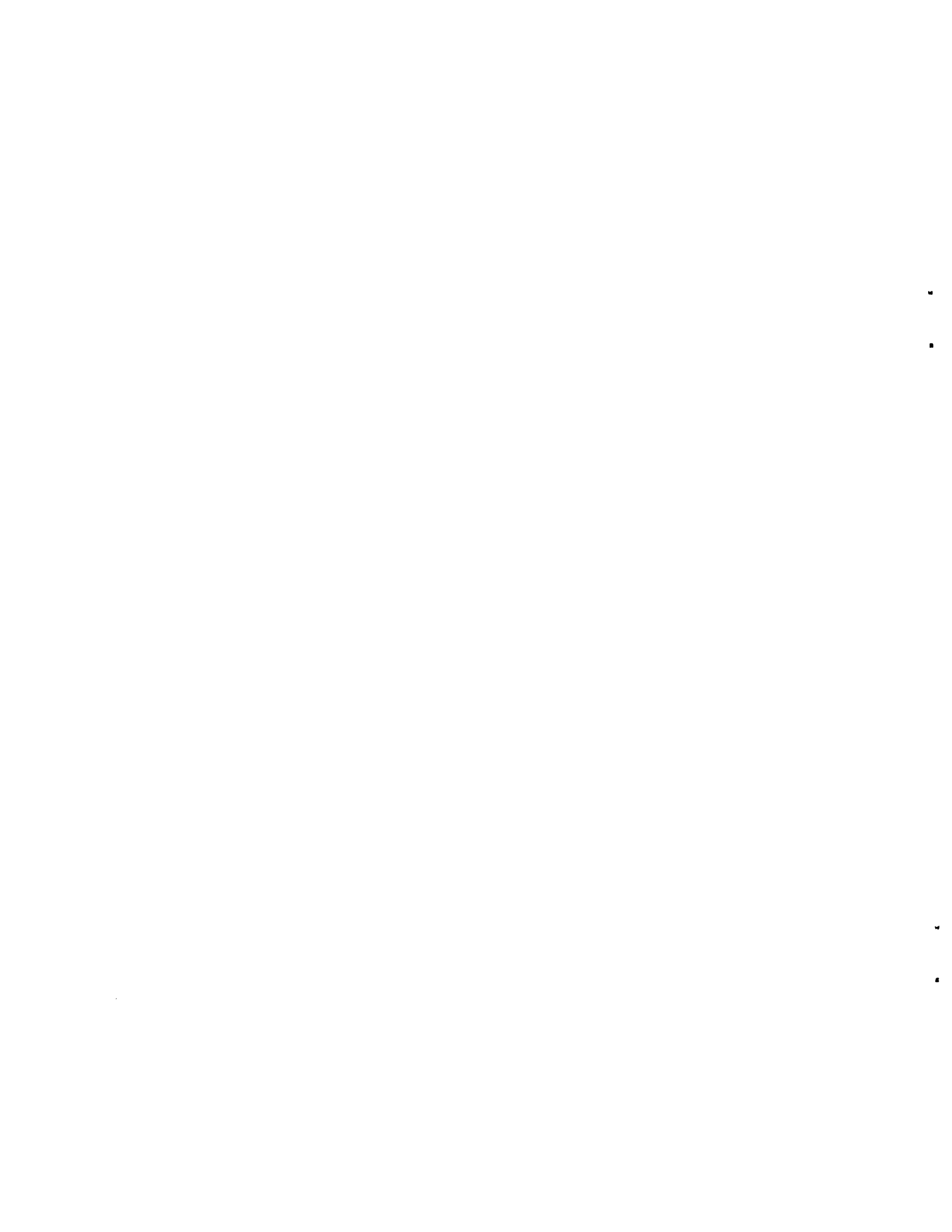


THE DEVELOPMENT  
OF THE  
EAST CARIBBEAN COMMON MARKET

Report on the Second Assignment to the Region;  
June through November 1972

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Port of Spain  
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Terms of Reference:

To prepare for the Caribbean countries advice on actual trade policy questions, particularly to advise the smaller countries grouped in the East Caribbean Common Market (ECCM) in the forming of a Customs Union by the implementation of their Common External Tariff.



SHORT HISTORY OF THE FORMATION OF THE  
EAST CARIBBEAN COMMON MARKET (ECCM) <sup>1/</sup>

Development and Activities during the previous Assignment <sup>2/</sup>

With the approach of independence many attempts were made to organise the Caribbean Region as a political unit. After the latest effort in 1962 to create a political unit in the form of a Federation had failed, the islands aimed more at an economic than a political solution.

In the search for such a solution Barbados, Jamaica, Trinidad and Tobago and the seven smaller English Speaking East Caribbean islands (Antigua, Dominica, Grenada, Montserrat, St. Lucia, St. Vincent as well as St. Kitts-Nevis-Anguilla) formed a Free Trade Area including Guyana on the South American Continent which traditionally acts as a part of the Caribbean and signed the Caribbean Free Trade Area Agreement (CARIFTA) which became effective 1 May 1968. Later also Belize in Central America joined the CARIFTA.

The East Caribbean Countries, being considerably less developed and less populated tried from the beginning to form a closer group within the CARIFTA, so as to be in a better position to defend their interests not only against Third Countries but also within the CARIFTA. This led to the creation of the ECCM (East Caribbean Common Market) Agreement which became effective on 1 July 1968 very soon after the CARIFTA.

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<sup>1/</sup> This summary is a short extract of ECLA Documents. These Documents - insofar as they are not attached to this Report - can be obtained from the ECLA Office in Port of Spain.

<sup>2/</sup> The writer of this Report was from August 1969 to August 1971 UN Regional Adviser in Trade Policy and Integration and as such attached to the ECLA Office for the Caribbean.

The ECCM Agreement aimed from the beginning at the transformation of the Free Trade Area into a Customs Union, as can be seen from the fact that Article 7 of the Agreement provides for the obligation of the Member Countries to "work progressively towards a Common External Tariff".

The ECCM Countries addressed in this connection the ECLA Secretariat in Port of Spain and asked for expert advice which I was entrusted to give. The first step consisted in collecting in co-operation with the relevant authorities the duties in force in the ECCM Countries, in a comparative manner. The second step was to suggest new rates which - although fixed as close as possible to the present duties - were changed in such a way as to give the region as a whole as well as the individual countries a better industrial development incentive.

To this may be remarked that it was felt that the best assistance for a useful industrial development was to provide that essential raw materials and capital goods not available in the region should be duty free. The rates for dutiable goods were fixed at such a level not only to give a useful protection to existing industries, but also to encourage the creation of new industries automatically and, due to the nature of a Common External Tariff, harmoniously in all Countries. The duties were furthermore also assessed in careful consideration of the fiscal and social needs of the Member Countries.

Great care had been taken already at that stage to ensure that preferential margins (the difference between the new most favoured nation rates and the old preferential rates) were maintained on the whole so as to remain in conformity with the existing international obligations. <sup>1/</sup>

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<sup>1/</sup> See Papers transmitted with previous Reports "Trade Policy Questions related to the Introduction of the ECCM Tariff" (ECLA/POS 69/12 and "Considerations Concerning the Foreign Trade Policy of the English Speaking Caribbean Countries" (ECLA/POS 71/11 of 27 August 1971).



This draft was presented to the Fourth Council of Ministers Meeting (held in St. Lucia in December 1969), which approved it in principle and decided that all relevant aspects of the new Tariff, including also its fiscal effect, should be studied country by country.

For that purpose, all ECCM countries were visited in order to arrive at a generally acceptable Tariff. <sup>1/</sup> No problem was caused by the fiscal aspect since it was possible to show in the case of all countries that the ECCM Tariff combined its advantages with the certainty to yield at least the same fiscal returns as collected under the old provisions.

A major difficulty which had to be overcome existed, however, in the case of those few items for which the Countries could not agree immediately on a Common Rate. This difficulty was overcome by the suggestion to introduce for such items temporary "Special Duties" for those Countries which could not accept the "Common Duties".

On the basis of the wishes expressed by the individual ECCM Countries a final version of the ECCM Tariff was prepared. Attention is drawn to the fact that the Countries had agreed that the ECCM Tariff should be based on the Brussels Tariff Nomenclature (BTN) while the old Tariffs were based on the SITC non-revised and in the case of Antigua on an alphabetical product list. This decision was considerably facilitated by the fact that the CARIFTA, which at about that time started to consider the creation of a Common External Tariff, had decided to base this Tariff on the BTN.

On the basis of these discussions, and after further consultations to ensure the full harmonisation of the individual wishes, a Draft ECCM Tariff was presented to the Governments. <sup>2/</sup> This Draft was accepted at the Ministers Meeting in October 1970 with a few minor final amendments.

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<sup>1/</sup> The consultation with the individual countries and their evaluation are contained in my paper ECLA/POS 70/8 Vol. I and II of 15 June 1970 transmitted with a previous Report.

<sup>2/</sup> See Document ECLA/POS 71/3 of 9 February 1971 transmitted with previous Reports.

Development and Activities during the present Assignment. <sup>1/</sup>

The importance which a modern Customs Tariff generally has for the industrial development of a country has a special aspect in the case of the East Caribbean Region due to the fact that it will not only influence the development of the individual countries but also the regional economic transformation which actually takes place. In the past the individual islands were not only independently administered politically but had also little economic contact amongst themselves because all of them produced one or more of the typical tropical mass products (such as sugar, bananas and cocoa) which had to be marketed overseas and which were hardly traded within the region.

Now an internal trade in industrial products (including finished food products) is developing parallel with the development of the production of higher industrialised goods in the region. Already the fact that this development takes place under Free Trade Area conditions assures that it will grow automatically into a useful regional pattern. In this connection the decision of the ECCM countries to form a Customs Union introducing a Common External Tariff will strengthen the regional coherence since it will automatically harmonise the conditions under which the Member Countries produce and thus speed up considerably the visible trend towards an economic unification of the Area.

The task of assisting the ECCM countries in their effort to enforce their Common External Tariff is now practically achieved since Dominica, Grenada, St.Kitts, St.Lucia and St.Vincent introduced the ECCM Tariff between 1 October and 1 November 1972 <sup>2/</sup> and the two remaining countries (Antigua and Montserrat) envisage to put the necessary legislation into effect during this year.

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<sup>1/</sup> June through November 1972. See Terms of Reference, page 1.

<sup>2/</sup> The precise dates when the ECCM Tariff was enforced are: Dominica (2.10.72); Grenada (8.10.72); St.Kitts (2.10.72); St.Lucia (1.11.72); and St.Vincent (1.10.72).

I approached the task with which I was entrusted by resuming close contact with the ECCM Countries with a view to establish the difficulties which they had met in the attempt to enforce the ECCM Tariff. One difficulty which became visible immediately at the beginning of my mission was connected with the fact that the countries were not able to agree on a common date at which the ECCM Tariff should be enforced.

This difficulty became critical at the Ministerial ECCM Meeting which was held in July 1972 in Dominica. At this Meeting the Ministers decided after thorough consideration to replace the obligation to enforce the Tariff on a fixed date by the obligation to introduce it at a target date. Consequently, the Member Countries were invited to enforce the ECCM Tariff on 1 September 1972 leaving it free to those countries to introduce the Tariff later which for administrative or political reasons were not in a position to conform with this base date. This decision was facilitated because the ECCM Countries took note of the fact that the Tariff although it was drafted in the hope that it would be enforced simultaneously by all Member Countries was also drafted in such a way as to maintain its full value for the region should a simultaneous introduction not be possible. <sup>1/</sup>

The second major difficulty was the direct result of the decision of the Ministers to agree on a target date. The point on which a difference of opinion arose was the choice of such a date. Carried by the feeling that the enforcement of the ECCM Tariff was overdue the Meeting fixed the 1st of September 1972 - the technically earliest possible date - as the official target date. St. Kitts, however, felt that for administrative reasons it could not accept such an early date

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<sup>1/</sup> See mainly paragraph 89 on page 35 of the First Volume of my previously transmitted Report "Considerations Concerning the Introduction of the ECCM Tariff" (ECLA/POS 70/8 of 15 June 1970).

and made it quite clear later that, being one of the prime movers of the ECCM, it could not accept a solution where other countries would precede it in the enforcement of the ECCM Tariff. This difficulty was overcome by the administrative assistance given to St.Kitts and the fact that the ECCM countries agreed to postpone the target date to 1 October 1972. <sup>1/</sup>

Further difficulties consisted in administrative obstacles standing in the way of the enforcement of the ECCM Tariff in Antigua and Montserrat. <sup>2/</sup> Both of these countries were advised how to overcome them, but it was obvious from the beginning that in both the countries the enforcement of the Tariff may be delayed for a certain length of time; in the case of Antigua caused by political difficulties in which the Customs Department was involved and in case of Montserrat by the fact that it has not yet reached full independence. <sup>3/</sup>

In order to assist the Countries in the technical part of the enforcement of the ECCM Tariff - but also with a view to ensure that the Tariffs introduced in the various territories are fully identical - it was suggested that the printing should not only be done at one place for all countries but also carried out in such a way as to fit the individual official Gazettes. The fact that the Ministers had already entrusted the ECCM Secretariat at the end of 1970 with this task, and that such a printed version was available in the autumn greatly facilitated the introduction of the ECCM Tariff.

Once Dominica, Grenada, St.Kitts, St.Lucia, and St.Vincent had enforced the ECCM Tariff, and the introduction of it in Antigua and Montserrat was only a question of time, it was important to prepare the ECCM for the next steps in their trade policy actions.

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<sup>1/</sup> See page 26 "Consultations with St.Kitts".

<sup>2/</sup> See page 47 "Consultations with Antigua" and page 12 "Consultations with Montserrat".

<sup>3/</sup> All other ECCM Countries are independent except in Military and Diplomatic matters.

First priority in this connection was given to the question of the introduction of the CARIFTA Tariff in the ECCM countries.

In this connection it may be recalled that the obligation of the ECCM Countries to transform their area into a Customs Union, by the introduction of a Common External Tariff was laid down in their basic Agreement, <sup>1/</sup> while the CARIFTA Statutes only contained a recommendation to arrive at a Common External Tariff. <sup>2/</sup> The fact that the practical drafting of the ECCM Tariff preceded the drafting of the CARIFTA Tariff and served as a model had the effect that both Tariffs are following more or less the same principles and resemble each other considerably. If this will facilitate the introduction of the CARIFTA Tariff in the ECCM Countries a difficulty remains in the fact that the CARIFTA Tariff, which took primarily the situation of the more developed CARIFTA Countries into account, is based on a higher Tariff level.

The CARIFTA Countries, which always felt that the unification of the ECCM Countries by a Common Tariff would be a condition of a successful introduction of the CARIFTA Tariff in the ECCM Area, not only decided in October 1972 at the Heads of Governments Conference of the Commonwealth Caribbean Countries that the CARIFTA Tariff should be enforced by the Member Countries in May 1972 but also decided that the ECCM Countries should be permitted to introduce the CARIFTA Tariff gradually over a period of eight years, beginning with 1st May 1972, the date when the Tariff was to become effective in the other CARIFTA Countries. <sup>3/</sup> In order to assist the ECCM Countries in this transformation of their provision a trade policy paper was prepared with a view to help the ECCM to carry out this task in conformity with the necessary protection of their special economic interests. <sup>4/</sup>

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<sup>1/</sup> Article 7 of the ECCM Agreement of 1 July 1968.

<sup>2/</sup> Resolution adopted by the 4th Heads of Government Conference on Regional Integration (Annex A to the CARIFTA Agreement of 1 May 1968).

<sup>3/</sup> It is to be noted that Belize was granted the same facilities as the ECCM Countries.

<sup>4/</sup> See Paper ECLA/POS 72/10 of 18 October 1972, Annex 2, previously transmitted.

The preparation of the ECCM Countries for their trade policy contacts with Third Countries was the second task to be carried out in preparation of their further trade policy actions. <sup>1/</sup>

It was necessary for the ECCM to prepare itself for discussions with these Countries with which special ties existed. Without an attempt to repeat the previous considerations it may be said that the ECCM Countries had to consider their relation with UK and the other Commonwealth Countries under the Ottawa Agreement of 1932 and furthermore with Canada under the West-Indies-Canada Agreement of 1925. Although the obligations of these Agreements are different they may be summarised in the simplified statement that they oblige the West Indian Countries (in the special case the ECCM Countries) not to increase their preferential margins. <sup>2/</sup> It has been recognised in many international negotiations that a strict application of this obligation would make any tariff reform impossible unless it were to be understood that it applied to the Tariff as a whole. The ECCM Tariff was drafted accordingly and great care was taken not to alter the average of the preferential margins.

This solution had the advantage of being also in conformity with the GATT obligation not to increase such margins. This will give the ECCM Countries - which at present are only indirectly members of GATT through the United Kingdom - a better position should they decide to apply for direct membership.

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<sup>1/</sup> See Footnote on page 3.

<sup>2/</sup> Considerations Concerning the fact that the West Indian Countries are not active subjects to the Ottawa Agreements, see in particular paragraphs 13 and 14 of Document ECLA/POS 71/11 of 21 August 1971, previously transmitted.

To prepare the ECCM Countries for these negotiations a paper has been prepared <sup>1/</sup> showing the new preferential margins of the ECCM Tariff against the average of the old preferential margins (which had been calculated already at the time of the drafting of the ECCM Tariff in preparation for future negotiations), with a view to demonstrate the fact that the preferential margins of the ECCM Tariff have been fixed in full conformity with the existing trade policy obligations.

In concluding this short history of the ECCM it seems right to say that the ECCM Countries - having a Common External Tariff fitted to their economic possibilities and wishes, as well as being prepared for the harmonisation of their trade policy situation within CARIFTA and for trade negotiations with Third Countries - now possess the necessary instruments to make good use of their Common Market Agreement.

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<sup>1/</sup> See page 95.

