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ECONOMIC COMMISSION FOR LATIN AMERICA

Office for the Caribbean

CONSIDERATIONS

concerning

the

Introduction of the CARIFTA Tariff in the ECCM Countries

Prepared

by

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## INTRODUCTION

The ECCM Tariff was enforced on 1 October 1972 in the five bigger ECCM countries (Dominica, Grenada, St. Kitts, St. Lucia and St. Vincent), and will soon be introduced in Antigua and Montserrat. A problem arises from the fact that all ECCM countries are members of the CARIFTA (which in addition to the ECCM countries includes Barbados, Belize, Jamaica, Guyana and Trinidad & Tobago) which\* drafted a CARIFTA Tariff, the introduction of which is expected in the near future. In this Note the two Tariffs are compared with a view to isolating the main questions arising from this development and to serve the interested countries as a basis for the necessary detailed studies.

The ECCM Tariff was drafted to replace the different Tariffs of the ECCM countries by a Common External Tariff with the intention of creating a Customs Union with a Common Trade Policy and to replace the outdated legislation by a modern tariff adapted not only to the fiscal, but also the social and developmental needs of the member countries. This Draft was accepted after extended negotiations amongst the ECCM Government in which the regional interests were balanced with the interests of the individual territories. To the technical question it may be remarked that the ECCM Tariff is based on the internationally accepted BTN (Brussels Tariff Nomenclature) and is consequently a modern tariff also from the customs point of view.

The CARIFTA Tariff (the practical drafting of which started later than the ECCM Tariff) follows the same principles as the ECCM Tariff and is equally based on the BTN.<sup>1/</sup> Naturally, it differs from the ECCM Tariff in the selection of rates, due to the necessity to take the higher industrial development of the bigger (and more populated)

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<sup>1/</sup> At one of the latest meetings of the Comptrollers of Customs and Statisticians it was decided not to use in the CARIFTA Tariff the pure BTN (as in the ECCM and in the original draft of the CARIFTA Tariff) but to use an enlarged version of it (to which reference was made as semi-integrated BTN). The introduction of this controversial Nomenclature will not only be cumbersome in the practical use in particular for the public but may also complicate the transition from the ECCM to the CARIFTA Tariff.

\*/ With the exception of Belize which joined CARIFTA later.

CARIFTA countries into account. Although the drafting of the ECCM Tariff preceded the drafting of the CARIFTA Tariff the ECCM countries - not having decided on a common trade policy line when the CARIFTA Tariff was drafted - were not in a position to influence the fixing of the CARIFTA rates sufficiently.

At the Heads of Governments Conference of Commonwealth Caribbean Countries held in October 1972 in Port of Spain, the decision was taken that the CARIFTA Tariff should be enforced on 1 May 1973. It was also decided that the ECCM countries should be given a possibility to phase in those rates which differ considerably from the CARIFTA rates. <sup>2/</sup> Although the time difference between the introduction of the two Tariffs will thus not be as long as expected <sup>3/</sup> the introduction of the ECCM Tariff remains a decisive step in the economic unification of the area since without such a Common ECCM Tariff the introduction of the CARIFTA Tariff would have been very difficult if not impossible already due to the lack of a comparable tariff nomenclature. The basic ECCM rates will in any case rule the situation in the ECCM countries due to the fact that they will serve as a fair and uniform basis for a discussion of the ECCM countries with the other CARIFTA countries, and that in consequence of these discussions many of them will remain in force for a considerable length of time.

#### NUMERICAL COMPARISON

Before attempting to evaluate the differences existing between the two Tariffs according to the different fiscal, social and economic effect, it was felt that it would be useful to compare the tariff changes from a purely numerical point of view so as to be able to see the amount of duties which are identical in both Tariffs as compared

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<sup>2/</sup> Resolution see Annex 1.

<sup>3/</sup> A time gap of at least two years was expected when the ECCM Tariff was drafted.

with those which are higher or lower in the ECCM than the CARIFTA Tariff. Such a counting of the rates has been made <sup>4/</sup> and shows the following results:

CARIFTA rates <u>higher</u> than ECCM rates	72%
CARIFTA rates <u>lower</u> than ECCM rates	10%
Identical rates in the ECCM and CARIFTA Tariffs	18%

The main fact which becomes obvious from these figures is that the cases are much less numerous in which the ECCM and CARIFTA rates are identical than it is often thought and that therefore the cases in which the CARIFTA Tariff rates are de facto already applied by the ECCM countries are rather limited.

The great number of duty increases and reductions leads to the main trade policy question, which of these different CARIFTA rates could be accepted by the ECCM countries (either immediately or after a certain time) and in which cases, on the other hand, they would have to ask for more or less permanent concessions. Of course, such Tariff negotiations require careful consideration and extended studies of the effect which such changes would have on the economies of the ECCM countries.

#### GENERAL REMARK CONCERNING THE EVALUATION OF CHANGES

As a basis for an appraisal of the effect of the changes which will become effective at the introduction of the CARIFTA Tariff a Table has been prepared which compares the ECCM with the CARIFTA rates (see Annex 2) and which not only gives the reader the possibility to form an opinion but which is also used as a basis for the further considerations in this Note. To keep this table in a manageable size and at the same time to shape it in such a way that it permits meaningful conclusions, it was limited to about 100 of the most important import items. <sup>5/</sup>

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<sup>4/</sup> Calculated on the basis of a CARIFTA paper of 1971 showing the ECCM and CARIFTA rates. Neither the fact that in some instances the rates have been changed since that time nor the fact that about 3% of the tariff numbers could not be compared (e.g. changes from specific to ad valorem duties etc.) should diminish the value of this calculation.

<sup>5/</sup> Covering e.g. in the case of Antigua 85% of the import trade.

Of course, if the picture emanating from these figures is of a certain value for all ECCM countries, it has also to be considered that the trade pattern of the ECCM countries differs in many aspects. It is felt, however, that the short analysis of the common points should contribute to the clarification of a number of basic questions and thus be a useful contribution to the final preparation of the necessary trade policy actions.

#### THE FISCAL CONSIDERATIONS

The comparison of the number of changes shows clearly the preponderance of cases where the duty in the CARIFTA Tariff is higher than in the ECCM Tariff. In so far as the weight of the increases is concerned it is generally estimated that the relevant CARIFTA rates are 50% higher. An appropriate weighted calculation which was carried out on the basis of the Antigua import figures <sup>6/</sup>indicated that the increases affecting actually traded goods would even be higher.

In considering the fiscal effect it has to be taken into account that the number of cases in which the CARIFTA duties are lower than the ECCM duties is very limited. These cases are furthermore of little importance for the ECCM countries since in a great number of these cases the possibility of duty-free importation under special provisions exists. Main items on which lower rates would apply are: sugar, cocoa powder, metal reservoirs, motor car engines, electric generators, telegraph apparatus, ships and parts of ships.

Adaptation of the internal consumption tax rates in many cases helped the countries to ensure a smooth change-over from the previous tariff to the ECCM Tariff. However, it has to be considered to which extent similar measures could assist in the replacement of ECCM rates by CARIFTA rates. A preliminary study shows that this tool could only be applied in a very limited number of cases and, of course, would have to be applied differently in each ECCM country according to the individual consumption tax provisions. In the

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<sup>6/</sup> Not shown in the Annex.

first instance it is conspicuous that an adaptation for consumption tax rates is ruled out in all those cases where the ECCM countries do not levy a consumption tax such as on social items (including mainly food items) which form a considerable part of the normally imported products. Also in the case of other duty increases the possibility to compensate these increases satisfactorily by consumption tax reductions seems to be limited due to the fact that the duty increases in many, if not most instances exceed the consumption tax rates. Of course, it would always be possible to introduce new consumption tax rates (or increase existing ones) to compensate for tariff reductions. This necessity may, however, hardly arise.

Concluding this fiscal consideration it may be right to say that the CARIFTA Tariff would bring considerably higher returns and that the CARIFTA rates should be acceptable from the budgetary point of view. The question arises, however, whether the Tariff changes, in particular the increases would also be acceptable from the economic, social and development point of view.

#### CONSIDERATIONS RELATED TO THE ECONOMIC DEVELOPMENT

The ECCM Tariff was drafted with a view to encouraging industrialisation not only of the individual ECCM countries but also of the region as a whole. Although the CARIFTA Tariff has been prepared on the basis of the same principles as the ECCM Tariff the duties in the CARIFTA Tariff are very often higher and their weight is distributed differently. This reflects the fact that they were selected to accommodate the obviously different industrial situation in the more developed CARIFTA countries. Accordingly, the CARIFTA duties are considerably higher on such important items as e.g. Motor Car Tyres (including in particular Tractor Tyres); Paper Bags (22/15 to 30/20); Glass Bottles (0/0 to 30/20); Building Materials (25/15 to 30/20); Scientific Instruments (0/0 to 10/5).

The ECCM Tariff also considered the future development of industries and generally provided the possibility to import most raw

materials and all industrial machinery duty-free. The CARIFTA Tariff visibly differs also in this respect in so far as such machinery will be dutiable at the rate of 5% general and 2½% preferential. While this difference is conspicuous, there may also be changes in duty rates in the field of semi-finished products which the individual ECCM countries would have to isolate according to their individual economic situation.

Another aspect may be brought out. While in the preceding part of this Note only the difference between the ECCM and CARIFTA rates have been considered, the fact should not be forgotten, that the ECCM countries differ among themselves on various trade policy points in particular in so far as the encouragement of the tourist trade is concerned. Some of them permit e.g. the importation of certain goods duty-free (or at low rates) in order to attract tourists; others have a more fiscal concept and levy high duties on such items. Such differences are accepted in the ECCM Tariff in the form of "Special Duties". <sup>7/</sup> It is obvious that these rates, which in the case of all or some ECCM countries differ considerably from the CARIFTA rates, will require careful consideration in the discussions with CARIFTA in particular, due to the fact that certain concepts (such as the application of low duties for luxury goods in order to attract tourists) do not seem to exist in the same form in the bigger CARIFTA countries.

#### THE SOCIAL QUESTION

The figures showing the average increase of rates already indicate that an introduction of the CARIFTA Tariff could adversely affect the social situation of the ECCM countries. This impression is confirmed by the fact that in the case of 54 social food items (out of the 100 items listed in the table) the CARIFTA duties are in many instances considerably higher; in the case of 45 items 100 to 200 per cent, in the case of 9 items about 50%. These figures indicate quite clearly that the ECCM countries will most probably wish to ask for concessions in this field particularly due to the fact that they could hardly accept

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<sup>7/</sup> Although these Special Duties are in principle a temporary measure, the introduction of the Common Duties for such items may not be possible for a number of years, in particular not for spirits, a case in which the ECCM countries failed to agree on a common rate.



rates which would lead to a steep increase of the cost of living.

Also the tariff increases in other social fields are considerable. The duty on Medicaments would go up from 15%/10% to 25%/15%; on Fabrics from 25%/20% to 45%/35%; on Clothing from 30%/20% to 45%/35%; on Footwear from 25%/15% to 35%/25%; and on Medical Instruments from duty-free to 10%/5% to mention only the most important cases.

### CONCLUSION

The comparison of the duty rates in force in the countries which apply the ECCM Tariff with the CARIFTA rates brings out that due to their lesser industrial development the policy pattern chosen by the ECCM countries differs considerably from the pattern suggested by the bigger CARIFTA countries. This situation obviously calls for trade policy negotiations of the ECCM countries with the other CARIFTA countries since the ECCM countries - as already stated at the beginning of this Note - had practically no possibility to influence the drafting of the CARIFTA Tariff.

The ECCM countries could ask for special treatment in the case of CARIFTA rates which they cannot accept unconditionally for one or the other of the above mentioned reasons. This special treatment could mainly consist of one of the following concessions:

A. Gradual Introduction of the CARIFTA rates: This is a solution which the CARIFTA probably would easily accept. It has to be considered, however, that it will not be a satisfactory solution for those cases which will require a more permanent concession. It may also be remarked that the gradual enforcement of rates can be useful in the case of individual rates but could cause considerable difficulties if applied to an excessive number of duties;

B. Change of CARIFTA rates: Obviously the best solution would be a negotiated adaptation of the CARIFTA Tariff to the needs of the ECCM countries; but many of the bigger CARIFTA countries may not view favourably such a solution. It may also be too late for such changes due to the advanced stage of the preparation of the CARIFTA Tariff;

C. Special Duties: The changes could, furthermore, be carried out in the form of Special Duties, similar to those applied in the ECCM Tariff which would give the ECCM countries as a whole or individually the right to apply (either temporarily or on a more lasting basis) Special Duties different from the common CARIFTA rates. The introduction of such Special Duties would probably be necessary in any case for those items which the ECCM Tariff already provides Special Rates for the purpose of equalising internal ECCM differences.

Concluding, it may be repeated that this short Note cannot replace the necessary detailed studies which the individual countries will have to carry out before entering into discussions with the other CARIFTA countries. In particular, it is impossible to make any suggestions prior to such detailed studies which CARIFTA rates could be accepted by the ECCM countries and for which they would have to ask for a special treatment be it in the form of a gradual enforcement or a permanent tariff concession. Due to the necessity to arrive at conclusions in the very near future, it was felt that a concise analysis of the general questions involved - as made available in this Note - would be the best short term assistance which under the present circumstances could be given to the Area.

Resolution on the CARIFTA CET

The LDCs

Anticipating that comprehensive and effective measures will be introduced by the more developed CARIFTA member territories to promote industrial and agricultural development in the less developed member territories;

Conscious of the need for a CARIFTA CET which will facilitate industrial development in the region;

Mindful of the urgency of introducing a CET in the context of the forthcoming negotiations with the enlarged EEC;

Aware of the implications of such a CET for the cost of living in their countries;

Re-affirming their commitment to Commonwealth Caribbean unity;

Propose as follows:-

That a CARIFTA Common External Tariff be introduced by May 1, 1973 in the following manner:-

- (a) The ECCM countries will adopt by 1 May 1973 a CARIFTA CET that will consist of the prevailing rates in their Common External Tariff.
- (b) Wherever the rates in the proposed CARIFTA CET diverge from those of the ECCM; these will be subject to further discussion with a view to arriving at a full CARIFTA CET over a transitional period of eight years.
- (c) That the proposal in (b) above in respect of the ECCM countries will apply mutatis mutandis to Belize namely that wherever the rates in the present Belizean Tariff diverge from those in the proposed CET, these will be subject to further discussion with a view to arriving at a full CARIFTA CET over a transitional period of eight years.

Table  
Comparing the ECCM Rates with the CARIFTA Rates  
(selected items)



Table  
Comparing the ECCM Rates with the CARIFTA Rates  
(selected items)

No. Y	Reser- vation	ECCM Tariff	Main Import Items (Products)	Duty Rates (in % of value of goods)		CARIFTA Rates compared with ECCM Rates (in % of value of goods) increase decrease unchanged		
				ECCM Gen.Pref.	CARIFTA Gen.Pref.	ECCM Gen.Pref.	CARIFTA Gen.Pref.	
0201			Beef and Pork	0	15	15	10	
0201			Other Meat	0	15	15	10	
0202	X		Poultry	0	30	30	20	
0302			Fish, salted etc. Cod	5	0	spec. spec.	+	+
0302			Fish, herring etc.	5	0	"	"	+
0302			Fish, other	10	5	"	"	+
0402			Milk, condensed	5	0	5	0	
0403			Butter	10	5	10	5	x
0404			Cheese	10	5	10	5	x
0405			Eggs	0	0	30	20	x
0701			Potatoes	8*	5*	8*	5*	x
0701			Peas and Beans	2	1	40	30	
0701			Onions	5*	3*	40	30	38 29
0701			Vegetable, other	1*	1*	40	30	37 25
0901			Coffee roasted	20*	10*	40	30	39 29
Ch.08			Various fruits, fresh	15	10	40	30	20 20
						40	30	25 20
						45	35	30 20
0902			Tea	2*	1*	2*	1*	x
1005			Corn (Maize)	0	0	0	0	x

NOTE:- For footnotes see page 15.

ECCM Tariff	Main Import Items (Products)	Reser- vation	Duty Rates (in % of value of goods)		CARIFTA Rates compared with ECCM Rates (in % of value of goods)		
			ECCM Gen.Pref.	CARIFTA Gen. Pref.	increase Gen.Pref.	decrease Gen.Pref.	unchanged
1006	Rice, bulk		0	30	30	20	
1101	Wheat flour		10	5			x
1102	Groats, etc.		15	10	5	5	
1507	Vegetable Oils, refined		30	20	30	20	20 15
1513	Margarine, etc.		5	3	30	20	25 17
1513	Lard substitutes		5	3	30	20	25 17
1602	Meat, smoked, etc.		15	10	15	10	
1602	Bacon, Ham etc.		15	10	15	10	
1602	Meat, canned		15	10	15	10	
1604	Fish, canned sardines		5	3	10	5	5 2
1604	" " other		15	10	25	15	10 5
1701	Sugar, refined		40*	30*	45	35	5 5
1704	Confectionery		35	25	45	35	10 10
1805	Cocoa Powder		30	20	15	10	15 10
1806	Chocolate, etc.		35	25	45	35	10 10
1903	Macaroni, etc.		15	10	30	20	15 10
1907	Bakery products		15	10	30	20	15 10
2002	Vegetables, canned		20	15	45	35	25 20
2005	Fruits, jams		30	20	45	35	15 15
2006	Fruits, canned		30	20	45	35	15 15
2007	Fruit juices		30	20	45	35	15 15
2104	Condiments		30	20	45	35	15 15
2105	Soups		30	20	45	35	15 15
2107	Ice cream powders		30	20	45	35	15 15
22.03/09	Alcoholic beverages		specific	specific			+ +

ECCM Tariff No.	Reser- vation x	Main Import Items (Products)	Duty Rates (in % of value of goods)		CARIFTA Rates compared with ECCM Rates (in % of value of goods)		x
			ECCM Gen.Pref.	CARIFTA Gen. Pref.	increase Gen.Pref.	decrease Gen.Pref.	
2302		Bran, etc.	0	0	0	0	x
2304		Oil Cake	0	0	0	0	x
Ch.24	X	Cigarettes	specific	specific	+	+	
2523	X	Cement	17	8	specific	specific	+
Ch.27	X	Mineral Fuels	specific	specific	+	+	
Ch.28		Inorganic Chemicals	10	5	10	5	x
2858		Other chemical products	10	5	10	5	x
3003		Medicaments	15	10	25	15	10 10
3208/9		Paints	15	10	15	10	x
3306		Perfumery	45	35	55	45	10 10
3401		Soap, common	30	20	30	20	x
3401		Soap, toilet	30	20	30	20	x
3402		Cleaning preparation	30	20	30	20	x
3811		Insecticides	0	0	0	0	x
4011		Motor car tyres	25	15	45	35	20 20
4011		Tyres for tractors	15	10	45	35	30 30
4014		Rubber goods	25	15	30	20	5 5
4202		Travel goods	30	20	45	35	15 15
4405		Lumber, sawn (coniferous)	specific	specific	specific	specific	x
4415		Plywood	20	15	25	15	5 0
4423		Carpentry	22	15	45	35	23 20
4428		Woodwork, other (except shingles)	30	20	45	35	15 15



No.	ECCM Tariff	Main Import Items (Products)	Reser- vation <sup>x</sup>	Duty Rates (in % of value of goods)		CARIFTA Rates compared with ECCM Rates (in % of value of goods)				
				ECCM Gen. Pref.	CARIFTA Gen. Pref.	increase Gen. Pref.	decrease Gen. Pref.	unchanged		
4816		Paperbags and boxes		22	15	30	20	8	5	
4821		Paper articles		30	20	30	20			x
4901		Books, newspapers		0	0	0	0			x
4911		Printed matter		25	15	45	35	20	20	
5509		Fabrics		25	20	45	35	20	15	
Ch.61		Clothing		30	20	45	35	15	15	
6202		Bed linens		25	15	45	35	20	10	
Ch.64		Footwear (not rubber)		25	15	35	25	10	10	
6904		Bricks and tiles		10	10	25	15	10	10	
6905		Refractory bricks		15	10	25	15	10	10	
6911		Household china		25	10	30	20	5	2	
7004		Sheet glass		15	10	25	15	10	5	
7000		Glass bottles		0	0	30	20	30	20	
7013	x	Household glass		25	10	30	20	5	2	
7110		Jewellery		0	0	60	50	60	50	x
7312		Iron sheets and tubes		22	15	15	10		7	5
7301		Structural parts, iron and aluminium		22	15	35	25	13	10	
7500		Lead reservoirs, etc.		22	15	15	10		7	5

ECCM Tariff	Main Import Items (Products)	Duty Rates (in % of value of goods)		CARIFTA Rates compared with ECCM Rates (in % of value of goods)		
		ECCM Gen.Pref.	CARIFTA Gen.Pref.	increase Gen.Pref.	decrease Gen.Pref.	unchanged
No. y	Reser- vation x					
7331	Nails and Bolts	15	10	15	10	x
7336	Ovens, etc.	22	15	45	35	23 20
7338	Household utensils	25	15	30	20	<del>5</del> 5
7338	Sanitary Fixtures	25	15	30	20	5 5
7338	Metal Furniture	25	15	30	20	5 5
7340	Metal Manufactures	25	15	30	20	5 5
8301	Hardware	20	15	25	15	5 5
8307	Lighting Fixtures	25	15	30	20	5 5
8406	Motor car engines	35	15	5	2.5	30 12.5
8408	Aircraft engine parts	0	0	45	35	45 35
8415	Refrigerators and parts	25	15	35	25	10 10
8451	Office Machinery	22	15	30	20	8 5
Ch.84	Industrial machinery	0	0	5	2.5	5 2.5
8501	Electric generators, etc.	25	18	5	2.5	20 15.5
8504	Electric Batteries	15	10	45	35	30 20
8513	Telegraphic apparatus	30	20	5	2.5	5 2.5
8515	Radio, Television sets	30	20	45	35	15 15
8523	Electric cables, etc.	30	20	15	10	15 10
Ch.85	Electric Machinery, other	30	20	35	45	5 2.5

ECCM Tariff	Main Import Items (Products)	Duty Rates (in % of value of goods)	CARIFTA Rates compared with ECCM Rates (in % of value of goods)		
			increase Gen.Pref.	decrease Gen.Pref.	
No. y	Reser- vation x	ECCM Gen. Pref.	CARIFTA Gen. Pref.	unchanged	unchanged

8701		Tractors and parts	22	15	30	20		
8702	X	Motor Car, buses etc.	40	14	45	35	15	21
8803		Aircraft parts	0	0	45	35	45	35
Ch.89		Ships and parts(not spe- cial)	10	5	45	35	35	30
90.06/11		Scientific instruments	0	0	0	0		
9007	X	Photographic equipment	22	15	30	20	8	5
9017		Medical instruments	0	0	10	5	10	5
9101	X	Watches expensive	0	0	30	20	30	20
9101		Watches cheap	20	15	30	20	10	5
9211		Record players etc.	25	15	45	35	20	20
9212		Records	25	15	35	25	10	10
Ch.97		Sports goods	25	15	30	20	5	5

x/ In the case of items marked with an (x) the ECCM rates differ (Special Rates).  
In such cases the Antigua rate is given in this table as an example.

\*/ Rates marked with an asterisk are ad valorem equivalents of specific duties.

+/ Indicates not calculated increases.

y/ The Tariff Numbers contained in this Column refer only to the goods shown in the Products Column. This applies equally to those cases where reference is made to all numbers of a Chapter.