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**IMPACT OF CHANGES IN THE EUROPEAN UNION  
IMPORT REGIMES FOR SUGAR, BANANA AND RICE ON  
SELECTED CARICOM COUNTRIES**

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## **Abstract**

This document examines the effects on CARICOM countries of changes in the EU import regimes for banana, rice and sugar. Changes have been pursued by the EU since the formation of the Single Market in 1992 and were determined by both internal and external factors - cost to the EU budget and WTO requirements, respectively. Changes were made to tariff quotas affecting mainly non ACP exports of bananas to the EU market; reduction in the price of sugar in the EU market and reduction in both price and tariffs in the EU rice market. CARICOM banana exporters were the most affected by regime change given the small size of their banana operations and the high cost of production. The EU has been providing support for banana and sugar producing countries to improve competitiveness or diversify into other areas of production. It is argued that some CARICOM countries would find it very difficult to improve competitiveness given their small scale of production and relatively high cost of labour. However, the alternative of diversifying out of the traditional industries is not an effective solution in light of the role the industries play in sustaining livelihoods of rural communities as well as the culture of specific countries. Efforts at diversifying into alternative crops have not proved successful over the longer term. Instead, it is proposed that restructuring the traditional industries to produce for export niche markets as well as to produce value added products for domestic and regional markets would sustain the industries and address the twin concerns of agriculture and rural development.

## **I. Introduction**

Trade relations between countries of the Caribbean Community (CARICOM) as part of an African Caribbean and Pacific (ACP) group and countries of the European Union (EU) – formerly European Community – were formalized in a series of conventions beginning with the Lomé I Convention in 1975. CARICOM countries (and other ACP countries) were granted non-reciprocal preferential access to the markets of the EU. Although tariff reductions were granted on agricultural and industrial imports from ACP countries, they did not apply to those products subject to the Common Agricultural Policy (CAP) of the EU. As a result commodity protocols were introduced for banana, sugar, rum and beef and veal. Under these protocols beneficiary countries were allowed annual tariff-free quotas of exports at guaranteed and higher than world market prices.

This study examines the effects of changes in the EU import regime for two of the products covered by the commodity protocols, banana and sugar. Although rice is not covered by a protocol it is a significant agricultural export for two CARICOM countries. As such, changes in the EU import regime for this product would have significant implications for those countries as well as for the CARICOM region as a whole. Rice is therefore the third commodity that is examined in terms of the impact of changes in the EU regime.

Analyses have been done of the implications of changes in some of the commodity regimes – mainly sugar and banana. These have tended to be general in terms of ACP countries as a whole or with focus on specific industries. The advice proffered by some analysts and international agencies is diversification out of the traditional industries and into alternative export industries such as tourism, information technology and cultural and professional services. Although CARICOM countries have been developing alternative export industries over the years the traditional agricultural industries have remained important for a number of reasons.

### **A. Importance of sugar, banana and rice to CARICOM economies**

Agriculture and, specifically, sugar has been the bedrock of the economies of Caribbean countries. Dependence on the sugar industry grew out of the colonial relations between the countries in the region and specific European countries, namely the United Kingdom, France, Netherlands and Spain. The latter promoted the production of sugar in the region to satisfy demand and facilitate industrial development in Europe. However, by the turn of the twentieth century beet sugar production became established in Europe.

Sugar cane was the main source of sugar until about the mid-eighteenth century when producing sugar from the sugar beet was discovered by a German scientist and the first beet sugar factory was built in Germany in 1799. France began growing beet and producing beet sugar in the early nineteenth century largely as a result of the Napoleonic wars and British blockage of French ports in 1811 which prevented France from importing sugar from its colonies. The success of France in producing sugar led other European countries to develop production of sugar from beet. The sugar industry in the United Kingdom was not established until the early twentieth century. The development of the beet sugar industry on the European

continent and in the United Kingdom meant that the countries in Europe were able to reduce their dependence on sugar imports from their former colonies in the Caribbean.

Although European countries had moved into the production of sugar, those with colonies maintained preferential access for sugar exports from those colonies. British colonies in the Caribbean exported their sugar to the United Kingdom initially under the British Imperial Preference of 1919 and subsequently under the Commonwealth Sugar Agreement of 1951. African and Malagasy States had preferential access for their sugar to the European Economic Community (EEC) under the Yaoundé Convention of 1963. When the United Kingdom joined the European Community in 1972 negotiations were undertaken which eventually resulted in the first Lomé Convention of 1975 between the European Community and ACP countries. The Lomé Convention of 1975 (and subsequent conventions) replaced the different preferential arrangements that previously existed. Preferential access and guaranteed prices for Caribbean sugar were important for countries in the region as their sugar industry had been declining since its heyday during the colonial period of slavery.

The countries of the eastern Caribbean – the Windward and Leeward Islands<sup>1</sup> – moved out of the production of sugar on account of the significant decline of the industry during the nineteenth century. Banana became the main commodity that replaced sugar. Cultivation of the crop began in the early twentieth century with the first shipment of bananas to New York from Saint Lucia in 1925. However, the banana trade did not develop on account of banana disease and the onset of the Second World War. It was resuscitated after the war and developed with the encouragement of the British Government. Jamaica became a major producer and exporter of bananas since the industry started in the late nineteenth century based on the initiative of an American trader and encouraged by the United Kingdom which became the main market for the country's banana exports.

Although countries diversified into other industries in particular tourism and extractive industries in Guyana, Jamaica and Trinidad and Tobago, sugar and bananas continued to play a significant role in the economies of Barbados, Guyana and Jamaica in the case of sugar and Jamaica and the Windward Islands in the case of bananas. Trade preferences from the EU under the commodity protocols annexed to the Lomé and Cotonou Agreements have therefore been important for sustaining the countries that depended on those industries.

Although the monetary contribution of sugar to output was significant in all countries and especially in Guyana and Jamaica, the percentage contribution was most significant in Guyana. Guyana also accounted for the highest percentage contribution to export earnings. In the case of employment Belize followed by Guyana accounted for the highest contribution. Barbados is the country where sugar had the greatest contribution to indirect employment (table 1).

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<sup>1</sup> St. Kitts and Nevis was the exception and therefore became the only sugar producing country in that region.

**Table 1**  
**Contribution of the EU Sugar Protocol to Output, Earnings and Employment**

	<b>GDP (€m)</b>	<b>% GDP</b>	<b>% Export Earnings</b>	<b>Direct Employment as % Labour Force</b>	<b>Indirect Employment as % Labour Force</b>
Barbados	24.7	1.1	2.3	1.8	4.2
Belize	17.1	2.5	4.9	12.5	1.2
Guyana	61.3	10.1	11.4	7.2	2.4
Jamaica	53.2	0.8	1.8	2.4	1.1
Trinidad & Tobago	20.1	0.3	0.5	4.2	1.9

Source: Adapted from table 3 (based on a LMC study of 2004) in Stephen Thornhill, "Safeguarding The Benefits of the ACP-EU Sugar Protocol in the Context of the EPA Negotiations, 28/02/07"

Whereas the dependence on sugar was significant for most of the sugar producing countries in the region, in the case of Guyana the dependence on sugar was by far greater than in the other countries. In the case of bananas it is the Windward Islands with the exception of Grenada that are most dependent on banana exports. The banana industry is also significant for Belize (table 2).

**Table 2**  
**Contribution of Bananas to Output, Employment and Exports**

	<b>Banana Exports as % Goods Exports (1999-2002)</b>	<b>Banana Exports as % Goods and Services Exports (1999-2002)</b>	<b>Banana Exports as % GDP (1999-2002)</b>	<b>Banana Workers as % Population of Working Age 2001</b>
Belize	14.7	7.4	3.2	2.3
Jamaica	1.9	0.7	0.3	0.1
Suriname	3.4	2.9	2.1	0.8
Windward Islands	29.6	6.2	3.2	8.0
Dominica	23.0	8.3	4.4	9.9
Grenada	0.8	0.1	0.1	0.6
Saint Lucia	39.5	6.3	3.6	10.8
St. Vincent/Grenadines	39.3	10.1	5.0	8.4

Source: Table 7.3 in NERA "Addressing the Impact of Preference Erosion in Bananas on Caribbean Countries: A Report for DFID", London August 2004

Although the Caribbean rice trade with Europe is not covered by any commodity protocol, Caribbean producers, mainly Guyana and Suriname, depend significantly on EU preferences. The cultivation of rice was actually introduced into the Caribbean by the Dutch in the early eighteenth century. However, the rice industry did not really develop for example in Guyana until the late nineteenth century when Indian immigrants who had a culture of rice farming began cultivating the grain. The industry has since grown into a significant source of income, employment and foreign exchange earnings for Guyana which has become the fourth

largest world exporter of rice. The contribution of the industry to agricultural GDP is about 20 per cent and to export earnings about 12 per cent. More than 12,000 farmers are supported by the industry as well as about 20 per cent of the population of the country.

The industries that form the focus of this analysis are important not only because of their overall contribution to economic output, employment and foreign exchange earnings but also because of their contribution to the livelihood of people in communities around which the industries developed. Sugar has been the most significant in terms of its social contribution to workers as well as their communities. The sugar industry has contributed to improvement of roads (construction and maintenance); supply of water (tanks and water trucks), health care (clinics); education through school infrastructure, bursaries and skills training; agriculture through extension service; and the development of sports through sponsorship and infrastructure.

Unless diversification out of those industries can contribute toward sustaining and improving rural communities then countries would experience increased rural to urban migration with adverse effects on rural development. The choice should not have to be between retaining the traditional industries and developing alternative industries. The case was made in a previous study for diversification within the traditional industries which would not only create jobs but create high skilled jobs as well as value added products.<sup>2</sup>

## **B. Scope and methodology**

The purpose of this study is to examine the impact on selected CARICOM countries of changes in the EU regime affecting 'protocol' commodities, banana and sugar, using indicators such as production, exports, earnings and employment. Rice was also included since it is a major export of Guyana and has also been affected by change in the EU import regime. The countries selected are those that are the main producers of the commodities being examined, namely Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago and the Windward Islands.

The study relied on data gathering from a variety of sources including FAOSTAT, the European Union and recent studies on the changes in the EU banana and sugar regimes. Resource constraints precluded field visits to evaluate strategies for meeting the challenge of preference erosion in the industries under review. Some of the strategies were reported in a previous study<sup>3</sup> but could not be evaluated since they were in early stages of formulation and implementation.

The next section examines the factors that influenced changes in the EU import regimes in order to determine implications for the future. Changes in the import regimes for bananas, sugar and rice are then examined. In the section following the review of each regime change a number of options are considered for the different industries as well as for specific countries. The conclusion points to the need for further work at the industry and country level in order to make appropriate proposals for adaptation to changing trade relations between CARICOM countries and their traditional trade partners.

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<sup>2</sup> See ECLAC, *Restructuring Caribbean Industries to Meet the Challenge of Trade Liberalisation*, Limited LC/CAR/L.77, 21 December 2005

<sup>3</sup> See Note 2

## **II. Factors influencing EU regime change**

A number of factors were responsible for the process of reform to its agricultural policy that the EU embarked on from 1992. Production surpluses, increased budgetary costs, expansion of the EU and compliance with World Trade Organization (WTO) requirements all determined the changes that have been made to the EU agricultural regimes.

The CAP of the EU was devised to guide the implementation of the European Common Market consequent upon the signing of the Treaty of Rome in 1957 that created the European Community. It became effective from 1962 and was geared toward increasing food self sufficiency while improving the living standards of agricultural communities and ensuring reasonable prices for agricultural products. Self-sufficiency in basic foodstuffs was a critical objective based on the food shortages resulting from the effects of World War II.

The CAP mechanisms were subsidies and guaranteed prices to farmers, investment grants for restructuring agriculture and common market preference (protection) through tariff barriers to imports. The products that benefited most from the CAP and for which the EU became net exporter as a result were cereals, dairy products, beef and veal and sugar.

The very success of the CAP in achieving self sufficiency in a number of agricultural products has been an important factor in the reforms that have been pursued since the early 1990s<sup>4</sup>. The incentives to farmers to produce resulted in significant production levels from the 1960s and constant surpluses of products, especially beef and cereals that had to be stored or exported at high cost to both the EU budget and world market prices so as not to depress internal farm gate prices. EU exports to the world market had to be subsidized so that farmers did not receive less than the EU internal prices for the commodities. This of course had the effect of depressing world market prices for the said commodities and therefore the prices received by non-EU exporters to the world market.

The significant increases in storage (intervention stocks) and export refunds resulted in high budget cost<sup>5</sup> and hence put pressure on member countries' contributions to the EU budget especially in light of the unpopularity of these measures with consumers and taxpayers in EU countries. Minor reforms were adopted such as quotas to reduce the production of milk, for example. The EU also increased member countries' budget contributions from 1 per cent to 1.2 per cent of the EU GDP by 1992.<sup>6</sup>

Major reform of the CAP began in 1992 when regional integration deepened into the EU. There was a move away from incentives for increased production towards a system of direct payments to farmers. Support prices were reduced on products such as cereals, pulses and beef. The price reduction was offset by compensation payments linked to annual reduction in arable

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<sup>4</sup> The EU achieved self-sufficiency in sugar by the late 1970s and in cereals and beef by the beginning of the 1980s [based on data from European Commission Eurostat].

<sup>5</sup> Agriculture expenditure was more than two thirds of the total EU budget during the early 1980s.

<sup>6</sup> Ivan Roberts and Caroline Gunning-Trant, "The European Union's Common Agricultural Policy: A Stocktake of Reforms", Abare Research Report 07.13, August 2007



crop acreage. The second major reform in 1999 saw intervention prices for cereals, arable crops and beef reduced and compensation payments to farmers increased. These measures facilitated reduction in surpluses. At the same time emphasis was placed on environmental sustainability of farming which had been a growing concern in the EU. The farmer's role was defined in terms of maintenance of the countryside and protection of the environment.

The third major reform to the CAP was in 2003. Single farm payments to farmers were decoupled from production and linked instead to promoting the environment as well as food safety and animal welfare standards. Intervention prices were reduced for rice, wheat, butter and skim milk powder. The sugar regime which had not been affected by the 1992-2003 changes became the target of reform in 2005 when the intervention price was significantly reduced to be implemented over the period from 2006 to 2010.

The expansion of the EU was an important factor in the reform of the CAP. There were only six members during the initial phase of the CAP up to 1973 when Denmark, Ireland and the United Kingdom were added to the Union. By 1986 the EU membership doubled from the pre-1973 period to 12 with the accession of Greece, Portugal and Spain. So that at the start of major reforms in 1992 the EU had expanded significantly which made it necessary to address the problem of increased budgetary expenditure. The expansion of membership continued from 12 in 1986 to 25 in 2004, and with the addition of Bulgaria and Romania would result in a total of 27 EU members in 2007. Budgetary problems would continue unless the EU continues to implement significant reforms to the CAP.<sup>7</sup>

The reforms pursued by the EU have been directly related to the Uruguay Round Agreement of 1994. In that agreement, countries had agreed to convert all non-tariff barriers (NTBs) to tariff equivalents and bind them along with all other tariffs. All tariffs were to be reduced by 36 per cent equally distributed over the six-year period from 1994. Domestic support policies were considered to be trade distorting. Agreement was therefore reached to reduce domestic support to agriculture by 20 per cent by 2000 for developed countries including members of the EU. Export subsidy is the other key area in which reduction commitment was agreed in the Uruguay Agreement on Agriculture. Developed countries were required to reduce expenditure on export subsidies by 36 per cent and the actual amount of exports they subsidized by 21 per cent for each subsidized product over the six-year period from the signing of the agreement.

Domestic support, export subsidies and tariffs are integrally related in the EU CAP and commodity regimes. The EU objectives were essentially to develop self sufficiency in a number of agricultural products and to ensure a relatively high standard of living for the farmers in member countries. Domestic support provided the incentive in terms of high prices to farmers. High tariffs were necessary to protect farmers' income from lower cost imports. Export subsidies performed a similar function, that is, ensuring that farmers did not receive the lower prices that existed on the world market. They were also necessary to allow EU agricultural exports to compete on the world market.

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<sup>7</sup> "The European Union's Common Agricultural Policy: A Stocktake of Reforms", p. 15

Despite EU tariff cuts the level of tariffs remained high. This was largely due to the period (1986-1988) used as the base from which bound tariffs would be cut: a period when world market prices were low and EU tariff equivalents were high. This allowed the EU to meet the WTO tariff reduction commitment while still maintaining relatively high tariffs.<sup>8</sup> Although domestic support in respect of market prices was reduced by 25 per cent from the first significant reform in 1992 to 2005, the shift from price support to income support through direct payments to farmers did not significantly change the overall level of support to agriculture.

The EU has the highest level of export subsidies although these have been significantly reduced since 1992. Export subsidies in relation to sugar are the main ones of interest to Caribbean countries especially since the reforms to the EU sugar regime have been influenced by the challenge to the EU sugar subsidies by Australia, Brazil and Thailand. The complainants argued that the EU was providing export subsidies to sugar that were greater than the levels committed under the WTO.<sup>9</sup> The WTO Panel ruled in 2004 in favour of the challengers. What the ruling means is that the EU would have to reduce both the quantity of sugar exports and the export subsidy expenditure.

Changes in the EU policy in agriculture as well as in the specific commodity regimes will affect countries that export those commodities. The effect may be positive for exporters that have had to rely on lower world market prices because of the high barriers to EU markets but negative for exporters that have relied on preferential access and higher prices in the EU markets. The next section looks at the experiences of Caribbean countries in respect of bananas, sugar and rice and exports to the EU market.

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<sup>8</sup> See reference 3 for a good discussion on the EU tariffication to meet WTO requirements.

<sup>9</sup> The “undeclared subsidized exports” were exports equal to the amount of sugar imported from the ACP and India plus the EU sugar referred to as “C” quota sugar in the EU sugar regime. The latter is surplus sugar that the EU must export without subsidies but since it is exported below cost that is equivalent to an export subsidy under the WTO. See the Australian view of the WTO dispute at [www.dfat.gov.au](http://www.dfat.gov.au), 5 December 2005.

### **III. Changes in the EU banana regime and the effect on Caribbean economies**

#### **A. The banana regime**

Although the EU regimes covered a number of crops, the ones of relevance to Caribbean countries are those that provided preferential access to the EU markets, namely banana, rice and sugar. Most of the changes to those regimes began with the formation of the European Single Market in 1992. In the case of bananas, different import regimes existed before the change to a common EU regime in 1993.

The origins of the EU banana import regime are important for understanding the changes that took place subsequent to the establishment of the EU in 1992 and which significantly affected the banana producing countries of the Caribbean. The regime was the result of the attempt by the EU to liberalise the movement of goods within the EU market and harmonise member countries' external trade by introducing a common external tariff for EU imports from third countries.

Prior to the 1993 regime, each European country had its own banana regime based on historical relationships with former colonies and other special trade interests. Three different regimes were in operation. Former colonies, including Caribbean countries, were granted duty free access to the markets of the United Kingdom, France, Italy, Spain, Portugal and Greece and were protected by a 20 per cent tariff imposed on banana imports from Latin American countries and by quotas imposed by the United Kingdom, France and Spain. The Benelux countries – Belgium, Netherlands and Luxembourg -, Denmark and Ireland imposed a general 20 per cent tariff on all banana imports. Germany, on the other hand, provided tariff free quota access to banana imports from Latin America.

Article 115 of the Treaty of Rome allowed the EU member States to retain their specific import regimes. A special 'Banana Protocol' attached to the Treaty of Rome guaranteed Germany its access to bananas based on its tariff free quota regime. Unification of the EU banana market was approved in 1992 and the new banana regime continued the duty free access of ACP bananas but under a quota of up to the 1990 level of ACP imports into the EU. Dollar bananas as well as non-traditional ACP bananas were subject to a quota of 2 million tonnes and a fixed tariff of €100 per tonne.<sup>10</sup>

Latin American countries were against the provisions of the new regime. Germany, Denmark and Portugal were also opposed to it and hence voted against the regime. Some concessions were made such as regular adjustment of the quota but these did not appease those opposed to the regime. The regulation for bringing the regime into effect was passed only with the support of Denmark which held the presidency of the EU at the time and therefore felt obliged to defend the integrity of its procedures. Nevertheless, it was subject to dispute given the hostile reaction of Latin American banana producers and a minority of EU countries, in

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<sup>10</sup> The *ad valorem* equivalent of this tariff was higher (21 per cent based on 1991 figures or 24 per cent based on 1992 figures) than the pre-1992 tariff of 20 per cent. See Robert Read (2001), "The Anatomy of the EU-US WTO Banana Trade Dispute", The Estey Centre Journal of International Law and Trade Policy.

particular Germany which was significantly affected by the end of its cheaper banana policy. Germany was the highest consumer of bananas most of which were imported from Latin American countries and had the lowest prices in Europe. Germany deepened its opposition by challenging the new regime in the European Court of Justice but was defeated when the Court disallowed it.<sup>11</sup> Challenges against the regime continued at the levels of the General Agreement on Tariffs and Trade (GATT) and WTO.

A successful challenge in 1993 under GATT by some Latin American producers to the quota and tariff restrictions on dollar bananas led to adjustment of the regime for bananas in 1995. The tariff quota for dollar bananas and ACP bananas that exceeded their traditional level was increased to 2.2 million tonnes and the in-quota tariff was reduced to €75 per tonne. The *ad valorem* tariff equivalent was 20 per cent for Latin American countries that signed a framework agreement with the EU, namely Colombia, Costa Rica, Nicaragua and Venezuela. For countries that did not sign the agreement the *ad valorem* equivalent tariff was 30 per cent. Traditional ACP suppliers maintained their preferential tariff-free access within a quota of 857,000 tonnes.

Based on complaints from the United States marketing company, Chiquita, that the licensing system restricted its entry into the EU market, the United States along with Ecuador, Guatemala, Honduras and Mexico requested in 1996 a WTO Dispute Panel to rule on the EU banana regime violation of WTO agreements, including the agreement on licensing procedures. The Panel found that the EU regime had violated WTO commitments regarding the use of tariff quotas and the allocation of import licences.<sup>12</sup>

The EU made changes to the banana regime in 1999 in response to the ruling of the WTO. The licensing system was replaced by one based on past importation using 1994-1996 as the base year; and country-specific allocations of the ACP quota were abolished. However, dissatisfaction with the tariff quotas led Ecuador to challenge the legality of the EU regime changes. The EU was again ruled by an arbitration panel to be non-compliant with WTO rules. That ruling and the trade sanctions imposed by the WTO led to a new two-phase banana regime in 2001.

From 2001 to 2005 three tariff quotas would regulate banana imports into the EU: a 850,000 tonnes quota ('C' quota) at a tariff rate of €300, the existing 2.2 million tonnes quota ('A' quota) at a tariff rate of €75 which had been allocated to dollar bananas and an additional 353,000 tonnes ('B' quota) at the same rate of €75 per tonne to cater for EU expansion in 1995. These quotas were open to banana imports from all sources, but imports from ACP countries would be tariff-free. In the second phase from the beginning of 2002 the C quota which was a de facto ACP quota was formally reserved for the ACP. But 100,000 tonnes of that quota was transferred to the B quota. The tariff quotas were to be allocated on a first-come first-served basis.

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<sup>11</sup> See Paul Sutton, "The Banana Regime of the European Union, the Caribbean, and Latin America", *Journal of Interamerican Studies and World Affairs*, Vol.39, No.2 (Summer 1997), pp.5-36 and Karen J. Alter and Sophie Meunier, "Nested and Overlapping Regimes in the Transatlantic Banana Trade Dispute", *Journal of European Public Policy* 13:3 April 2006: 362-382 for discussion of the origin and dispute surrounding the EU banana regime

<sup>12</sup> Details on the ruling can be found in the reference cited in the above note.

Before the end of the three-tiered tariff-quota system the EU announced a proposed flat-rate tariff of €230 per tonne which was rejected by Latin American producers and the WTO. A reduction to €187 was also rejected. At the end of 2005 the EU further reduced the tariff rate to €176 which came into effect from the beginning of 2006.

## **B. Effects of changes in banana regime**

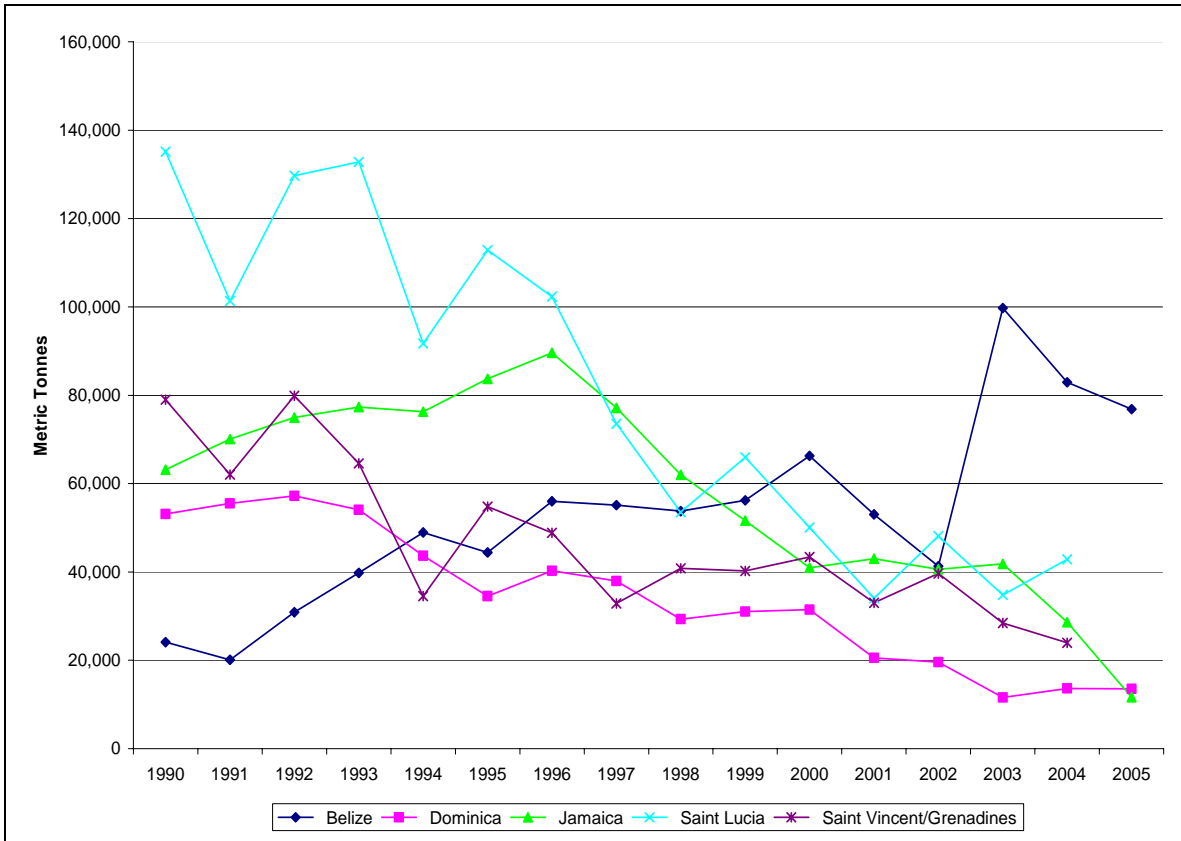
The effect of these changes on Caribbean economies can be seen in terms of the production and export of bananas over the years. The single market banana regime of 1993 resulted in a decline in banana exports in 1994. The decline was particularly significant for the Windward Islands. The adjusted regime from 1995 had an even more significant effect on traditional Caribbean banana exports which continued their downward trend. The cessation of ACP country allocations in 1999 resulted in a more dramatic decline of banana exports from the Windward Islands and Jamaica (see figure 1). They however benefited non-traditional suppliers such as Belize and the Dominican Republic which were able to significantly increase their exports. Belize's annual average growth of banana exports to the EU between 1995 and 2005 was 7 per cent whereas that of the Dominican Republic was 8.5 per cent.

West African suppliers, namely Cameroon and Côte d'Ivoire which are the main exporters of African ACP countries also significantly increased their exports<sup>13</sup>. In 2005 banana exports from African ACP countries represented 58 per cent of total ACP exports to the EU whereas Caribbean ACP countries accounted for 42 per cent. On the other hand exports from CARICOM ACP countries (excluding the Dominican Republic) were only 23 per cent of total ACP exports. Prior to the EU single market regime Caribbean exports accounted for over half of ACP exports to the EU. The distribution of EU banana imports from the main suppliers in 2005 is shown in figure 2.

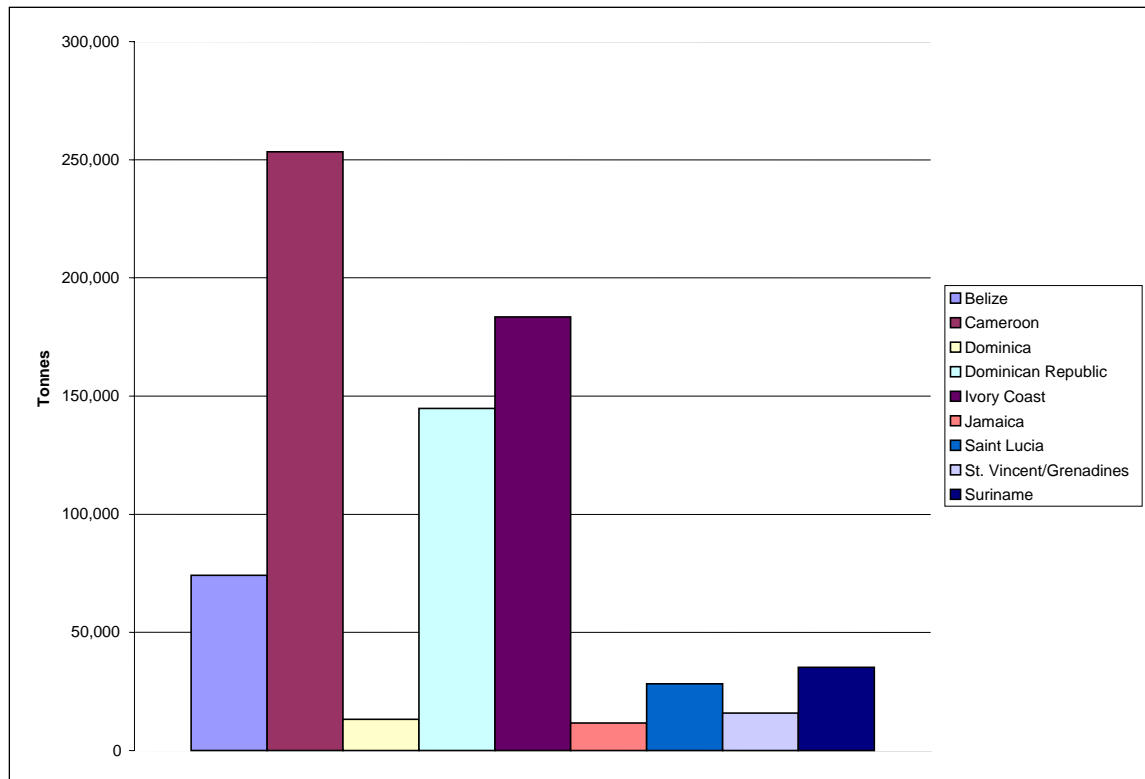
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<sup>13</sup> EU imports from these countries were 9 per cent of total banana imports in 1995 and increased to 12 per cent in 2005.

**Figure 1: Caribbean Banana Exports 1990-2005**



Source: Based on FAOSTAT

**Figure 2: EU 25 Banana Imports from Main Suppliers 2005**

Source: Based on EUROSTAT

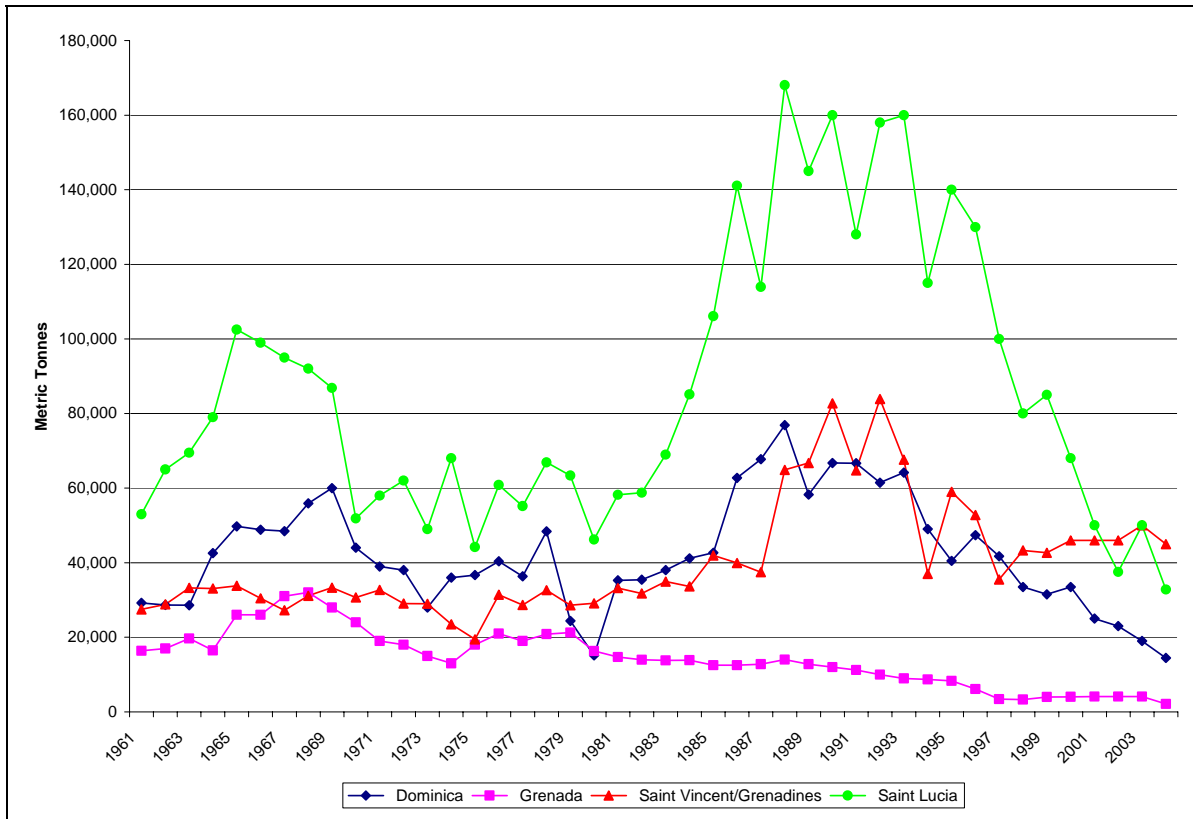
Latin American exporters also took advantage of the changes made to the EU regime in the 2001-2005 period. The EU now imports bananas mainly from Latin American countries. In 1995 the main “dollar banana” countries – Colombia, Costa Rica and Ecuador – accounted for 45 per cent of total EU banana imports. By 2005 this amount increased to 68 per cent.

During the first year (first eight months) of the tariff-only regime (2006), Latin American exports grew by about 11 per cent although Ecuador, which is the main Latin American exporter to the EU, saw its exports decline by 4 per cent. On the other hand ACP exports grew by about 19 per cent with the most significant growth from Ghana and Jamaica.<sup>14</sup> Nevertheless, it is the non-traditional ACP exporters – Cameroon and Côte d’Ivoire – that remained the main ACP exporters to the EU in 2006.

Banana production in the Caribbean reflected more or less the declining trend in banana exports since the first EU regime change in 1993. This was specifically the case in respect of Jamaica and the Organisation of Eastern Caribbean States (OECS) countries although the declining trend in St. Vincent and the Grenadines was reversed from 1998 (figure 3). By contrast Belize and the Dominican Republic maintained their production trend although both countries significantly increased their production from 2001 in the case of the Dominican Republic and from 2003 in the case of Belize (figure 4).

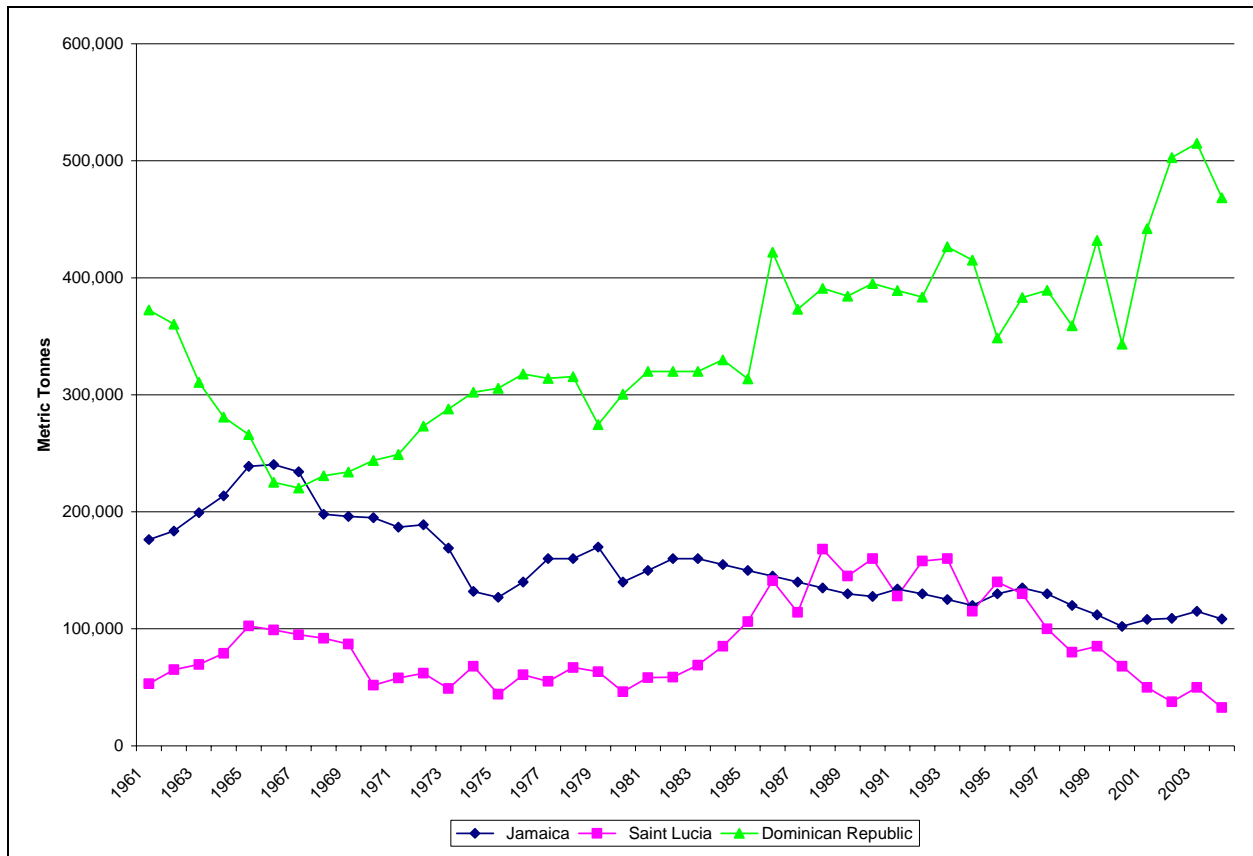
<sup>14</sup> Growth of exports from Ghana was 478 per cent and from Jamaica was 173 per cent (<http://agritrade.cta.int/en>)

Figure 3: OECS Banana Production



Source: Based on FAOSTAT



**Figure 4: Caribbean Banana Production**

Source: Based on FAOSTAT

The decline in banana production and export has had a significant impact on employment in the banana industry in the Windward Islands of the OECS. Available data point to a decline in the number of farmers from 27,000 in 1992 to 5,000 in 2003. However, this does not take into account the overall number of banana workers who depended on income from the banana industry. It was suggested that the total decline in employment could be as high as 67,000<sup>15</sup>. Dominica, Saint Lucia and St. Vincent and the Grenadines are the most dependent on the industry whereas banana production has practically ceased in Grenada (figure 3).

### C. Future changes in EU – ACP banana relations

The challenges to the EU banana regime and new trade agreements between the EU and different groups of countries, including those of the ACP, will have further impact on ACP CARICOM exporters. The challenge by Ecuador in November 2006 to the EU tariff regime of 2006 was intensified by mid-2007 when the United States<sup>16</sup> joined the challenge mounted by Ecuador. The United States concern was the discriminatory tariff imposed' on “dollar banana”

<sup>15</sup> Ian Gillson et al. “Forthcoming Changes in the EU Banana/Sugar Markets: A Menu of Options for an Effective EU Transitional Package”. UK, Overseas Development Institute

<sup>16</sup> The US is the home base of Chiquita, Del Monte and Dole, three of the largest multinational companies with banana plantations in Latin America.

exports compared to the duty free quota reserved for ACP exports. Ecuador's concern was the loss of its market share in the EU market which, it claimed, declined from 30 per cent during the first eight months of 2005 to 27 per cent in the corresponding period of 2006. Nevertheless, as the EU argued, Latin American banana exports to the EU increased by 11 per cent in 2006 and by 8 per cent during the first eight months of 2007.

In November 2007 the WTO ruled (subject to appeal) in favour of Ecuador that the EU banana import regime violated global trade rules. In the event of the EU appealing and losing a case against the WTO finding it will have to revisit its tariff system and most likely reduce the tariff imposed on non-ACP banana exporters. However, reciprocal and free trade agreements with groups of ACP countries would change the trade relations between the EU and those countries and their discriminatory tariff-free quota access to the EU banana market.

The EU and the CARIFORUM group of ACP countries – CARICOM plus the Dominican Republic – reached agreement before the end of 2007 for an Economic Partnership Agreement (EPA), which would free substantially all trade between the two groups of countries. This means that Caribbean countries will no longer receive non-reciprocal preferences for their exports to EU markets. When the agreement comes into effect Caribbean countries (as members of CARIFORUM) will receive tariff-free and quota-free access for bananas into the EU and this preference will be “protected under the WTO rules governing free trade areas”<sup>17</sup>. The WTO ruling against the EU banana preferences will therefore no longer be valid in respect of CARIFORUM banana exporters.

Caribbean banana preference within an EU-CARIFORUM free trade area could however be eroded if the EU concludes, as expected, free-trade arrangements with Latin American countries – the Andean group and the Central American group. Even with the relatively high EU tariff on Latin American bananas Caribbean exporters have had difficulty in maintaining their share of the EU market. But of equal or greater significance to Caribbean exporters is the conclusion of an EPA between the EU and West African countries some of which have become competitive banana exporters and could increase their share of the EU banana market at the expense of Caribbean exporters.

The most significant impact will be in terms of the earnings that Caribbean exporters will receive given the changes that have been made to the EU banana import regime. Prices in the EU market declined by 20 per cent in 2006 due to increase in both ACP and Latin American imports into the EU. By the end of 2006 prices were 10 per cent below 2005 price levels.<sup>18</sup> Increased imports as a result of tariff-free and quota-free access to the EU market under EPAs with groups of ACP countries will have an adverse impact on prices in the EU banana market. The EU had anticipated the decline in prices due to changes in its import regime and therefore proposed changes to its support for EU banana growers in line with changes in support of other commodity producers under the CAP of the EU.

The decline in prices will have an adverse effect on the ability of CARICOM banana producers to compete with both Latin American producers and other ACP producers. This is due

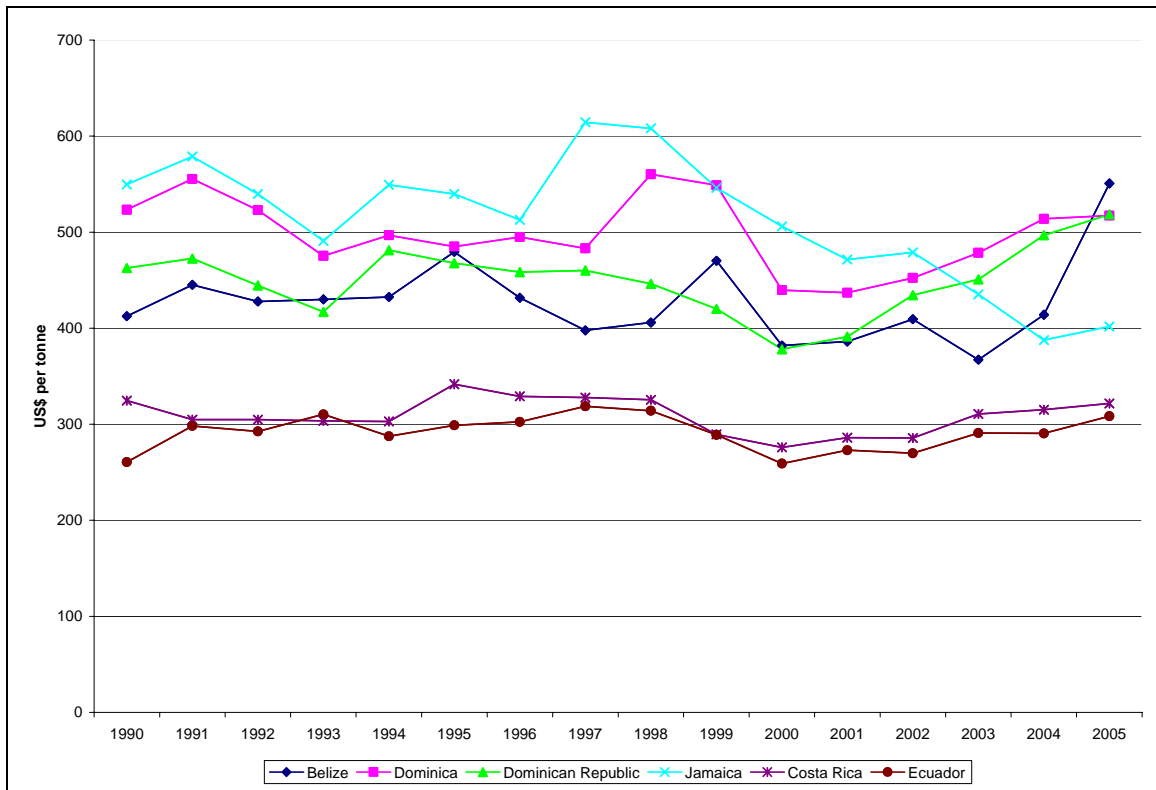
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<sup>17</sup> Accessed at the Caribbean Regional Negotiating Machinery website: [www.crnmm.org/rnm/updates.htm](http://www.crnmm.org/rnm/updates.htm)

<sup>18</sup> See report on the banana sector at <http://agritrade.cta.int/en>

largely to the high cost of production in CARICOM countries. Comparison of banana producer prices in the various banana producing countries is made difficult largely because of the lack of price data for some countries as well as the unreliability of some of the available data. However, some insight can be gleaned from banana export unit values as shown in figure 5. The highest cost exporters are the CARICOM exporters whereas the lowest cost exporters are the Latin American exporters and Dominican Republic which is a non-CARICOM ACP exporter. Of significance are the increasing cost trend of the OECS countries and the decreasing trend in Jamaica. Despite the relatively low prices in Belize and the Dominican Republic the trend has tended upwards since 2003.

**Figure 5: Banana Export Average Unit Value**



Source: Based on FAOSTAT

## IV. Options for Caribbean banana producers

### A. Industry expansion

This option of expanding the industry by improving competitiveness may not be feasible for most Caribbean Countries in light of the decline in banana prices and the high cost of production in those countries. The EU has been providing support to improve the competitiveness of the banana industry in Caribbean countries where this is feasible. Improving competitiveness really means reducing costs in order to compete on the basis of price. Since one of the main cost components is labour cost and reduction of wages is not a viable option in the Caribbean then substitution of labour would have to be considered. However, mechanized production requires large areas of flat land such as the estates in Latin American countries. Belize and Suriname (and possibly Jamaica) may be able to expand production and reduce costs to take advantage of the tariff and quota free access to the EU market under the EPA.

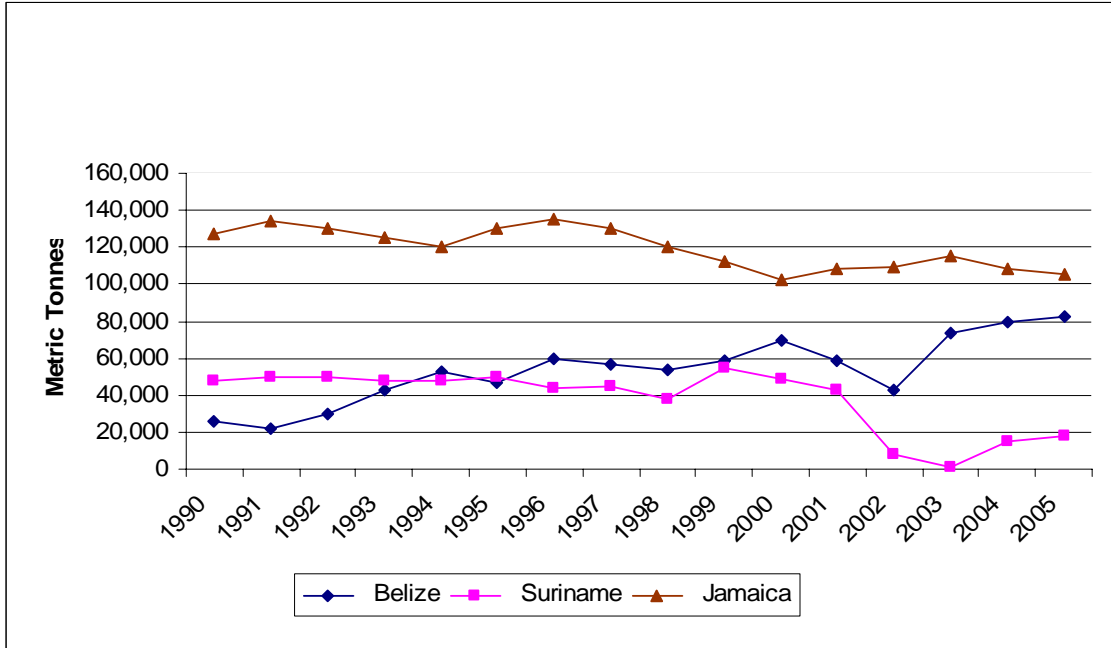
Suriname may be the country most likely to succeed in expanding production and reducing cost to take advantage of the new market access. It has pursued restructuring of the industry with support from the EU since early 2000. The State-owned sole banana producer had collapsed in 2001. Privatisation which is considered to be the key to ensuring the sustainability of the industry is being pursued through, among other things, improving the competitiveness of the new State-owned company. Prior to the collapse banana production in Suriname had reached almost 60,000 tonnes in 1999 (figure 6). Since the collapse in 2001 production increased to about 20,000 tonnes in 2005 and more than doubled in 2006 to 46,500 tonnes. Production was estimated at 60,000 tonnes in 2007 and projected to 70,000 tonnes in 2008.<sup>19</sup> The industry was able not only to significantly increase production but also to reduce costs by about 31 per cent between 2001 and 2005.<sup>20</sup> Costs in 2004 were close to costs in Costa Rica which is a relatively low cost banana exporter (figure 7). The suitability of Suriname for pursuing the industry expansion option is based on its topography, climate and the fact that the country is not vulnerable to natural disasters such as hurricanes.

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<sup>19</sup> “Suriname aiming to become CARICOM’s top banana producer”, December 7, 2007, Caribbean Net News (caribbeannetnews.com)

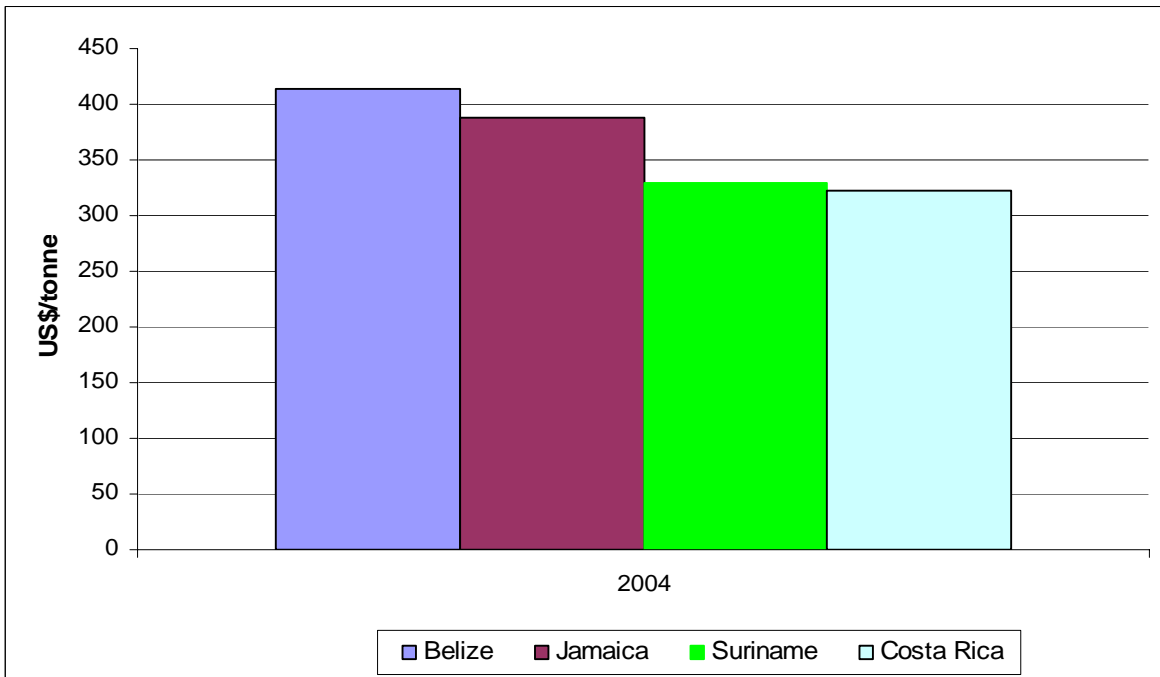
<sup>20</sup> “Four million Euro boost for Suriname banana industry”, March 6, 2006, Caribbean Net News (caribbeannetnews.com)

**Figure 6: Banana Production in Belize, Jamaica and Suriname**



Source: Based on FAOSTAT

**Figure 7: Banana Export Unit Values for Selected Countries 2004**



Source: Based on FAOSTAT

Although Belize is vulnerable to natural disasters it could pursue a similar strategy to Suriname given its large-scale banana holdings on suitable soils. The country's production costs are relatively high but farms have been cutting labour and labour-related costs<sup>21</sup> which have been feasible given the significant reliance on migrant farm labour from Guatemala and Honduras. However, improvement of the industry's competitiveness in this way would be at the expense of improving the income and labour conditions of its banana workers.

Jamaica is also favourable for pursuing the expansion and competitiveness strategy. Its export banana industry is based on large-scale estates although labour costs are relatively high. It benefits from the large scale operations of the banana company (Jamaica Producers) which profitably ships and markets bananas (including dollar bananas) in the United Kingdom. One of the constraints on this strategy is that Jamaica, like Belize and the Windward Islands, is vulnerable to natural disasters. The country's banana industry was devastated by Hurricane Dean in 2007. However, banana crops are relatively easy to resuscitate as they grow quickly and can be harvested in less than a year and throughout the year.

Although some countries may be able to improve competitiveness in order to continue to export their bananas, under the new trading arrangement with the EU this may not be sustainable in the long term especially if prices continue to decline as a result of competition at the retail end of the chain. Alternative strategies would therefore have to be considered. Fair trade has become the option increasingly chosen by banana producers that are unable to sustain price competition in export markets.

## **B. Fairtrade**

The option of improving price competitiveness and increasing production is less feasible for Windward Island banana exporters. The industry in the Windward Islands is based on small-scale farms, steep land, poor soils and relatively high labour costs. The islands are also vulnerable to natural disasters and were affected to various degrees by Hurricane Dean in 2007. The viability of their banana exports is therefore questionable despite the free access to the EU market under the EPA. Banana producers have been unable to meet the significant levels of investment required to improve quality and productivity and hence increase supply to the EU market. Value-added products and niche marketing such as fair trade are considered to be the only viable alternatives for the islands' banana industry.<sup>22</sup>

The high cost of production and the erosion of preference for banana exports have already resulted in a shift in orientation of the banana industry in the Windward Islands. Farmers there now export bananas to the United Kingdom market under the Fairtrade label. Fairtrade banana exports have helped to sustain the banana industry in the islands and prevent its total collapse especially in Dominica.

Fairtrade banana shipments from the Windward Islands began in 2000. However, the Windward Islands Farmers National Association (WINFA) which was established in 1982 and

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<sup>21</sup> Alexandra Freedman "Belize and Bananas", Z Magazine Online, February 2006, Volume 19, Number 2

<sup>22</sup> See NERA, Addressing the Impact of Preference Erosion in Bananas on Caribbean Economies: A Report for DFID, London, August 2004

became a formal umbrella organization of farmers' associations in 1987 to support small-scale farmers and deal with issues of banana farming and falling prices began working with Fairtrade in the 1990s. They set up Fairtrade Associations in each of the Windward Islands. By 2007 all of Dominica's bananas and about 85 per cent of bananas in the Windward Islands were Fairtrade bananas. The Windward Islands supply a significant amount of Fairtrade bananas to the United Kingdom market (70 per cent) as well as to the European market (40 per cent).

Fairtrade is a concept that evolved as early as the 1940s and 1950s between community (and church) organizations in Europe and North America buying goods from counterpart organizations in developing countries. Now purchasing is done by shops and supermarkets. Fairtrade is a trading partnership geared toward promoting equity in international trade and providing a stable price for producers especially in the agricultural sector. The Fairtrade Labelling Organisations International (FLO) was set up in 1997 to set international Fairtrade standards. It issues a Fairtrade label which guarantees that the product meets Fairtrade standards.

Fairtrade standards are based on the principles of ethical trading, that is, no child or slave labour can be used in production; workers have the right to a safe working environment as well as the right to join a trade union; and production must go hand in hand with protection and conservation of the environment. Adherence to the latter means that banana farms would have to install buffer zones, refrain from the use of herbicides and control and reduce the use of pesticides and chemical fertilizers, among other things. Fairtrade principles constitute an intermediate stage between conventional production and organic production of bananas. It is a means of preparing farmers to move eventually towards organic production.

Under Fairtrade terms, producers are paid a Fairtrade minimum price to cover the costs of sustainable production – the price is calculated to cover full production costs plus a margin to cover basic needs and environmental standards. In addition, a social premium is paid to producer groups for social and environmental improvements in the community. The minimum price, which is based on average costs of production in the country, contributes to income stability since producers must be paid this price by buyers even if the market price for the product falls below the minimum price.

#### 1. Export Performance with Fairtrade

Changes in the EU banana import regime have had the most adverse effect on the Windward Islands of the Caribbean. Banana exports fell by more than half (53 per cent) during the 1990s – from 277,000 tonnes in 1990 to about 130,000 tonnes in 1999. In 2000 when the first shipment of Fairtrade bananas was made to the United Kingdom, total exports from the Islands were 140,000 tonnes, an increase of 10,000 over the previous year. However, the declining trend in exports continued from 140,000 tonnes in 2000 to 61,000 tonnes in 2006 again by more than half (56 per cent) since 2000. The decline was so significant in Grenada that exports from that island virtually ceased from 2005. However, hurricanes that occurred during the period largely contributed to the significant decline.

Grenada's experience with Fairtrade exports has therefore been limited. The other Windward Islands of Dominica, Saint Lucia and St. Vincent and the Grenadines had different experiences over the period 1996-2006 which can be divided into two sub-periods, 1996 to 2000

before the first Fairtrade shipment was made, and 2001 to 2006 when Fairtrade exports became increasingly significant.

During the first sub-period banana exports declined by about one third in Dominica and Saint Lucia, but only by about 4 per cent in St. Vincent and the Grenadines. However, in the second sub-period the decline in Dominica was greater (36 per cent) but in Saint Lucia exports actually increased. In St. Vincent and the Grenadines the decline in exports accelerated in this phase (table 3).

**Table 3**  
**Windward Islands Banana Exports (Tonnes)**

<b>Year</b>	<b>Dominica</b>	<b>Grenada</b>	<b>Saint Lucia</b>	<b>St. Vincent &amp; the Grenadines</b>	<b>Windward Islands</b>
1996	39,533	1,850	104,805	43,986	190,174
1997	34,902	102	71,397	31,021	137,422
1998	28,135	94	73,039	39,885	141,153
1999	27,264	583	65,196	37,377	130,420
2000	27,157	722	70,280	42,336	140,495
2001	17,575	566	34,044	30,497	82,682
2002	17,213	505	48,029	33,252	98,999
2003	10,336	394	34,420	22,617	67,767
2004	12,591	338	43,199	22,599	78,727
2005	10,501	0	30,958	17,399	58,858
2006	11,264	0	34,243	15,761	61,267

Source: WIBDECO

Despite the decline in the quantum of exports earnings stabilized in Dominica and increased significantly in Saint Lucia during the 2001-2006 period (table 4). On the other hand, St. Vincent and the Grenadines experienced significant declines in revenue in both periods as the country was unable to reverse the declining trend of exports caused by a combination of factors, including the prevalence of banana leaf spot disease as well as the adverse effects of hurricanes since 2004.



**Table 4**  
**Windward Islands Banana Export Revenues (US\$M)**

Year	Dominica	Saint Lucia	St. Vincent & the Grenadines
1996	18.4	52.1	21.7
1997	17.9	37.1	16.0
1998	14.9	36.8	22.3
1999	14.9	33.8	19.8
2000	11.7	28.3	19.2
2001	8.1	19.5	14.0
2002	8.4	27.3	17.1
2003	6.2	19.9	11.8
2004	8.2	25.7	12.5
2005	7.9	21.8	11.4
2006	8.3	25.3	11.1

Source: WIBDECO

Fairtrade has had a positive impact on the banana industry in the Windward Islands especially in Dominica and Saint Lucia. Farmers receive about US\$1 more for each box of Fairtrade bananas exported compared to a box of conventional bananas. They, therefore, earn more than they would exporting conventional bananas in a situation of increased competition and declining price in import markets. Under Fairtrade standards producers secure long-term contracts from buyers and are guaranteed the minimum price regardless of falls in international prices. Buyers are also required to provide pre-financing on contracts if producers request it.

Fairtrade impact has not only been in terms of sustaining the earnings and hence livelihood of banana farmers but also in upgrading farming operations and improving social and environmental conditions within communities through the social premium paid to producer groups. The farmers' association, WINFA, receives the Fairtrade premium of US\$1.75 per box which is to be used for social and environmental projects. Some of the projects benefiting from the social premium were improvement to schools in Dominica, community centres in St. Vincent and the Grenadines and support for agro-processing in Saint Lucia.

An intangible but equally important benefit has been the enhancement of the social capital in rural communities. Farmers have increased their participation in meetings to discuss farming issues on account of their Fairtrade commitment.<sup>23</sup> This has resulted in improved farming practices and product quality as well as increased community awareness and actions to resolve environmental and other issues that have adverse impact on agriculture as well as the quality of life in the communities.

## 2. Sustainability of Fairtrade

Despite the positive impact of the Fairtrade initiative the question must be asked whether this export model is sustainable without State support and based only on market response. This

<sup>23</sup> See for example "Fairtrade Bananas Impact Study", Dominica, Windward Islands, June 2004

concern about sustainability stems from the recent criticisms by Fairtrade groups of the banana price war waged by leading supermarkets in the United Kingdom. Wal-Mart's ASDA has been at the forefront of banana price cuts starting in 2002 when the supermarket cut the retail price of its bananas from £1.08 to 94p per kilogram. It cut banana prices again in 2005 and 2006 when its price was as low as 64p per kilogram. As a result of the price-cut competition between ASDA and the other major retailers, the former reduced its price further to 59p per kilogram in 2007.

Although the price cut affected loose bananas and not the packaged Fairtrade bananas, because it widened the price differential between conventional and Fairtrade bananas<sup>24</sup> it has the potential to affect the demand for Fairtrade bananas among price sensitive consumers. Fairtrade banana sales in the United Kingdom have grown significantly from £7.9 million in 2000 to £65.6 million in 2006 and more than doubled in 2007 to £150. This phenomenal growth in sales is largely due to the promotional and advocacy campaigns carried out by Fairtrade groups and the decision by some retailers such as Sainsbury and Waitrose to stock only Fairtrade bananas. In 2002, the Fairtrade Mark was recognized by 20 per cent of the British public. By 2007 this increased to 57 per cent of the public.<sup>25</sup> Despite this growth there is still potential for expansion of the Fairtrade market in the United Kingdom. This could however be affected by the significant reduction in price of conventional bananas.

Although Fairtrade is a market-based model – consumers “subsidize” production by paying the Fairtrade price – it is criticized for not responding to market signals,<sup>26</sup> that is, it should signal to farmers to move out of production when prices fall significantly. But that would only be rational if the product is a mass market product. The Fairtrade market is so far a niche market where products are differentiated from their conventional market counterparts in terms of fair returns to the producers and improvement in social and environmental standards. Minimum prices for products are set by Fairtrade Standards and their viability is determined by the willingness and ability of consumers to support this concept of “fair” trade. Increased support and hence demand for Fairtrade bananas would increase the volume traded and therefore reduce costs such as shipping and packaging.<sup>27</sup>

Fairtrade has made a difference to the fortunes of banana producers in the Windward Islands particularly in Dominica where the banana industry seemed unlikely to survive after significant changes to the EU banana import regime due largely to WTO rulings against the regime. However, the islands remain vulnerable to natural disasters especially hurricanes which have adversely affected the banana industry. The Windward Islands as well as Jamaica have experienced a number of hurricanes since the devastating Hurricane Ivan in 2004<sup>28</sup> that practically wiped out the banana industry in Grenada. The latest Hurricane Dean had a devastating effect on the industry in a number of islands in 2007. The whole industry was practically destroyed in Dominica, Jamaica and the French island of Martinique; about two thirds

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<sup>24</sup> Fairtrade bananas have become more expensive than they were about 5 years ago.

<sup>25</sup> “Facts and Figures on Fairtrade” from [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

<sup>26</sup> “Fair trade is booming but is it still a fair deal?” UK Independent 24 February 2007

<sup>27</sup> Those costs tend to be higher on a per-unit basis for products imported in relatively small quantities. See for example “Are consumers getting a fair deal from Fairtrade products” at [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

<sup>28</sup> Recent hurricanes were Ivan in 2004, Dennis and Emily in 2005 and Dean in 2007.

in Saint Lucia; 10 per cent in St. Vincent and the Grenadines; and about 80 per cent in the French island of Guadeloupe.<sup>29</sup>

The 2007 hurricane also adversely affected the islands' Fairtrade exports especially in Dominica where virtually all banana exports were under the Fairtrade label. Although the islands received assistance towards rehabilitation from governments as well as marketing companies the concern is for viability of the industry given the serious damage from the hurricane, the relatively low banana prices in the United Kingdom market and the liberalization of the EU import regime under the Economic Partnership Agreements negotiated with ACP groups of countries.

The damage to Jamaica's banana industry came at a time when Jamaica was moving towards becoming a Fairtrade exporter. The EU Banana Support Programme has been assisting the farmers certified under EUREPGAP<sup>30</sup> to obtain certification under Fairtrade. Rehabilitation of the banana farms damaged by Hurricane Dean as well as the development of Fairtrade production is to be supported under a financing agreement for €6 million signed in January 2008 by the European Commission.<sup>31</sup> The Fairtrade option is still seen as a viable option for banana producing countries that are unable to compete with low-cost producers.

### 3. EU Support Measures

At the same time the European Commission is supporting diversification to deal with the problem of lack of competitiveness in banana exports. Whereas diversification may be more easily pursued by companies and large estates such as in Jamaica, for example, it is a more difficult undertaking for farmers operating on relatively small plots on hilly terrain such as in the Windward Islands. Developing alternative crops also takes time and investment so that these islands would need a viable banana industry as a base from which to pursue development of new industries. However, Fairtrade alone would not guarantee the viability of the banana industry although an expansion of such trade would certainly help small-scale producers and farm workers. Developing capacity to take advantage of Fairtrade is critical for such producers. This is where European governments and the United Kingdom government in particular can provide support to banana farmers in the Caribbean islands.

Of equal or greater importance is the need to address the problem at the international trading level – bilateral as well as multilateral. The EPA concluded between the Caribbean (CARIFORUM) and the EU before the end of 2007 provides for tariff-free and quota-free access for Caribbean bananas to the EU market. EPA agreements with African ACP countries – interim agreements were made – will provide similar access for those countries. This is of concern to small Caribbean banana exporters such as the Windward Islands and Jamaica since African exporters such as Cameroon and Côte d'Ivoire have been expanding their banana production and exports to the EU since the recent changes in the EU import regime.

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<sup>29</sup> Information obtained from [www.bananalink.org.uk](http://www.bananalink.org.uk) and other sources.

<sup>30</sup> EUREPGAP is a standard for good agricultural practice (GAP) developed by the Euro-Retailer Produce Working Group (EUREP) made up of leading European food retailers to ensure food safety by promoting good agricultural production practices based on international standards. EUREPGAP certification became mandatory from 2003 for produce exported to Europe. [www.eurep.org](http://www.eurep.org)

<sup>31</sup> Freshplaza.com, 1 February 2008

However, the concern is timely given the perceived strategy of multinational banana companies which were said to have influenced the countries where they operate banana plantations – Cameroon, Ghana and Côte d’Ivoire – to sign an EPA agreements with the EU<sup>32</sup>. For example, Dole and Del Monte have been active in Cameroon and Côte d’Ivoire where they developed large-scale plantations and Chiquita was reported to be considering shifting some of its banana production from Latin America to Côte d’Ivoire and possibly Ghana and Somalia.<sup>33</sup> Chiquita, a United States-based company, was at the forefront of the challenge to the EU banana regime that discriminated in favour of ACP exporters. Now with the liberalization of ACP quotas, these multinational companies would be able to not only increase banana exports to the EU but also to export their bananas free of tariff. The losers would be the smaller producers in the Caribbean who cannot compete with the large-scale operations of the multinational companies. Producers in Latin America may also find themselves in a disadvantageous position since they would be competing against tariff-free exports from similar large-scale production in Africa.

One way to ensure that small-scale producers in the Caribbean are given a fair deal in their international trade is to increase advocacy for fair competition and fair trade rather than free competition and free trade. Whereas Fairtrade producers have to meet strict social and environmental requirements of Fairtrade standards there is no similar requirement at the end of the value chain. Retailers in the United Kingdom tend to be less concerned with the social and environmental conditions under which bananas are produced once the fruit satisfies their requirement in terms of product specification<sup>34</sup> and price. For example, the supermarket ASDA was able to initiate a price war by significantly reducing its banana price after it awarded its entire banana supply contract to Del Monte based on the low price bid of that supplier.<sup>35</sup> Higher standards at the retail end of the chain would prevent the “race to the bottom” in price as well as improve the conditions of banana workers. Such standards should be included in the contractual arrangements between retailers and suppliers.

At the multilateral level the EU and ACP countries should endeavour to have clauses included in WTO agreements that guarantee social and environmental standards. This will be a difficult undertaking given the GATT principle of non-discrimination which relates to products and not to processes and production methods and the failure to agree on labour and environmental standards at the Singapore conference in 1996. Developing countries have been the main objectors to the inclusion of such standards which they fear would be a form of protectionism by developed countries given the low costs of production in a number of developing countries.<sup>36</sup> However, the low cost of production in some banana producing countries such as those in Latin America is based not only on large-scale production but also on poor labour and environmental standards.

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<sup>32</sup> See Alistair Smith, International Coordinator of Banana Link, “The Usual Last-minute Banana Peels” at [www.bananalink.org.uk](http://www.bananalink.org.uk)

<sup>33</sup> Renwick Rose, “The EPA and Bananas” [www.bananalink.org.uk](http://www.bananalink.org.uk)

<sup>34</sup> This refers to appearance such as shape, size, blemish and ripeness.

<sup>35</sup> “Caribbean Bananas: A Case for Equitable Trading” [www.cbea.org](http://www.cbea.org)

<sup>36</sup> See for example, Herman Van Beek, “The Importance of Social and Environmental Clauses for a Sustainable Banana Industry”, International Banana Conference, May 1998

The EU could enhance the production and fair trade of the small banana producers in the Caribbean by using its banana tariff (or some portion) to support the Fairtrade initiative as well as to develop the capacity of producers (particularly in the Windward Islands) to successfully manage “Fairtrade” banana operations and make the conversion where feasible to the production of organic bananas.<sup>37</sup> This would be in keeping with its commitment in the Cotonou Agreement to ensure the viability of the industries that were covered by the commodity protocols. However, since EU budget rules do not allow for targeting tariff revenue<sup>38</sup> this would not be a feasible option. The EU could instead include the Windward Islands in the strategy for supporting the banana producers in the EU outermost regions in the Caribbean.

#### 4. Cooperation with EU banana producers in the Caribbean

The option of linking Caribbean banana producers in particular those in the Windward Islands with EU producers in the “outermost regions” of the EU is one that is worth exploring given both the interest of the EU as well as the Caribbean location of some of the regions. Banana production in the EU (16 per cent EU supply) takes place mainly in what are called the outermost regions of France, Portugal and Spain<sup>39</sup> with a small amount (2 per cent) being produced in Cyprus, Greece and continental Portugal. It is the two outermost regions of France in the Caribbean, namely Guadeloupe and Martinique (hereafter referred to as “the regions”), that present the possibility of some level of integration (perhaps production integration) with the Windward Islands especially Dominica and Saint Lucia.

The regions are part of the European Union although they are geographically remote from Europe. Guadeloupe and Martinique have more in common with the Windward Islands in terms of size, topography, climate, insularity and economic dependence on a few products than with the mainland countries of the EU. They have benefited from the EU Structural Funds used to support development and productive employment in the regions. Those funds were supplemented by specific programmes (POSEI)<sup>40</sup> to compensate for the insularity and remoteness of the regions. The programmes were geared toward improving infrastructure and modernizing traditional industries such as bananas, sugar and rum, among others.

Local production of agricultural goods including bananas is covered by the Common Market Organization (CMO) of the product under the CAP of the EU. Provision was made by the EU to compensate the regions for any loss of income<sup>41</sup> consequent upon the implementation of the common organization of the market in bananas in 1993 so that producers were not placed in a worse position than before 1993. The maximum quantity of bananas for which compensation

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<sup>37</sup> A number of proposed uses of the EU banana tariff revenue are suggested in “Recycling EU Banana Tariff Revenues: A Proposal by the Organisers of the Second International Banana Conference”, January 2006

<sup>38</sup> Karen J. Alter and Sophie Meunier, “Nested and Overlapping Regimes in the Transatlantic Banana Trade Dispute”, *Journal of European Public Policy* 13:3 April 2006, p.372

<sup>39</sup> The seven regions classified as outermost are Guadeloupe, Martinique, French Guiana and Réunion (France), Azores and Madeira (Portugal) and the Canary Islands (Spain).

<sup>40</sup> The programme goes by its French acronym POSEI (Programme d’Options Spécifiques à l’Éloignement et l’Insularité).

<sup>41</sup> Compensation was calculated based on the difference between a flat-rate reference income (itself based on the average price produced during a reference period before 1993) and average income received in the EU in the particular year. EU Council Regulation No. 404/93 of 13 February 1993

would be paid was fixed at 854,000 tonnes. The EU would also pay a premium<sup>42</sup> for the cessation of banana production in very small regions of the Community where conditions for such production were unsuitable. As part of the reform of the EU banana regime in 2006 and on the basis of an assessment of the impact of trade liberalisation on the EU banana producing regions, the European Commission abolished the compensation aid scheme and transferred funds instead to the POSEI for supporting banana producers in the regions.

The agricultural component of the POSEI programmes was devised to address the structural constraints of the regions such as the small size of holdings and high production costs. The measures implemented under the programmes are said to have contributed to improved quality and quantity of production.<sup>43</sup> The Windward Islands have the same structural constraints as the regions and the EU has funded restructuring of the banana industry there as well. However, these measures have been separate for each set of countries. A more coherent and structured approach would be to support in an integrated way the development of the two regions and their agricultural sectors which play a crucial part in their overall development.

In the European Commission Report (2000) on the measures to implement the new Article 299(2) of the European Community Treaty, the Commission observed that a sustainable development strategy for the regions should include their integration within their regional geographical context or specifically regional cooperation between them and ACP Caribbean countries. In 2004 the Commission argued for a stronger partnership between the regions and neighbouring ACP countries within the context of enhancing economic integration in the EPA.<sup>44</sup> The Commission suggested the possibility of allocating funding to projects between the regions and ACP countries. This points the way for cooperation in agro-industrial development between the Windward Islands and the regions in areas including banana production and processing into value-added products.

### **C. Diversification**

Although the EU has been supporting the improvement of competitiveness of banana production in the Caribbean, it has also been supporting diversification in countries that would be unable to improve competitiveness. Funds were provided from 1994 under a “special system of assistance” (SSA) which was replaced in 1999 by a “special framework of assistance” (SFA). The latter provided for diversification out of bananas as well as enhancing competitiveness which had been the focus of the earlier support programme. Agricultural diversification is the focus of an agreement signed between the EU and the Food and Agricultural Organization (FAO) in Barbados in 2008 to provide support to the Windward Islands valued at €3.3 million over a three-year period.

The tendency in Caribbean countries has been to focus the agriculture sector on a single agricultural export crop. This has to a large extent been encouraged by developed countries that

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<sup>42</sup> The premium was set at €1000 per hectare but could be adjusted depending on conditions in specific areas.

<sup>43</sup> See Commission Report on the Measures to Implement Article 299(2) – the Outermost Regions of the European Union, COM/2000/0147.

<sup>44</sup> See “Communications from the Commission – A Stronger Partnership for the Outermost Regions”, COM/2004/0343.

provided the markets for the crops. But developing dependence on a single crop makes it difficult to diversify especially when that crop loses its competitiveness in traditional markets. It also takes time to develop alternative agricultural industries. Efforts at diversification into industries that could replace the banana industry have not been successful so far. Nevertheless, the EU continues to support diversification in banana growing regions in order to provide alternative livelihoods to farmers and households dependent on the banana industry. What is new is that the EU now supports the development of Fairtrade banana production.<sup>45</sup> This would help in sustaining livelihoods while new areas of growth could be explored and developed.

One aspect of diversification that should be considered especially in light of rising food prices and shortages of some basic foods is orienting production towards local and regional markets. Part of EU support to diversification in Jamaica, for example, has been to encourage increased domestic consumption of bananas.<sup>46</sup> Banana demand has grown significantly in the Caribbean region within the present decade.<sup>47</sup> The tourism market is also a significant source of demand for the produce. Producers in the region would however have to improve quality and reliability of supply. Efficient transport is also a factor that has to be taken into account.

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<sup>45</sup> This support forms part of a financing agreement to assist Jamaican banana producers in January 2008. Freshplaza.com, February 1, 2008

<sup>46</sup> See ECLAC study on restructuring industries to meet the challenge of trade liberalization.

<sup>47</sup> See Note 46.

## V. Changes in the EU sugar regime and the effect on Caribbean economies

### A. The sugar regime

The EU CMO for sugar, or EU Sugar Regime as it is better known, was established in 1968 in order to achieve self-sufficiency in sugar supply and to guarantee a fair and stable income to beet sugar producers in EU member countries. The CMO regulated the sugar sector of the original members of the European Economic Community (EEC) (France, Germany, Italy, Netherlands, Belgium and Luxembourg). It provided minimum guaranteed prices for sugar, high import tariffs to maintain high internal prices and export refunds to ensure the competitiveness of EU sugar exports on the world market. At the same time production quotas were allocated in order to manage production levels. These were divided into an “A” quota approximately representing domestic demand, a “B” quota representing the surplus that could be exported and benefit from export refunds,<sup>48</sup> and a “C” quota representing production over and above the “B” quota which must be exported without the export subsidy. Production levies were imposed on sugar beet growers and processors supplying sugar under both the A and B quotas to cover the cost of exporting quota sugar.

Cane sugar producers in former British territories in the Caribbean region had a guaranteed market for their sugar in the United Kingdom initially under the British Imperial Preference of 1919 and subsequently under the Commonwealth Sugar Agreement of 1951. African sugar producers in the Associated African and Malagasy States gained preferential access to the markets of six members of the EEC under the Yaoundé Convention of 1963. Britain’s accession to the European Community in 1973 resulted in the negotiation of a new sugar arrangement – the first Lomé Convention of 1975 – between a larger group of ACP countries and nine member of the European Community including the United Kingdom. A Sugar Protocol (Protocol 22) was appended to the United Kingdom Treaty of Accession to the EU and incorporated the same guarantees that were contained in the Commonwealth Sugar Agreement.

The Sugar Protocol of the Lomé Conventions allowed ACP countries to export 1.4 million tonnes of raw cane sugar annually for refining in the EU market at the same price as the guaranteed internal support price set for EU beet sugar producers. Caribbean countries were given allocations totaling 428,109 tonnes: Barbados 50,312, Belize 40,349, Guyana 159,410, Jamaica 118,696, St. Kitts/Nevis 15,591 and Trinidad and Tobago 43,751. The intervention or support price for sugar from which Caribbean exporters benefited was set since the 1993/1994 crop year at €631.9 per tonne for white sugar and €523.7 per tonne for raw sugar.

Special quotas were also allocated under a Special Preferential Sugar (SPS) agreement negotiated in 1995 to supply additional refinery needs in the EU. The quota amounts are determined annually by the European Commission based on the refinery needs in the EU. SPS exports receive only about 85 per cent of the price obtained for ACP quota sugar. SPS quotas declined over the years (37 per cent 1995 to 2003) but Caribbean quotas declined more

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<sup>48</sup> These are the payments to EU sugar exporters to compensate for the difference between high EU prices and lower world market prices



significantly (61 per cent over the same period)<sup>49</sup>. The SPS is expected to last for the duration of the Sugar Regime (2006).<sup>50</sup>

A critical factor in the reform of the EU CMO for sugar was the WTO negotiations that were geared toward further liberalizing import tariffs and eliminating export subsidies, which would significantly impact the highly protected EU sugar market. At the same time, as was the case with bananas, the EU sugar export subsidies and guaranteed price for sugar were challenged at the WTO in 2002 by Australia and Brazil. A Dispute Settlement Body was set up in August 2003 and reported in August 2004 in favour of the countries that challenged the sugar regime.

This development as well as criticisms of the structure of the sugar regime led the EU to make proposals for reform beginning in September 2003. Agreement was reached in November 2005 on the first major reform of the EU sugar regime since it was established in the late 1960s. EU sugar prices are to be cut by 36 per cent over four years (2006/2007 – 2009/2010) moving from €523.7 per tonne in 2005/06 to €496.8 per tonne in 2006/07; €448.8 per tonne in 2008/09; and finally to €335.2 per tonne in 2009/10. Restructuring of the EU sugar industry is expected to be voluntary aimed at reducing production by around six million tonnes over the same period. These measures are expected to facilitate EU compliance with the recent WTO ruling to limit subsidized exports. Incentives from a restructuring fund have been provided for sugar beet growers to renounce specific amounts of their quota. However, the European Commission is prepared to make compulsory quota cuts if growers do not renounce sufficient quota by 2010.<sup>51</sup>

Under the EPA negotiated between the EU and ACP groups of countries duty free and quota free access to the EU market will be provided for sugar from 2015 subject to a special safeguard clause. There are two phases in the transition to 2015. In the first phase from the beginning of 2008 to the end of September 2009, Caribbean and ACP countries will continue to receive guaranteed prices for sugar albeit at reduced prices. From the beginning of October 2009 countries would continue to have duty free access but within a ceiling of 3.5 million tonnes of sugar exports from all ACP countries. However, the guaranteed price received could fall short of the EU price since importers of ACP sugar are not required to pay the full EU reference price but only at least 90 per cent of that price until September 2012. After 2012 only a price information system would be available to determine the prices to be negotiated between importers and exporters.<sup>52</sup>

Caribbean and other ACP sugar exporters will be adversely affected by the reforms. The EU reform proposes support to ACP countries affected by the reform measures. Such support will be mainly in terms of improving international trading conditions for ACP countries; enhancing competitiveness of the sugar sectors of such countries where sustainable; and promoting diversification of sugar-dependent areas. Achieving competitiveness will be directed at both the sugar industry and the sugar cane industry with the objective of adding value to the sugar cane as well as sugar products. European Community assistance to Caribbean and ACP

<sup>49</sup> Donald Mitchell, "Sugar in the Caribbean: Adjusting to Eroding Preferences", World Bank Policy Research Working Paper 3802, December 2005, p.6

<sup>50</sup> Ian Gillson, Adrian Hewitt and Sheila Page, "Forthcoming Changes in the EU Banana and Sugar Markets: A Menu of Options for an Effective EU Transitional Package", Policy Brief, Overseas Development Institute

<sup>51</sup> "Sugar Reform: Council backs improved sugar restructuring scheme" IP/07/1401 Brussels, 26 September 2007

<sup>52</sup> "Sugar: Executive Brief" January 2008 accessed at <http://agritrade.cta.int>

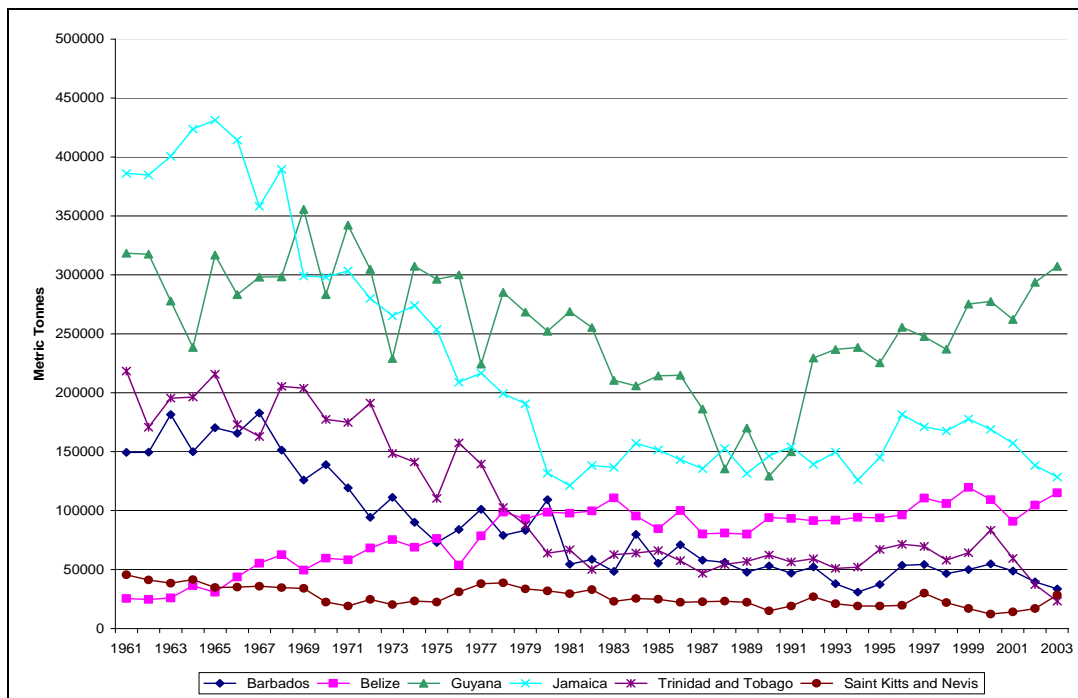
countries would be provided for 2006 but continued support will be available until 2013 through the development portion of the Development Cooperation and Economic Cooperation Instrument.

## B. Effect of changes in sugar regime

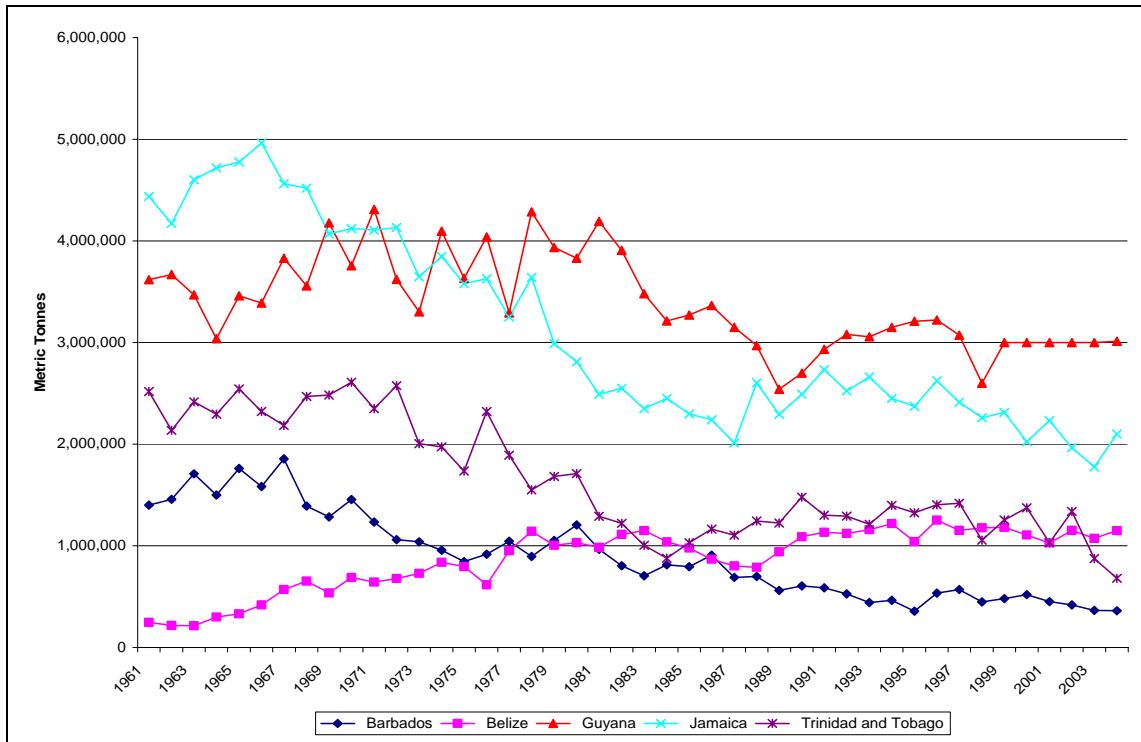
Since the reform of the EU sugar regime has taken place only recently the time period would be too short to assess its impact in terms of Caribbean sugar export performance in the post-reform period from 2007. Nevertheless, some insight can be gained from the pre-reform period as well as from prospective assessments that were undertaken in light of the reforms and the negotiations for Economic Partnership Agreements to replace the previous trade regimes between the EU and ACP countries.

Sugar exports from Caribbean sugar producing countries, with the exception of Belize, have been on the downswing from the late 1960s; in the case of the Dominican Republic decline occurred from the 1970s (figure 8), which was due largely to declining sugar cane production in most of the countries, again with the exception of Belize (figure 9). The most significant decline occurred from the late 1960s up to the early 1980s in the case of Jamaica and Trinidad and Tobago and from the late 1960s up to the early 1990s in the case of Barbados and Guyana. Guyana made a remarkable recovery from 1991 due largely to the privatization of the management of the State-owned sugar company. What is interesting to note is the association of ownership structure and management of the sugar industry with the growth of sugar exports. State ownership has coincided with the downswing of the sugar industry. Privatisation of management especially in Guyana stemmed the decline of the 1980s.

**Figure 8: Caribbean Sugar Exports**



Source: Based on FAOSTAT

**Figure 9: Caribbean Sugarcane Production**

Source: Based on FAOSTAT

Caribbean sugar exports declined during a period when world sugar exports and world sugar consumption increased significantly. Exports remained more or less at EU quota levels. The factors that influenced the decline of sugar exports were domestic, related to production and management inefficiencies and high costs in State-owned sugar operations. The economic rent or income transfer from the EU sugar preference sustained the sugar industry in the Caribbean but, with the exception of Guyana, did not contribute toward restructuring the industry to improve efficiency and reduce costs.

Reduction in the guaranteed price for sugar in the EU market will have a significant impact on the sugar industry in most Caribbean countries given the fact that most of the industries were not restructured to improve competitiveness. Export earnings for the region will decline by over half (52 per cent) over the four years of the reform period as shown in table 5 assuming that countries export their full quota. For Caribbean countries to maintain the same level of earnings prior to the reform, they would have to increase the volume of their exports by about 56 per cent over the four year period (table 6). This would only be possible if the sugar quota is increased. An increase in the Caribbean quota was announced consequent upon the conclusion of an EPA between the EU and the CARIFORUM group; 60,000 tonnes would be added to the group's quota with 30,000 to be shared among the CARICOM countries and 30,000 allocated to the Dominican Republic.

**Table 5**  
**Impact of EU Sugar Price Reduction on Caribbean Export Earnings**

	<b>Sugar Quota ('000 tonnes)</b>	<b>Earnings 2005/06 (€m) based on €523.7/t</b>	<b>Earnings 2006/07 &amp; 2007/08 (€m) based on €496.8/t</b>	<b>Earnings 2008/09 (€m) based on €448.8/t</b>	<b>Earnings 2009/10 (€m) based on €335.2/t</b>
Barbados	34.9	18.3	17.3	15.7	11.7
Belize	43.9	23.0	21.8	19.7	14.7
Guyana	173.3	90.7	86.1	77.8	58.1
Jamaica	129.0	67.6	64.1	57.9	43.2
St. Kitts/Nevis	16.9	8.9	8.4	7.6	5.7
Trinidad & Tobago	47.6	24.9	23.6	21.3	15.9
Total Caribbean	445.6	313.5	221.3	200.0	149.3
New Quota with 30,000 tonnes from 2008 to 2009	475.6			213.4	159.4

Source: Stephen Thornhill, "Safeguarding the Benefits of the ACP-EU Sugar Protocol in the Context of the EPA Negotiations, 28 February 2007; and author's calculations for earnings based on the new CARICOM quota including the additional 30,000 tonnes

**Table 6**  
**Caribbean Sugar Export Volume Required to Maintain Current Export Earnings Based on €523.7/t**

	<b>Export Quota 2005/06 Tonnes ('000)</b>	<b>Tonnes ('000) 2006/07 &amp; 2007/08</b>	<b>Tonnes ('000) 2008/09</b>	<b>Tonnes ('000) 2009/10</b>
Barbados	34.9	36.8	40.7	54.5
Belize	43.9	46.3	51.2	68.5
Guyana	173.3	182.7	202.2	270.7
Jamaica	129.0	136.0	150.5	201.6
St. Kitts/Nevis	16.9	17.9	19.8	26.5
Trinidad & Tobago	47.6	50.1	55.5	74.3
Total Caribbean	445.6	469.8	519.9	696.1

Source: Author's calculations

With the reduction in price and increase in quota the total earnings of CARICOM countries would increase from €200 in 2008 to €226.9 in 2009 or by 13 per cent more in each of those years (table 5). These earnings would however represent a reduction of 46 per cent of the earnings of 2005/2006 or 6 per cent less than the decline in earnings they would experience without the increase in the quota.

Increased tonnage would not be the answer to the EU sugar price reduction if the EU is unable to reduce its production quota by the targeted 6 million tonnes over the four-year period since that would only create surplus on the EU market and lead to further price decline. The amount of EU quota renounced so far has been below the target set by the European Commission which may now have to make compulsory cuts to manage production in light of the EU WTO commitments. Nevertheless, further price reduction may be inevitable given the EU decision to liberalise its sugar imports from ACP countries that sign EPA agreements and the need to significantly reduce its domestic production.

Although increased exports would help Caribbean producers to maintain their export earnings from the EU market, it may not be practicable for most countries to increase production given limited resources and high costs of production. Cost of production data are difficult to obtain. However, estimates show that Belize and Guyana have the lowest costs whereas St. Kitts/Nevis and Trinidad & Tobago have the highest costs. Barbados and Jamaica have relatively high costs compared to Belize and Guyana (table 7). With a €335 per tonne price for sugar in 2010 only countries from Mozambique to Congo would be able to export to the EU market without incurring losses. This group includes the CARICOM countries of Guyana, Belize and Jamaica. In the event of a 50 per cent price cut after another round of EU reforms in 2013 no Caribbean country will be able to export profitably to the EU.

Guyana is considered to be the only country in the CARICOM region whose sugar industry will remain financially viable given the EU sugar price cut. Nevertheless, the country will need to prevent costs from rising in the event of further reduction in the EU sugar price. Despite being a lower cost producer Belize may not be able to survive the significant price reduction given its cost structure.<sup>53</sup>

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<sup>53</sup> The prospects for CARICOM and other ACP sugar producers are discussed in LMC International & Oxford Policy Management, “Addressing the Impact of Preference Erosion in Sugar on Developing Countries” September 2003

**Table 7**  
**Caribbean and ACP Sugar Costs and EU Sugar Price Reductions**

	<b>Production Cost (€t)</b>	<b>Transport Costs (€t)</b>	<b>Total Cost (€t)</b>	<b>Pre-Reform EU Price (€t)</b>	<b>EU Price 2010 (€t)</b>	<b>EU Price 2015 (50% Less than Pre-Reform Price (€t))</b>
Mozambique	141	68	209	533.7	335.0	261.8
Malawi	141	92	233	533.7	335.0	261.8
Zimbabwe	158	84	242	533.7	335.0	261.8
Swaziland	176	76	252	533.7	335.0	261.8
Zambia	141	116	257	533.7	335.0	261.8
Guyana	211	76	287	533.7	335.0	261.8
Mauritius	229	64	293	533.7	335.0	261.8
Belize	211	92	303	533.7	335.0	261.8
Fiji	229	80	309	533.7	335.0	261.8
Jamaica	264	56	320	533.7	335.0	261.8
Tanzania	211	120	331	533.7	335.0	261.8
Congo	229	104	333	533.7	335.0	261.8
Côte d'Ivoire	264	112	376	533.7	335.0	261.8
Kenya	264	120	384	533.7	335.0	261.8
Madagascar	317	80	397	533.7	335.0	261.8
Barbados	352	60	412	533.7	335.0	261.8
St.Kitts/Nevis	440	80	520	533.7	335.0	261.8
Trinidad & Tobago	440	80	520	533.7	335.0	261.8

Source: "Sugar: Executive Brief" January 2008 <http://agritrade.cta.int>

## VI. Options for Caribbean sugar producers

### A. Industry expansion

The sugar industry in Guyana is best positioned to take advantage of the liberalization of the EU market under the EU-CARIFORUM EPA. Guyana embarked on a restructuring programme in 2005 to improve the price competitiveness of its sugar industry as well as diversify into other sugar-related areas such as refining, co-generation and ethanol production.<sup>54</sup> The centerpiece of the plan is the (US\$170 million) Skeldon Modernisation Project which involves the construction of a new sugar factory to replace the existing one at Skeldon in the north east of Guyana. One of the objectives of the project is to reduce the cost of production by about one third from about US.8 cents per kilogram (US.18 cents per pound) to less than US.5 cents per kilogram (US.11 cents per pound). Another objective is to supply power to the national electricity grid. The new sugar factory was designed with a co-generation facility capable of providing 10 megawatts of power to the national grid.

The Skeldon factory which was scheduled to come on stream in 2007 is now expected to be commissioned in 2008. Latest reports indicate that the factory is nearing completion with tests being currently performed on the various components of the factory's operations. The factory is expected to eventually reach its capacity to process 1.2 million tonnes of cane annually into more than 100,000 tonnes of sugar.<sup>55</sup> However, achievement of the targeted sugar output of the factory is dependent on the supply of cane to the new factory. Additional production of sugar cane is expected to come from 8,900 hectares of new estate lands as well as farmers' lands being developed.

The new Skeldon factory is considered to be a state-of-the-art factory in the Caribbean, incorporating relatively new and modern technology to achieve high levels of efficiency. Attention therefore has to be paid to the skills requirement for managing and operating the facility. Both local and foreign expertise have been recruited to ensure that the factory operates at its required high standard. While skilled labour is being recruited for the Skeldon operations, conversion from manual labour to machines is being pursued on the East Demerara Estates in order to reduce costs and in light of the decline of the labour force.

Expanding production, improving efficiency and reducing costs will allow the Guyana sugar industry to maintain its profitability in relation to its exports to the EU market. In addition, the Guyana Sugar Corporation (GuySuCo) has diversified its sugar production into packaged branded sugar and into organic sugar on a trial basis. Since the introduction of its packaged 'Demerara Gold' sugar in 2003, sales increased from 600 tonnes in 2003 to 7000 tonnes in 2007. Most of the packaged sugar is sold in the Caribbean whereas raw bulk sugar is sold mainly in the EU and United States markets.

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<sup>54</sup> For a discussion of the restructuring options for the sugar industry in CARICOM countries see ECLAC, *Restructuring Caribbean Industries to Meet the Challenge of Trade Liberalisation*, Limited LC/CAR/L.77, 21 December 2005

<sup>55</sup> "Modern Skeldon Sugar Factory Nears Completion", *Guyana Chronicle*, Monday 17 March 2008.

Belize, like Guyana, may be able to successfully pursue the industry expansion option since its sugar industry expanded significantly over the years and has a relatively low cost of production. However, restructuring of the industry would have to be pursued to improve efficiency, increase sugarcane yield and hence quantity of sugar. This is the strategy that Belize adopted in light of the price cut announced by the EU in 2005. Belize had also proposed that the EU increase the country's sugar quota from 42,000 to 100,000 tonnes in order to offset the sugar price reduction.<sup>56</sup> Under its sugar adaptation strategy for 2006-2013 financed by the European Union, Belize is to enhance the competitiveness of its sugarcane and sugar industries as well as pursue diversification.<sup>57</sup>

Despite its high cost of production Jamaica could also pursue the industry expansion option. The government had indicated its intention to retain sugar production to meet a target of 138,000 tonnes for its export markets. The reform strategy would focus on the production of molasses and ethanol in addition to the production of raw sugar. The State-owned sugar factories are to be privatized with the expectation of attracting investment to modernize them and thus increase their efficiency. If this could be done successfully then Jamaica could take advantage of the market liberalization under the EPA which will come into effect from 2010. However, expansion of sugar production to take advantage of new market access would be dependent on the strategy of the new owners of the five sugar factories that are being sold.

The sale of the factories and the leasing of the sugar cane lands are expected to be completed by mid-2008. The sugar assets of the government are likely to be acquired by a Brazilian company which was the only company to follow through on its original bid. The conditions governing the sale would guarantee pursuit of the government's reform strategy based on diversification within the sugar industry.<sup>58</sup> Brazil is a significant producer of both sugar and ethanol but does not have the free access that Jamaica has to the EU market for sugar or the United States market for ethanol. The industry expansion model to increase production becomes more feasible for Jamaica in light of the efficient production of sugar and ethanol in Brazil by the prospective investor.<sup>59</sup>

## **B. Specialty and high value sugar**

The option of moving from the export of bulk sugar to that of special higher value sugars is more appropriate for Barbados which is a high cost producer of sugar. It would be difficult for Barbados to substantially expand its sugar production and significantly reduce its costs to take advantage of the new access for CARIFORUM sugar to the EU market. This is so for at least two reasons. One is the inability of the industry to meet its full costs which could adversely

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<sup>56</sup> ECLAC, *Restructuring Caribbean Industries to Meet the Challenge of Trade Liberalisation*, Limited LC/CAR/L.77, 21 December 2005

<sup>57</sup> "Sugar Sector to Receive BZD\$7 million under Sugar Adaptation Strategy", European Union Press Release, Belmopan, 22/02/07

<sup>58</sup> The government is to absorb the debt of the Sugar Company of Jamaica which owns the five factories on condition that the new owner invests in the upgrading of the factories and cater towards new value added markets. "Infinity BioEnergy, Government of Jamaica commence sugar negotiations – June sale still targeted". Gleaner (Jamaica), April 2, 2008

<sup>59</sup> The Brazilian company is said to produce sugar at about one third the cost of production in Jamaica. Gleaner (Jamaica) April 2, 2008



affect the investment required to improve efficiency and hence reduce costs.<sup>60</sup> The other is the difficulty in increasing the amount of sugar cane required for expansion of sugar production.

Barbados has a limited amount of arable land. A significant amount of agricultural land (about 38 per cent) is already under sugar cane although the area harvested has declined significantly over the years; area harvested declined by more than half since 1970 (from about 20,000 hectares in 1970 to about 7,000 hectares in 2006). The growth of housing and tourism has constrained the availability of land for significant expansion of agriculture. Barbados has adopted a different strategy for sustaining its sugar industry by focusing on its sugar cane industry and new products derived from it.

Based on a strategic plan for restructuring the sugar industry, a new multi-purpose facility is being set up to replace the two existing sugar factories at Bulkeley and Portvale and is expected to begin operations in 2010. The target is for the facility to produce 20,000 tonnes of specialty sugar. Along with sugar the facility is expected to produce 23 million litres of ethanol, 36,445 tonnes of high grade molasses and 20 megawatts of electricity from the bagasse.<sup>61</sup> To achieve the last target, test fields of (high fibre) fuel cane have been cultivated. The strategic plan is also linking the sugar industry to the tourism industry through a plan for a 'Living' Sugar Museum at the Bulkeley factory that will demonstrate a live interpretation of the history of sugar in Barbados. A historical sugar museum (Sir Frank Hutson Museum) already exists at the Portvale Sugar Factory.

The production of specialty sugar has already begun. The 'Plantation Reserve' brand of sugar was launched in Barbados in 2006 and has been exported within the Caribbean as well as to the United Kingdom. The brand is targeted towards an upper end niche market and as such is more expensive than regular sugar. At a price of £5 per tin (500 grammes) Barbados received £100,000 or US\$203,000 for 20,000 tins (10 tonnes) sold in the United Kingdom in September 2007<sup>62</sup>. The sugar is sold in up-market stores such as Harrods and Selfridges in the United Kingdom. The marketing success of the sugar can be attributed to the nature of the marketing company, West Indies Sugar and Trading Company (WISTCO), which is a joint venture between the government-owned Barbados Agricultural Management Company (BAMC) and HIPAC Limited – a subsidiary of a private sector company Goddard Enterprises Limited – but also includes British interests that would have been instrumental in securing sales outlets in the United Kingdom.<sup>63</sup>

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<sup>60</sup> Full costs are those that include depreciation allowance and return on capital employed. See LMC International & Oxford Policy Management, "Addressing the Impact of Preference Erosion in Sugar on Developing Countries" September 2003 for assessment of the current and future profitability of sugar production in ACP countries.

<sup>61</sup> The sugar industry restructuring plan was devised by a previous government. The new government which recently came into office is still to reveal its plan for the sugar industry.

<sup>62</sup> The objective, according to the Managing Director of WISTCO, is to realize this amount of sales every month throughout the UK. Nation Newspaper, "Sweet Taste of Success" 10/3/07

<sup>63</sup> HIPAC's contribution is expertise gained through decades of manufacturing international brands such as Cockspur Rum whereas BAMC contribution is in the area of sugar manufacturing. The UK investors provide the international marketing experience critical for establishing the brand in international markets. Goddard Enterprises Limited [www.goddardenterprisesltd.com](http://www.goddardenterprisesltd.com)

The Plantation Reserve Model is of interest for at least two reasons, the way the sugar is produced and the returns to the producers. The sugar is milled and not refined, as is the case with regular sugar, using 'high sucrose' canes that are harvested at the height of the season, that is, when the sucrose content is at its highest. It is not subject to the centrifugal process used for producing traditional sugar which removes the molasses from the sugar. It is instead heated to produce crystals that are lighter and coarser than other raw cane sugars. It is therefore like the whole sugars such as Muscovado sugar, which are unrefined, non-centrifugal cane sugars. Such sugars retain most of their nutrients and fetch higher prices than refined sugars in European markets.

WISTCO pays almost twice as much as the EU price for the sugar it buys from the producers. The payment more than covers the cost of harvesting the cane and producing the sugar. It also provides support for development programmes. The model is similar to the Fairtrade initiative that pays prices which cover costs of production as well as a premium for development of the surrounding communities. The difference is that whereas Fairtrade sales are based largely on the ethical nature of the product, the specialty sugar sales are based on the luxury nature of the product. For Barbados to be successful with this model it will have to significantly increase sales in order to justify investment in the Multi-Purpose Facility as well as meet the target of sales of 20,000 tonnes of specialty sugar.

Barbados will have to significantly increase production to meet its target. Its strategy is mainly to increase cane yield although cultivating sugar cane on idle agricultural land is also to be considered. This makes sense despite the increase in the sugar yield of milled cane. Sugar cane yield and area harvested have both been declining. For example, sugar cane yield declined from 64 tonnes per hectare in 1996 to 52 tonnes per hectare in 2006. Area harvested also declined significantly from 8,400 hectares to 6,674 hectares over the same period (table 8).

**Table 8**  
**Barbados Production of Sugar Cane and Sugar 1996-2006**

	<b>Area Harvested (Hectares)</b>	<b>Canes Milled (Tonnes)</b>	<b>Canes per Hectare (Tonnes)</b>	<b>Sugar Output (Tonnes)</b>	<b>Tonnes Cane/Tonne Sugar (Tc/Ts Ratio)</b>
1996	8400	534,886	64	59,114	9.05
1997	8900	570,872	64	64,613	8.84
1998	8100	448,741	55	47,971	9.35
1999	8200	521,897	64	53,196	9.81
2000	8700	537,571	62	58,374	9.21
2001	8467	419,466	50	49,796	8.42
2002	7878	417,847	53	44,819	9.32
2003	7514	364,555	49	36,325	10.04
2004	6992	361,237	52	34,358	10.51
2005	7067	442,436	63	38,241	11.57
2006	6674	348,335	52	33,701	10.34

Source: Based on Official Data

### **C. Fairtrade and organic sugar**

The growth in the Fairtrade market has taken place in the last couple of years. The United Kingdom is the largest European market for Fairtrade products that have been sold since the 1990s. Sainsbury Supermarket in the United Kingdom announced it would switch to Fairtrade sugar by March 2008. Tate & Lyle of the United Kingdom also announced in February 2008 that it would convert all its own brand retail cane sugar to Fairtrade by the end of 2009. The company will source 70,000 tonnes certified Fairtrade sugar from Belize in the first phase of its Fairtrade sugar programme. Tate & Lyle along with the Belize Sugar Cane Farmers Association and the Belize Sugar Industries which process the sugar worked with the Fairtrade Foundation to assist cane farmers in northern Belize meet the fair trade standards.

Tate & Lyle distributes to retailers in the United Kingdom its own brand name sugar that it sources from countries like Belize. Its granulated white cane sugar from Belize will be the first product to carry the Fairtrade mark and will be sold initially by Waitrose and Nisa in the United Kingdom. The conversion to Fairtrade will benefit more than 6,000 small-scale cane farmers in Belize who are members of the Belize Sugar Cane Farmers Association. That association would be the organization to receive the Fairtrade social premium for development purpose in the communities in northern Belize. Tate & Lyle would market the sugar in the United Kingdom as it has done for over 35 years.

The move towards Fairtrade sugar in Belize fits in well with conditions in the country which is prone to natural disasters and experienced significant damage to its agricultural sector from Hurricane Dean in 2007. Sugar cane is produced by independent small-scale farmers who lost a significant amount of sugar cane due to the passage of the hurricane. The loss would have affected both sugar production and exports and hence the earnings of the cane farmers. Fairtrade would also contribute towards some of the objectives of the Belize Sugar Adaptation Strategy such as improvement of the incomes of cane farmers as well as the social conditions in sugar dependent areas.

The Fairtrade sugar sold by Tate & Lyle increases significantly the amount of Fairtrade sugar sold in the United Kingdom. However, that sugar is refined or white sugar that fetches a lower price than whole sugars which are not refined. Belizean farmers would therefore benefit to a lesser extent than their counterparts in Mauritius and Paraguay. One of the Fairtrade sugars from Mauritius sold in the United Kingdom is a dark muscovado sugar whereas the Fairtrade sugar from Paraguay is an organic raw cane sugar. These sugars are advertised in terms of taste and suggested uses are for cereal, coffee and making cakes.

To move towards production and export of Fairtrade higher value unrefined sugar would require the kind of initiative adopted by Barbados in relation to its specialty sugar. Branding is an importing factor in increasing the value of the product as can be observed in the case of one of the Fairtrade sugars from Mauritius sold in the United Kingdom. That sugar is sold under the brand 'Demerara Sugar' which has caused concern in Guyana where Demerara sugar has been associated with that country and in light of the fact that the Guyanese sugar company, GuySuCo,

has had difficulty registering its 'Demerara Gold' brand which was challenged in Canada by a company that packages the Mauritius sugar.<sup>64</sup>

Organic sugar production is somewhat similar to the production of Fairtrade sugar. In fact it is the ultimate stage of Fairtrade production or rather Fairtrade production is an intermediate stage towards organic production. The standards are more difficult to meet for organic sugar production. Countries with large sugar estates such as Belize, Guyana and Jamaica are suitable for such production. However, the costs of production in meeting the standards set for organic production may be high. Guyana embarked on organic sugar production as a pilot project on the West Demerara Estate of Uitvlugt. The project's object is to determine whether GUYSUCO would be able to produce sugar using the organic method of production. Its output is earmarked for the United Kingdom market. Evaluation of the organic trial could inform the decision to produce organic sugar in other Caribbean countries.

#### **D. Possible exit from sugar industry**

The highest cost producers, St. Kitts and Nevis and Trinidad and Tobago, have moved away from producing sugar for the EU market. They have been the least dependent on the sugar industry; the economy of St. Kitts and Nevis relies more on the tourism industry whereas Trinidad and Tobago relies more on its energy sector. However, in light of the significant increases in the price of oil, St. Kitts and Nevis is considering resumption of sugar cane production in order to develop biofuels based on sugar cane.

Trinidad and Tobago, which was expected to exit the sugar industry, continues to produce refined sugar at the State-owned Sugar Manufacturing Company Limited (SMCL). The government decided to maintain the Ste. Madeleine refinery to provide the sugar input to the food and beverage industries in the country. It is proposed to upgrade the refinery to produce 100,000 tonnes of refined sugar or 40,000 tonnes more than is currently being produced as well as improve the efficiency of SMCL.<sup>65</sup> The sugar produced is sold locally as well as exported mainly to CARICOM countries.

Both St. Kitts and Nevis and Trinidad and Tobago would not altogether cease sugar cane and sugar production given the high price of oil and increased demand for commodities on the international market. Sugar cane farmers are still willing to remain in sugar cane production. There are at least 3,000 cane farmers in Trinidad and Tobago supplying cane to SMCL for the production of sugar. Nevertheless, efficiency would have to be improved to contain production costs.

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<sup>64</sup> "Demand for Packaged 'Demerara' Sugar Outstrips Supply – will be met when Skeldon comes on stream", Stabroek News, 25 November 2007

<sup>65</sup> "Upgrade for SMCL's Sugar Refinery", Business Guardian February 28, 2008

## VII. Changes in the EU rice regime and the effect on Caribbean countries

### A. The rice regime

Rice is one of the agricultural products covered by the CAP whose objectives include market stabilization and a fair standard of living for farmers. Rice is traded freely within the EU. The CMO for rice (as well as for the other products covered by the CMO) has rules to regulate production and trade in all the member countries of the EU. A common intervention price provides a floor to domestic market prices. An import tariff system protects internal prices and export refunds compensate for the gap between domestic and world prices.

Rice is produced in specific countries of the EU namely Italy, Spain, Greece, France and Portugal. Italy and Spain are the major producers although the EU as a whole is not a major producer of rice accounting for only 0.5 per cent of world rice production. The EU is however one of the largest importers of rice as well as one of the largest exporters of rice. Its rice exports have been facilitated by its export subsidies and its surplus production which in turn has been encouraged by its agricultural policies. The limitation on the amount of subsidized exports under the WTO resulted in significant increase in the intervention stocks<sup>66</sup> by the end of the 1990s. The high costs of intervention had an adverse effect on the EU budget which led to the 2003 reforms.

The main suppliers of rice to the EU are the United States, Thailand, India and Guyana. The EU imports a substantial amount (about two thirds) of rice on preferential terms. Imports from ACP countries are subject to quotas and reduced tariff. The quotas were introduced in 1997 to limit Guyana's exports that were channeled through the Overseas Countries and Territories (OCT) and hence entered the EU market free of tariff<sup>67</sup>. Three sets of quotas apply to the different types of rice:

- 125,000 tonnes husked rice equivalent
- 35,000 tonnes husked rice equivalent via OCT
- 20,000 tonnes broken rice

The 35,000 tonnes of husked rice that can be exported through the OCT enter the EU market free of tariff. The quotas of other rice enter at reduced tariff. The quotas are administered through import licences issued by the European Commission to EU rice importers. Tariffs were further reduced as part of the rice sector reform of 2003 (table 9). The reduction applied to husked brown rice and semi-milled or milled white rice.

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<sup>66</sup> Intervention stocks accumulate when both production and imports increase and (subsidized) exports are limited.

<sup>67</sup> See "External Trading Arrangements in Rice" at [www.sdn.org.gy](http://www.sdn.org.gy)

**Table 9**  
**EU Rice Tariffs Prior to the 2003 Reform and After the Reform (€/t)**

<b>Type of Rice</b>	<b>General (full tariff) Before Reform</b>	<b>ACP Tariff Before Reform</b>	<b>General (full tariff) After Reform</b>	<b>ACP Tariff After Reform</b>
In the Husk (Paddy)	211	69.51	211	69.51
Husked (Brown Rice)	264	88.06	65	21.67
Semi-milled or Milled (White)	416	133.21	175	58.33
Broken	128	41.18	128	41.18

Source: Commission of the European Communities "Commission Staff Working Paper: Rice" Brussels, 10/7/2002 and USDA Foreign Agricultural Service, GAIN Report, 4/26/2005

Reform of the EU rice regime began in 1995 with a 15 per cent reduction of the intervention price for rice over a three-year period. The price therefore fell from €351 per tonne in 1997/98 to €298.35 per tonne in 1999/2000. EU farmers were however compensated for this reduction by direct payments of €17.5 per tonne in 1997/1998, €35.1 per tonne in 1998/99 and €52.6 per tonne in 1999/2000. A ceiling was also placed on the area for rice production in the EU in order to discourage overproduction. These measures had only a limited effect on the reduction in intervention stocks which had increased again by 19 per cent in 2003.

The failure to restrict the growth of intervention stocks and the fear that they would increase even more with the proposed liberalization of less developed countries (LDC) access to the EU market under the Everything But Arms (EBA) agreement resulted in a further reform of the rice regime in 2003. The intervention price for rice was reduced (by 50 per cent) to €150 per tonne to bring it in line with world market prices by 2004/2005. At the same time direct aid payments to farmers were increased to €177 per tonne. However, the Maximum Guaranteed Areas for rice production was reduced. These changes were expected to contain the level of EU rice imports and thus reduce intervention stocks of rice.

One year after the reform production increased by 6 per cent, the area of rice production increased by 5 per cent and exports increased by 45 per cent. The decline in the intervention price did not have a significant impact on imports which declined only by 1 per cent. However, it did contribute to the decline (by 50 per cent) of intervention stocks. EU farmers were not adversely affected as they benefited from aid payments. It is imports that bore the burden of the EU reform measures.

## **B. Effect of changes in rice regime**

The main ACP exporters of rice to the EU are Guyana and Suriname, the two South American mainland countries in CARICOM. Guyana is the largest exporter ranking fourth in the world in 2004. Guyana's rice production and exports increased significantly during the 1990s (table 10) largely on account of the ability of the country to export its rice duty free via the OCT

route.<sup>68</sup> By 1996 about 90 per cent of exports were channeled through the OCT. The reduction of the EU intervention price in 1995 and the introduction of quotas to restrict exports via the OCT route resulted in a decline in exports to the EU and an even more significant decline in export earnings. Suriname also experienced similar decline in exports and earnings (table 11).

**Table 10**  
**Guyana Production and Export of Rice 1990-2003**

	<b>Hectare Harvested</b>	<b>Yield per Hectare</b>	<b>Rice Production (Milled Equivalent Tonnes)</b>	<b>Exports (Tonnes)</b>
1990	51,368	3.0	93,444	50,943
1991	76,209	3.3	150,783	54,047
1992	77,327	3.7	171,000	115,102
1993	98,061	3.4	201,702	124,089
1994	97,660	3.8	233,111	182,585
1995	132,344	3.9	315,301	200,336
1996	135,436	4.0	332,542	262,265
1997	142,782	3.9	340,911	285,051
1998	129,469	4.0	339,890	249,755
1999	147,071	3.8	365,469	251,519
2000	115,872	3.8	291,967	207,638
2001	124,565	3.9	322,310	209,042
2002	107,902	4.1	288,375	193,416
2003	127,662	4.3	355,019	200,432

Source: Guyana Rice Development Board – Production Data 1990-2003

The unavailability of data precludes an assessment of the impact of the reforms of 2003, that is, both the reduction in the intervention price and the ACP tariffs. Guyana's exports increased by almost 30 per cent in 2004 after the EU tariff on husked rice, the main type of rice export to the EU was reduced by 75 per cent. The EU intervention price was reduced by 50 per cent but it is not clear that the tariff reduction offset the reduction of the price paid for ACP rice.

<sup>68</sup> Guyana exported husked rice to Aruba, Bonaire, Curacao and Turks & Caicos – countries referred to as OCT – where the rice is further processed and then exported free of tariff to the EU. The OCT group consists of British, French, Dutch and Danish territories that are constitutionally linked to member States of the EU and hence have duty free status for their exports to the EU.

**Table 11**  
**Guyana and Suriname Earnings from Exports to EU 2001-2004**

	Guyana			Suriname		
	Export (Tonnes)	Average Price (€/t)	Earnings ('000 €)	Export (Tonnes)	Average Price (€/t)	Earnings ('000 €)
2001	99,246	318.6	31,620	27,152	341.2	9,264
2002	93,083	298.0	29,229	40,789	302.8	12,351
2003	101,123	258.9	26,181	21,194	265.5	5,627
2004	131,133	241.4	31,655	17,366	257.0	4,463

Source: Adapted from table in Agritrade "Rice: Executive Brief" April 2007, p. 9

The increased production and export performance of the Guyana rice industry during the 1990s can be attributed to the deregulation of the industry and the privatization of its milling and export functions. Although those changes increased the competitiveness of the industry, costs remained relatively high and therefore affected the ability of Guyana to compete on the basis of price in the market for unprocessed or bulk rice. Government has therefore continued to improve competitiveness, with financial support from the EU grant facility, which is aimed at improving production and ensuring the viability of the industry.

Under the EU-CARIFORUM EPA rice exports from the Caribbean will enter the EU market quota free and tariff free from 2010. In the meantime, the region was granted a quota of 187,000 tonnes for 2008 representing a 29 per cent increase over the quota of 145,000 tonnes for 2007. The quota is to be increased to 250,000 tonnes for 2009. Rice exporters will also no longer have to pay the tariff of €65 per tonne on quota exports<sup>69</sup>. The EPA will therefore remove some of the negative effects of the EU rice regime especially in terms of market access. However, the issue of price decline will remain as the EU continues to reform its rice regime to comply with, among other things, WTO rules on subsidized exports.

<sup>69</sup> "Rice Duties to be Eliminated by EU", Jamaica Gleaner 21 December 2007



## VIII. Options for Caribbean rice producers

### A. Expand production of conventional product

With the quota free and duty free access for rice exports to the EU from 2010, both Guyana and Suriname would be able to export larger volumes of rice which could compensate for the reduced price on the EU market. In other words, the profitability of the rice industry in those countries would be based on volume sales. That means that costs of production would have to be kept low while maintaining quality standards. Guyana has already been gearing its industry towards increased production and reduced cost. The recent increase in global demand for rice has provided incentive for expanded production. Guyana increased its exports by 35 per cent (from 183,000 tonnes in 2006 to 247,000 tonnes in 2007) and its earnings by 39 per cent (from US\$49 million in 2006 to US\$68.3 million in 2007).

Whereas Guyana exports the bulk of unprocessed (husked) rice to the EU, it exports mainly processed rice (white rice and parboiled rice) to CARICOM countries free of tariff. Expansion of production in Suriname would also allow that country to export rice to the region since it is also a member State of CARICOM thus competing with Guyana for market share. Nevertheless, the increased demand for grain in world markets could result in a diversion of exports from CARICOM by the region's rice producers in order to take advantage of higher prices in international markets.

### B. Develop high value rice products

The current high commodity prices on the world market are unlikely to be sustainable especially if they are partly due to speculation and therefore the windfall from such prices could be short lived. In any event focus on supplying the bulk commodity market should be shifted towards developing specialty rice and higher value rice products given the current trend in supplying high end and luxury markets. The top two exporters of rice to the EU are India and Thailand. India and Pakistan, which is the fourth largest exporter, export the premium Basmati rice whereas Thailand exports its specialty rice, Thai Jasmine White Rice. Thailand is the main exporter to the EU of its milled specialty rice. India and Pakistan export the husked Basmati rice to the EU. In 1995 for example, the EU imported regular husked rice from Guyana valued €3 million. This increased by 7 per cent to €28 million in 2005. On the other hand, the EU imported husked Basmati rice from India valued €40 million in 1995 and that increased to €116 million in 2005 – a 29 per cent increase. Jasmine rice imports from Thailand also increased by a comparable amount (25 per cent) over the same period<sup>70</sup>.

Guyana with its large rice industry should also consider developing valued added rice products such as cereals, pasta and flour given the high prices of wheat and other grains on the world market. This would contribute toward achieving a level of food security in the CARICOM region and could also address the concern of high food prices providing efficiencies can be achieved to contain high costs of production. The feasibility of embarking on such a project should be examined.

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<sup>70</sup> Data obtained from EUROSTAT

## **IX. Conclusion**

Significant changes have so far occurred in the EU banana and sugar import regimes. Change has also been made to the EU rice import regime. These changes have been influenced by a number of factors. The change in the banana regime was brought about initially by the creation of the European Single Market and subsequently by the continuous challenges to the regime at the WTO by Latin American banana exporters who lost their free trade access to the German market as a consequence of the unification of the European market. The change in the sugar import regime was occasioned by the reform of the EU CAP which had been geared toward the development of self sufficiency in basic foods. The reform of the CAP was necessitated by surplus production, subsidized exports and as a result increased costs to the EU budget and the need to comply with WTO rules.

These changes have had the most significant impact on traditional banana exporters in the Caribbean, in particular the Windward Islands whose exports and earnings declined dramatically. The change in the sugar import regime has been more recent and hence its impact cannot yet be discerned but could only be predicted. Nevertheless, production and export of sugar in most CARICOM countries declined due largely to domestic factors. Restructuring plans have been pursued in the region in light of the proposed cut in the EU guaranteed price of sugar.

The initial reform of the rice regime was intended to remove a loophole that allowed Guyana to export most of its rice through the OCT of the EU. The imposition of rice quotas as well as a reduction in price adversely affected Guyana's rice exports. The EU rice price was further reduced by as much as 50 per cent although import tariffs were also reduced. This reduction in price led to a significant decline in export earnings of both Guyana and Suriname.

The adverse effects of the changes in the EU import regimes should not necessarily be taken as a signal to diversify away from those industries that have been affected. The development of the banana industry in the Eastern Caribbean was the result of diversification out of sugar in most of the islands and that took place while the countries were still colonies of the United Kingdom and the export of tropical products was not yet developed. It is difficult for the smaller islands to successfully diversify into other agricultural products within the context of the present international trading system. It would also be difficult to increase their competitiveness vis-à-vis Latin American banana exporting countries on account of the nature of production of the crop in the Windward Islands, for example.

The banana is a significant small-farmer crop grown on hilly terrain and relatively poor soils. The small scale of production which contributes to high costs as well as exposure to natural disasters severely constrains the ability of the industry to compete with large banana plantations. The structure of production therefore contributed to the dependence of the Windward Islands on preferential access to the EU market. Producing banana for a niche market is therefore a more feasible option for the islands. The review of the Fairtrade option in this study indicates its benefits to small-scale producers. However, the viability of production for the Fairtrade market requires significant financial and other support which could be provided by governments in the region along with support from EU countries. An option that should be explored is strengthening

economic cooperation between the Windward Islands and Martinique and Guadeloupe, islands that are an integral part of the EU.

Caribbean sugar producing countries realize the benefits of retaining a sugarcane industry even if sugar production proves to be unprofitable in light of the reduction in the price on the EU market. The sugarcane plant protects the soil and maintains its fertility. It is better able than the banana herb to withstand and survive natural disasters such as hurricanes and floods. In addition, it has several uses including power generation from the byproduct (bagasse) of sugar manufacturing. The sugar industry is the oldest industry in the Caribbean that sustained livelihoods before and even after diversification into other manufacturing and service industries. In recommendations regarding diversification out of sugar an important point is often overlooked and that is the cultural importance of the sugar industry despite its high cost of production in some countries.

It is the cultural significance (not overlooking its economic benefits) that has been important for maintaining the sugar industry in Barbados, for example. The sugarcane fields and the “Crop Over” festival that marks the end of the season are part of the culture of the island and feature in the attraction of the island to tourists. The proposed establishment of a living sugar museum attests to the association of sugar with the development of tourism in the island. Restructuring the sugar industry to serve the high end of the market also accords with the targeted high end of the tourism market.

Preserving the sugar industry as part of a viable agriculture sector also preserves the culture of the countries where cultivation of sugar cane and production of sugar is significant. The same is also true for the rice industry which contributes to the culture of the rice growing regions of Guyana. In Asian countries such as India and Thailand the rice industry plays a significant role in preserving the culture. Cultivation of rice is also beneficial to soils as it protects against erosion. While the cultural aspect of the industry is important the economic aspect cannot be ignored. That is true also for the sugar industry. Hence the need to move beyond the primary level of production into specialty and value added production. In the case of sugar, countries have already begun to move in this direction: Barbados into specialty sugar, Belize into Fairtrade sugar and Guyana into organic sugar. These initiatives need to be monitored and evaluated.

All of the products reviewed in this study can be exported as Fairtrade products in countries where they are produced by small-scale independent producers and firms that adhere to the Fairtrade standards. To improve the returns to producers and ensure the sustainability of Fairtrade, in-depth analysis needs to be done of each industry’s value chain including the Fairtrade chain. Such analysis was outside the scope of this study although the study did point to the need for adherence to social and environmental standards at the end of the value chain.

CARICOM countries need to monitor developments at the international level relating to their various export industries and foresee changes in policies of their trading partners. For example, the banana disputes arising from the EU regime of 1993 could have been predicted given the benefits that both Germany and the Latin American banana exporters enjoyed prior to the unification of the EU market. Countries also need to be fully cognizant of the position of

their industries and the nature of trade in various markets when negotiating international trade agreements.

Emphasis should be placed on financing improvement in the industries reviewed in this study. Fairtrade returns are not sufficient to finance investment in significant upgrading of the industries and developing value added products. The EU support for the development of Fairtrade production and export is significant especially for small scale producers who do not have direct access to export markets. Financing value chain analyses of these industries, especially in terms of the Fairtrade chain, would be a valuable step in determining specific areas that could be supported by the EU within the context of the CARIFORUM-EU economic partnership agreement.

Although this study has argued for improving the traditional industries in order to sustain rural livelihoods, it also pointed to the need for diversification within industries to develop high value products as well as value-added products to satisfy both regional and extraregional markets. Sustaining the industries, in particular bananas and rice is important for addressing food security concerns in the CARICOM region. The region has traditionally produced food for export while satisfying most of its food needs from extraregional imports. The current state of high food prices both within and outside the region requires a holistic agricultural strategy that would address the need to maintain export earnings and at the same time satisfy most of the food needs within the region while sustaining the livelihoods in farming communities.

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