

Expert Group Meeting on the
Status of Trade Relations between the
European Union and the Caribbean
under the Cotonou Agreement
8-9 December 2005
Port of Spain, Trinidad and Tobago

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**REPORT OF THE EXPERT GROUP MEETING
STATUS OF TRADE RELATIONS BETWEEN THE EUROPEAN UNION AND
THE CARIBBEAN UNDER THE COTONOU AGREEMENT**

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Introduction

The expert group meeting was convened on 8-9 November 2005 at the Economic Commission for Latin America and the Caribbean (ECLAC) Subregional Headquarters for the Caribbean, Port of Spain, Trinidad and Tobago. The meeting was held to address the potential implications for Caribbean economies of the Cotonou Agreement and the subsequent Economic Partnership Agreement (EPA) currently under negotiation.

The meeting was attended by government and non-government experts from 12 countries in the Caribbean, as well as experts from regional organizations and the European Union. The list of participants is attached as Annex 1.

Agenda Item 1 - Welcome and opening remarks

As Chairman of the meeting Mr. Rudolf Buitelaar, the Deputy Director and Officer in Charge of the Subregional Headquarters for the Caribbean of ECLAC, welcomed participants.

In his introductory statement, the Chairman outlined the main objectives of the meeting were to provide a discussion forum to share analyses and insights concerning issues, effects and potential implications on Caribbean economies of the Cotonou Agreement and the subsequent EPA, currently under negotiation. He stated that the Lomé Conventions, while providing necessary and immediate benefits in terms of development assistance, market access and preferential prices, in the long run proved to be less than satisfactory in establishing an environment conducive to productivity growth, structural change and capacity building for economies and firms in the Caribbean. The Cotonou Agreement and the subsequent EPAs, in replacing the Lomé Conventions, presented an opportunity to advance toward fuller economic independence and emancipation of Caribbean Societies.

He pointed out that the most conspicuous changes of the Cotonou agreement were proposed in the trade sphere, which envisaged moving from a non-reciprocal arrangement to reciprocity with flexibility. Consequently, this would result in the lowering and removal of existing trade barriers and in significant changes to the commodity protocols. The EPAs were essentially conceived to promote structural change and, while adaptation costs needed to be addressed, eventually should lead to a situation in which Caribbean economies depended less on politically motivated and, therefore, vulnerable trade privileges and more on own competitive strengths.

The Chairman pointed to the timeliness of the meeting, referring to the upcoming sixth World Trade Organization (WTO) ministerial meeting in Hong Kong which, it was hoped, would provide the global framework regarding agricultural subsidies, liberalization of trade in services and special and differential treatment for small and vulnerable economies, and hence set the context for the EPA between the European Union and the Caribbean. He also referred to the recent Summit of the Americas in Mar del Plata, which showed the necessity for a renewed

reflection on the region's trade and development strategies given the apparent widening of positions.

The representative of the European Union (EU) congratulated ECLAC for convening the meeting. Referring to the technical nature of the meeting, he underlined the importance of trade to the region but stressed that a transition to a more modern and competitive economic system was essential if the region was to benefit. He also referred to the upcoming WTO meeting in Hong-Kong, but felt that it had little direct relevance to the discussion on the potential impact of EPAs because these had a dynamic of their own and were already well advanced. He further highlighted that the European Union-African, Caribbean, Pacific (EU-ACP) relationship went back very far, marking the EPA as a new stage in this relationship. The EPA was the result of a long learning curve and the Cotonou signatory countries had learned the lessons of the past.

In her opening remarks the representative of the Caribbean Community (CARICOM) Secretariat pointed to the importance of the topic for CARICOM and its members. She added that the Cotonou Agreement reflected a significant shift from the previous Lomé Convention by seeking a stronger political dimension, with issues such as peace and security, the arms trade and migration now forming part of the dialogue.

She stated that the agreement sought to include the participation of the non-State sector and that it considered the private sector as crucial to growth, noting that for the first time the private sector had access to funding via the European Investment Bank without a State guarantee. She also pointed to the innovative approach to performance-based aid management where allocations depended on an assessment of each country's needs and performance, rather than 'aid entitlements' of fixed allocations regardless of performance. She emphasized that the most drastic change in comparison with the previous Lomé conventions would be in the realm of trade cooperation, since under the Cotonou agreement non-reciprocal tariff preferences would be maintained to all ACP countries only until 31 December 2007, after which they would be replaced by EPAs. Therefore, CARICOM member States along with the Dominican Republic (CARIFORUM) were negotiating an EPA as a single entity with the EU. She highlighted the need for EPAs be complemented by specific support measures aimed at strengthening CARIFORUM regional integration and that CARIFORUM stressed that Special and Differential Treatment (SDT) should be an integral part of this process and that special market access provisions should be made for CARICOM Less Developed Countries (LDCs) to shield them from any obligation for reciprocal treatment.

The Chairman presented the draft agenda for consideration and adoption. The agenda of the meeting was adopted as presented (attached as Annex 2).

Agenda item 2 - The antecedents and origins of the Cotonou Agreement

Summary

In presenting the antecedents and origins of the Cotonou agreement, the ECLAC Secretariat emphasized that non-reciprocity was one of the main elements of the Lomé convention and that essentially four commodity protocols were applicable to the region: those on rum, bananas, sugar and beef and veal.

Despite the preferential access of the region to Europe, he pointed out that the market share of ACP countries to the European Union had decreased between 1992 and 2002 from approximately 4.7 per cent market share to 3.6 per cent. Presenting a structural change index for ACP countries, he showed that although between 1986 and 2002 the export composition of ACP countries improved marginally, the rate of change in the structural change index was in fact decreasing, implying a gradual slowing down of structural change in the region. He noted that in fact agriculture still accounted for half of ACP products.

These issues were related to the change in position of the European Union towards trade relations with ACP member States. The lack of diversification of product base and the decrease in market shares were clear indicators that the Lomé Conventions were not successful in encouraging trade competitiveness. In addition, the eastern orientation of the EU (due to the end of the cold war) and the general move towards lower trade barriers within the WTO consequently must be understood as driving forces that led to a revision of the Lomé Convention and the subsequent drafting of the Cotonou Agreement.

The main traits of the Cotonou Agreement include: (a) an inherent political dimension; (b) focus on a participatory approach; (c) focus on poverty reduction; (d) reform of the financial cooperation; and (e) a new framework for economic trade cooperation. The Cotonou Agreement encompasses three areas of economic support: economic development, social and human development and regional integration and cooperation. Support in these areas would be granted through EPAs which would be negotiated on a region-wide basis and were aimed at encouraging development and reducing the cost resulting from a move to trade liberalization consistent with WTO provisions. It was also pointed out that several articles of the Cotonou Agreement made provisions to Small Island Developing States (SIDS).

Several observations were made regarding expectations and costs of the new partnership agreement. The potential positive dynamic effects consisted of promoting regional integration, increasing credibility of ACP economies and their trade policies; as well as the resulting increased domestic and foreign investment. Overall, the agreement should bear potential for improved competitiveness and an increased insertion of the region into the world economy. However, these benefits were not without costs, as was made clear; several of these costs would relate to foreign exchange pressures, a possible environmental impact and a particular impact on governments' budgets. Employment levels were expected to be negatively affected, at least in the short to medium term.

Agenda item 3 - The status of the negotiations and the vision guiding the negotiations

Summary of CRNM presentation

The representative of the Caribbean Regional Negotiating Machinery (CRNM) focused on the principles and objectives of the EPA negotiations in the Caribbean. Referring to Article 34 of the Cotonou Agreement, he pointed out the aim of the EPA negotiations. Then he gave an overview of the objectives, mentioning the attainment of a sustainable economic development, the sovereignty of small Caribbean States in the international community, the structural transformation of the region and the adjustment of Caribbean economies, which should contribute to socio-economic development. He further recognized the need for special and

differential treatment and the improved market access for Caribbean exports.

He outlined the organization of the EPA negotiations stating that they would involve a three-tier structure, supported by technical working groups and a regional preparatory task force. By pointing to the schedule of the negotiations, he alluded to the expiry of the WTO waiver in 2007, which would require the completion of the regional negotiations by that time. The initial phase of the EPA negotiations focused on establishing the priorities and the second phase sought to converge on a strategic approach to CARIFORUM regional integration. Currently the third phase is being negotiated with the aim of structuring and consolidating the process.

Market access negotiations had been centred among four groups: agricultural and non-agricultural goods, services and investment, trade-related issues, and legal and institutional issues. The fundamental principle of the negotiations was “variable geometry” taking into account the differences in size and levels of development among the countries. The final phase, taking place in 2007, aimed to conclude the market access negotiations and finalise the agreement. He concluded with an outlook on ongoing issues, mentioning the protocol commodities as one of the fundamental problems of the bilateral partnership. He also mentioned that the relationship with Haiti was a political issue that must be addressed as the market access negotiations evolved.

The representative of the EU outlined the new EU ‘vision’ on the relationship between trade and development which underpinned the EPA negotiations. He stated that the Cotonou Agreement in general and the EPAs with ACP partners in particular marked a radical departure from the Lomé Convention approach to trade development which had not served EU-ACP relationships very well: the ACP’s overall market share of world exports had fallen, and a strong over-dependency on monocultures in sectors with low growth potential (notably agriculture) had been encouraged.

The EU had concluded that competition, good governance, free trade and liberalised markets drove development far more effectively, and this approach had been central to the newer EU cooperation agreements with Latin American and MEDA (Middle Eastern) countries. He pointed out that, relative to the Lomé agreements, the Cotonou Agreement placed far greater emphasis on competitiveness and trade-related growth. He noted the EU conviction, drawn from its own experience that increased regional integration helped give ACP partners the critical economic mass to participate effectively in the global economy. He reviewed the state of the current EU-Caribbean EPA negotiations and stressed the importance of the CARICOM Single Market and Economy (CSME) integration process for the Caribbean ACP countries.

He asserted that the EU had no ‘hidden agenda’, but was genuinely interested in helping the region to develop and this was the basis of the EU’s vision behind the negotiations. He emphasized the importance of transparency and a planned structural transformation process and concluded by highlighting the key role to be played by inward European investment and noted the potential of the European Investment Bank (EIB) which was becoming increasingly active in the Caribbean.

In the following discussion some concern about the demanding schedule of the EPA negotiations in 2006 was expressed. The participants expressed concerns about whether, given the time constraints, it would be possible to conclude the negotiations as scheduled to everyone’s

satisfaction. The representative of the CRNM presumed that if all failed, the agreement would have to be completed in a partial manner and some issues would have to be deferred or postponed for future negotiations. The representative of the EU was quite optimistic, that the deadlines could be met. He further referred to the question, whether the EPA would be WTO-driven, pointing out that if EPAs were not concluded within the appropriate time frame, the EU would have to seek an extension of the current waiver granted to developing countries from the WTO.

Related to this however was the issue that for EPAs to be concluded on time, the region must finish its regional integration in a timely fashion as one depended on the other. The issue of free mobility received particular attention, as it has so far been excluded from the general discussions on economic liberalisation. Several participants were of the view that in fact the liberalisation of persons would bring significant benefits for the region.

**Agenda item 4 - An analysis of the trade flows between CARICOM and Europe
and
Agenda item 5 - Significance and importance of trade preferences for the domestic
economy**

The representative of ECLAC presented an analysis of trade flows between CARICOM and Europe. He stated that CARICOM had, over time, experienced market share losses in the EU and that these losses were concentrated in most of its main primary products namely sugar and honey, rice and fruits and nuts, and cocoa. Yet, between 1985 and 2002 the European Union had gained market share in more dynamic commodities.

The Caribbean's major sugar producers were Jamaica, Trinidad and Tobago, St Kitts Nevis, Guyana, Barbados and Belize. Caribbean ACP protocol signatory countries represented 28 per cent of the EU import market share. At the individual country level Guyana, Jamaica, Trinidad, Belize and Barbados represented 11 per cent, 8 per cent, 3 per cent, 3 per cent and 2 per cent, respectively, of the EU import market share. It was noted that the European Union's market received 84 per cent of all sugar exports from Caribbean protocol signatory countries. The Caribbean received 33 per cent of all sugar quotas.

He also noted that among Caribbean sugar protocol countries, Guyana was the most important sugar producer, generating 14 per cent of GDP, more than 10 per cent of employment and 26 per cent of its export earnings. Guyana also has the third largest EU sugar quota. Sugar was also important to Belize as it contributed 10 per cent of GDP, 24 per cent of export earnings and 13 per cent of its labor force.

Banana exports from ACP countries were destined entirely to the EU and the overall majority of Caribbean ACP bananas (from Belize, Jamaica, Suriname and the four Windward Islands of Dominica, Grenada, Saint Lucia and St Vincent and the Grenadines) were imported by the United Kingdom. Statistics for all Caribbean ACP banana suppliers showed, that over the last decade there had been a substantial fall of banana exports (in volume) and export revenues to the EU, and particularly to the United Kingdom.

He concluded his presentation by summarizing an analysis of trade flows in services between the CARICOM and the EU, which he noted was limited by the lack of data availability. Travel and related services were the main export services to the European Union. The bigger economies of Europe such as France, Italy and the United Kingdom were the most important receivers of services. In general he observed that contrary to the goods case the services balance was positive for CARICOM economies.

The representative of Guyana stated that for the past 30 years Guyana had benefited from a stable preferential market under the Sugar Protocol arrangement. The sugar industry accounted for 18 per cent of total GDP, 57 per cent of agricultural GDP and 30 per cent of export earnings. The socio-economic contribution was significant as it sheltered a quarter of the population which depended on the industry and its linkages. It also maintained rural stability by reducing migration to urban areas.

She outlined the effects of the 36 per cent price cut as manifold: loss in foreign exchange earnings and thus ability to service debt payments; fall in government revenues; destabilization of rural communities with the rise in unemployment, greater migration to the urban areas and increased poverty and crime; and the environmental costs as the industry currently maintained the drainage and irrigation systems. She noted that the Skeldon plant expansion project which would increase productive capacity and lower cost per pound was approved on the basis on the guaranteed market price, and was now in jeopardy. Any further plans to restructure the industry had been compromised as investor confidence had been eroded with the price reforms. It also set back the attainment of the Millennium Development Goals.

She stated that while ACP countries recognized the need for reform to the Sugar Protocol, the price cut was seen as too drastic, too steep and too soon. The request for a Competitiveness Fund had been ignored and the need for support prior to the price cut and not after was emphasized. In assessing the EU Action Plan, the financial support proposed was felt to be limited for the level required by Guyana. Guyana was submitting their strategy plan application to the EU Action Plan in December.

The Chairman stated that whereas the long-run macro perspective might suggest that the case for preferences was weak because countries did not seem to have benefited much, the micro perspective focusing on the sugar cane industry in Guyana, depicted how the society was shaped by the preferences and suggested that the costs associated with dismantling such a system would be enormous, in economic as well as social terms.

ECLAC stated that trade preferences, such as those being discussed in the WTO as SDT must be linked to both internal and external demand for it to work and this was not always the case. Furthermore he noted that some forms of SDT and WTO agreements were incompatible. One participant pointed out that there was a role for SDT, however it was difficult to reconcile within a context of free trade.

A suggestion was made for studies to be carried out on the competitive markets on other CARICOM products besides sugar and bananas which may have a growing potential.

The representative of the CARICOM Secretariat enquired as to the alternatives Guyana had considered with respect to the sugar industry. In response it was stated that there were no plans to get out of sugar as in the case of other Caribbean countries, but the country was considering other products such as ethanol and some value added products and considering looking to other markets such as the domestic CARICOM market for sugar. Aside from the sugar protocol, Guyana benefited from the banana and rum protocols and although Sanitary and Phytosanitary (SPS) measures and rules of origin constrained access to markets, other products such as seafood were being considered.

One participant noted that the banana and sugar protocols were part of the Cotonou Agreement as annexes on the understanding that they would continue ad infinitum. The participant felt that the review of the sugar and banana protocols should be founded on a broad consensus among the negotiating parties.

Agenda item 6 - Non-Independent Caribbean States and the Cotonou Agreement

The ECLAC presentation sought to explore the impact of the Cotonou Agreement on the non-independent Caribbean economies. The representative of ECLAC noted that most of these countries were associate members of ECLAC and their trade relations with Europe were undergoing simultaneous processes of redefinition. In describing some key characteristics of the non-independents, he distinguished between Outermost Regions (OR) and Overseas Countries and Territories (OCT) and their respective trade arrangements. He noted that the OR had a special status under the Treaty of Amsterdam which provided compensation for remoteness and insularity and extended special treatment for sugar, bananas, rice, fisheries and transport. OCTs were considered under an association regime of the EC Treaty that was currently valid until 2011. They received infrastructure support for trade, transport and telecommunications as well as programs of trade promotion and other related support.

He also pointed out that the European Commission could not establish an EPA with non-independent countries and territories, nor could the OCTs participate in these trade negotiations. The most important impact of the EPA agreements on OCT's would be that their trade arrangement with Europe would become the least defined of the three models. On the one hand, OR were part of Europe and the cohesion policy provided for a full-fledged development strategy for these territories. On the other hand, the EPA agreements would modernize the trade arrangement between the independent nations of CARIFORUM and Europe.

The 'half-way' option of an asymmetric trade arrangement with a high degree of autonomy but not full independence would be the least well-defined model. The associated uncertainty may turn out to be the biggest danger for OCTs and might make the model ultimately not sustainable. The challenge for OCTs that would neither seek OR status or full independence, was thus to negotiate the best possible ad-hoc trade arrangement. The OR and the EPA arrangements would probably provide models for such negotiations, which explained the interest of the OCT countries in the EPA negotiations.

The representative from Aruba gave an overview of the Aruba economy and stated that, as an OCT, its relationship with the EU was via the Kingdom of the Netherlands. It was not

envisaged that the country would change status and become an independent country and thus be eligible to become part of the EPAs.

Discussing the question of whether Aruba had considered applying to the WTO for membership in their own right, rather than depend on the annex negotiated for them by the Kingdom of the Netherlands, it was noted that Aruba was a member of the Government Procurement ACT (GPA) but not a WTO member.

In discussing the impact upon the non-independent countries, the discussants noted that a factor to consider was what the CSME would mean for them in terms of trade and investment creation and diversion. The representative from Aruba pointed out that the impact would be more of an indirect effect. Trade preferences were already eroding with multilateralism, free trade areas were forming around Aruba and tariff liberalization was eroding revenues. One option for Aruba would be to begin a sales tax to capture the lost revenue.

Agenda item 7 - The potential impact of the Economic Partnership Agreements

The representative of the ECLAC Secretariat summarised results of some impact studies in the region. He noted that EPAs were not trade agreements in the traditional sense, but rather more a development tool as they dealt with capacity constraints and economic and social infrastructure. He stated that one of the results of the move to reciprocity would be that member States in the region would experience losses in export revenue from the erosion of trade preferences and that the decrease in tariffs might also lead to an increase in imports. Finally he noted that growth and employment would also be affected.

Outlining the main findings of selected impact studies, he underlined that an impact study on the sugar industry had revealed that a negative impact on revenue, export earnings, production and employment would be the consequence of a reduction in preferential access. Thus, there were benefits in delaying the implementation of a reduction of preferential access to European markets.

The main essence of the presentation was however to show that countries in the region faced a considerable external constraint in the sense that their performance in overseas markets, and the response of the world financial markets to this performance, constrained the rate of growth of the economy to a rate which was below that which internal conditions would warrant. This was found to be true for several countries in the region. He concluded that tariff reduction, import growth and competition were not the main issues of concern to the region, but rather their capacity to attract foreign capital and improve the competitiveness of exports remained a challenge.

The following presentation by Mr. Patrick Antoine essentially confirmed this view, albeit from a different angle. The presentation, which focused on the potential impact of the EPA on the Organisation of Eastern Caribbean States (OECS), argued that the impact of trade liberalisation in the literature commonly considered macroeconomic, aggregated data. The point was however made that particularly in the case of tax revenue, disaggregated data was needed.

Mr. Antoine showed that disaggregating data not only by distinguishing between different kinds of tax-revenue sources, but also by disaggregating trade data at the eight-digit level, yielded particularly relevant results. Thus, he showed that import duties— those taxes affected by the Cotonou Agreement – represented a small percentage of overall trade tax revenue arising from trade with Europe; tax sources such as customs service charges and consumption taxes were more significant and were in fact not affected by trade liberalisation.

He pointed out that as Europe was not the most important trade partner of the OECS, the affected import duties from Europe only represented between 4-14 per cent of overall trade tax revenue in individual OECS member States. Disaggregating tax revenue data showed that trade liberalisation would not affect the States significantly due to the low tax base that they would be affecting.

Mr. Antoine also argued that the negative effects of trade liberalisation could be reduced if countries in the region safeguarded import duties of those tariff lines which were particularly important as sources of revenue. As the number of these tariff lines was relatively low (approximately 410 lines), relative to the overall number of tariff lines, doing so would still enable the OECS to comply with the requirement to ‘substantially liberalise trade’, which had been interpreted as liberalising 95 per cent of tariff lines.

Finally, he presented a model using import demand elasticities. The aim was to analyze to what extent trade liberalisation would result in trade creation and trade diversion and to analyse the fiscal effects of trade liberalization.

Overall he showed that if the OECS were to eliminate their imports duties (this considered a ‘worst case scenario’), it would lose approximately US\$30 million in tariff revenues while it would gain US\$1.4 million in increased consumption tax revenue due to higher imports. Overall, trade liberalisation for the OECS did not present as large a challenge as expected, taking the possibility of tariff line shielding and the low affected tax base into consideration.

The representative of the EU outlined the potential impact of the EPAs from the EC-perspective. She mentioned that at this stage of the process, where the scope of the agreement and modalities of the tariff dismantling still remained to be agreed, any estimation of impact could only be a tentative exercise. To consider the potential impact of the EPA, the European Commission (EC) had launched a Sustainability Impact Assessment (SIA), conducted by neutral and independent consultants. Hence the SIA did not represent the EC positions and the Commission might or might not share some views expressed in the SIA. By looking at different scenarios, the main objective of the SIA was to provide policy makers and negotiators with analytical background and recommendations on opportunities and challenges in order to minimise any potential negative impacts and to maximise benefits of the EPA. In the Caribbean, the SIA concentrated on tourism.

The EC was convinced that there were several benefits to be derived from the EPA. One of major importance was that it served as a stimulus for the regional integration process, as the region would be encouraged in the definition of common positions and application of common rules towards the EU. Further, the EPA would impact positively on the business environment

and would enhance investment by providing long-term stability and clear rules of the game. The EPA would be compatible with WTO rules, providing a long-term framework that could not be challenged by trade partners. Without an EPA, the existing preferential market access could not be secured after 2007, at the expiration of WTO waiver. By proposing to include provisions on competition rules prohibiting the use of anticompetitive measures/behaviors, investment and trade would be stimulated, as Foreign Direct Investment (FDI) is definitely encouraged by stable, transparent and non-discriminatory rules. By clarifying rules on trade facilitation, the EPA would promote transparency and prevent the proliferation of incompatible requirements in export markets.

In considering the potential impact of reciprocal liberalization of market access on the economy, the representative of the EU argued that with or without an EPA, the region could not avoid the general trend of market opening since it was already involved in various negotiation scenes, multilaterally or bilaterally. However, she made clear, that in this process, the EPA would include flexibility over products and services to be liberalized in the Caribbean, taking into account the economic, social and environmental constraints facing the Caribbean, as well as its capacity to adapt to the liberalization process. It will be crucial that the Caribbean producers take advantage of the establishment of the CSME to diversify production, to improve competitiveness and to get prepared for market opening.

Without pre-empting the results of the negotiations and replying to concerns about losing the commodity preferential market access to the EU, the EU representative stressed that Article 36.4 in the Cotonou Agreement provided for the revision of the commodity protocols under the EPA and that the intention would certainly be to maintain and, where possible, to improve existing preferential market access for the region.

She further pointed out that, at present, the access to the EU market was already almost duty free and that constraints on the export side in the region were therefore linked to supply constraints and the lack of diversification of the Caribbean economies than to denial of EU market access. Once more, it was hoped that the CSME would be the delivery mechanism for the diversification and strengthening process on which the EPA would build progressive liberalization.

Regarding the impact of improved European access to the Caribbean market, she emphasized the benefits for both private sector and consumers (inter alia, better allocation of resources, reduction of production costs, wider range and lower priced imported products). She then explained that it was hoped to obtain government procurement on the agenda of the negotiations because of the positive pro-development effects of transparent tendering in terms of good governance and their importance on ensuring that the tax payers got the best deal for their money.

Finally, she concluded by illustrating the EPA benefits by referring to the SIA study on tourism that compared the situation of the region with and without an EPA. It indicated that the EPA would stimulate the expected growth on tourism, the regional integration process, as well as investment. Furthermore, the production of tourism services, their contribution to the GDP and government income as well as to employment were expected to be higher than without an EPA.

The EU representative concluded by stressing that for the EPA to be a success story, the adoption of the appropriate policies and reforms as well as supply side measures (e.g. private sector development, infrastructure development) would be essential.

The representative of the Dominican Republic gave an overview of the his country and the EPAs. The Dominican Republic was negotiating the EPA within the framework of CARIFORUM. Regarding this special relationship, he first outlined the background of the EU-Dominican Republic. The most important steps leading to the EPA negotiations with the EU in 2003 were joining the CARIFORUM in 1992, the free-trade agreement with five CARICOM countries in 1998 and the signing of the Cotonou Agreement in 2000. In presenting the benefits of negotiating an EPA under CARIFORUM, he highlighted the possibility of opening up new markets and the attraction of investments to the region.

The Dominican Republic participates in the negotiations as a coordinator on services and agricultural matters. The strategy for the EPAs is, inter alia, the identification of sensitive sectors and subsectors as well as addressing controversial issues between both participation groups. Moreover, the EPA is also seen as a negotiating impulse for pending subjects in the CARICOM-Dominican Republic agreement.

After considering some positive and some negative expected results, he concluded, that the Dominican Republic could benefit from the EPA. It could contribute to the strengthening of their productive system, increase the competitiveness of their goods and improve the market access conditions. These benefits could also result in a more positive trade balance with the EU. Finally, he stated that the good relationship with the EU was important as it was the main source for development assistance.

In the ensuing discussion several issues were raised. It was pointed out that although the theoretical framework of Mr. Antoine's study had been used elsewhere (there was for instance a very similar report on the impact for the Dominican Republic), no such studies had been made for More Developed Countries (MDCs) in the region. The shielding of certain tariff lines was discussed and generally understood to meet compliance with gradual trade liberalisation as understood by the WTO.

There was also discussion that although the Cotonou Agreement distinguished between LDCs and MDCs, and made particular reference to the cases of Belize and Guyana, it seemed that the European Commission did not distinguish among subregional groupings within a regional agreement. This issue would need to be addressed. In addition, the point was made that countries in the region would only be able to enter into an EPA if regional integration with the Dominican Republic evolved; hence progress needed to be made on the latter.

Agenda item 8 - Identifying the opportunities of Cotonou -The Services Sector

The representative of the CRNM delivered a presentation on EPA negotiations and the services issues for CARIFORUM. He outlined some of the objectives of the EC on the services negotiations such as enhancing cooperation, asymmetric liberalization under flexible transition periods, and transparency in government procurement of services. In discussing the aim of

Caribbean countries in the EPA negotiations he listed the following:

- (a) To increase market access for Caribbean service providers in the European;
- (b) To obtain full commitments from the EC (i.e., schedule “none”) in Modes 1 and 2 for all sectors and subsectors of interest to Caribbean countries;
- (c) To eliminate all requirements (visas, licences, permits or economic needs tests) impeding market access for individual suppliers, intra-corporate transferees, business visitors, professionals and support personnel from Caribbean countries to the EU;
- (d) To achieve recognition of the professional credentials in Caribbean States as equivalent to EC credentials;
- (e) Eliminate the requirement for local presence;
- (f) To expand the list of contractual service suppliers and independent professionals covered under the ECs Mode 4 horizontal commitments;
- (f) To eliminate all discriminatory citizenship, capital, land purchase and equity caps or requirements for Caribbean service suppliers; and
- (g) To aim to harmonize regulatory and technical standards between Caribbean and EC countries, so as to facilitate the sustainability of trade in services without creating burdensome or discriminatory barriers.

An analysis of trade in services between the EU and CARIFORUM highlighted the fact that CARICOM had a trade surplus with the European Union. Due to the lack of disaggregated services trade data in CARIFORUM States it was necessary to use bilateral services trade data from European countries. The United Kingdom was still by far the dominant player in terms of services trade between the Caribbean and Europe (EU-15). The United Kingdom accounted for an average of 33 per cent of services exports to CARIFORUM between 1999-2003 and an average of 59 per cent of services imports from CARIFORUM in the same period. The vast majority of CARIFORUM exports to the United Kingdom consisted of travel or tourism services. Note that bilateral services trade data between Spain and CARIFORUM countries was not available but that in recent years there had been significant increases in Spanish trade and investment in the Caribbean, particularly the Dominican Republic.

He noted that the main service sectors in which CARIFORUM enjoyed a trade surplus with the EU were the following: travel, transport, communication services and government services. The sectors in which CARIFORUM had a trade deficit with the EU on average over the period 1999-2003 were: other business services, insurance, financial services, construction services, computer and information services, royalties and license fees and personal, cultural and recreational services.

Also the empirical evidence showed that CARICOM exports of services relative to its imports had a lower valued added content. The data showed that travel averaged about 61 per

cent of EU services imports from CARIFORUM and about 17 per cent of EU services exports from 1999-2003. Undisclosed services exports accounted for an average of 16 per cent of total services exports and undisclosed services imports accounted for 14 per cent of total services imports.

The representative of the University of the West Indies (UWI) gave an overview of the issues in services for the EPA between the EU and Trinidad and Tobago. He stated that with 61.7 per cent of GDP, the service sector clearly played the major role in the economy. Within the service sector, finances increased considerably in the last years and now played the key role with 23.5 per cent of GDP in 2003. The strong growth of insurance as well as the increase in transport was noteworthy as well.

Finances were the main export services, whereupon regional service exports were dominated by distribution, transport and finances. Regarding the tourism sector, only 6 per cent of the visitors originate from the EU, with the most arrivals coming from the United Kingdom. He further suggested implementing a register of professionals, since there had been no local cross-checking of qualifications of (EU) professionals.

Considering the sectors with high export potential, there was an external demand in professional services, particularly in the health sector. There was also some development in the tourism and the maritime sector, both sectors registering increased growth and potential. In telecommunications, the end of the monopoly of the Telecommunication Services of Trinidad and Tobago (TSTT) could be considered as a progress to more competitiveness.

The UWI representative expressed the view that data for the services sector were inconsistent and difficult to obtain and added that a Trinidad and Tobago coalition of services had recently been launched to support the sector. He stated that the services sector was a dynamic sector with a strong export potential. Other subsectors, beyond tourism and distribution, also showed export potential and must be supported. Concluding that trade in services with the EU was still very small, he added that progress had been made in the past year.

It was suggested that regarding domestic plans for development, the positions of governments as articulated to the CRNM should be coordinated. With the exception of tourism, the EPA negotiations were not to be of great significance for the EU and its companies. It was suggested that the extended balance of payments should be set up by all Caribbean countries. Belize was the only country in the region which already has already done so.

Reluctance of the private sector in sharing collected data was noted. To tackle this problem, an awareness campaign should be undertaken to sensitize the sector to the value and utility of such types of data.

Agenda item 8 - Identifying the opportunities of Cotonou -Requirements for economic restructuring in the Caribbean

A representative of the ECLAC Secretariat based her presentation on the restructuring of the agricultural sector in the Caribbean. She stated that there were three options for the region:

- (a) Make current industries more competitive;
- (b) Diversify out to other industries; and
- (c) Diversify within industries i.e. industry clusters.

The first option was seen as historically difficult in terms of competing with other exporters with lower production costs. It was noted that the second option was undesirable as it would result in the substitution of one mono-crop for another. The third option, which ECLAC advocated, was more appropriate since it accorded with the objectives of poverty reduction and the principles under the Cotonou agreement.

Restructuring had always been undertaken with a focus on international trade. It was proposed that there needed to be an expanded focus on internal needs, intraregional trade and extraregional trade. Mauritius was cited as an example which planned to reform its production structures by diversifying within a sugarcane cluster thus preserving the sugarcane industry and the associated SME linkages. The estimated cost of a similar strategy for the Caribbean would be US\$192 million over a five-year period.

Another representative of the ECLAC Secretariat focused his presentation on the issues of growth, employment, productivity, human capital development, and attracting and retaining skills. He stated that poverty was a major challenge facing the Caribbean region where 30 per cent of the population lived below the poverty line in all member States; and that employment creation could reduce poverty. Significant and sustained economic growth via productive investment was necessary to combat unemployment and poverty on a long-term basis. However, economic growth in the region had declined since the 1990s and unemployment had increased in most countries, particularly affecting females and young people. In many countries more than a quarter of all unemployed were between the ages of 25 and 34.

Finally, he explained that there was significant importation of skills into the region, most of which were in the high skill category (other than Belize where most of the skills imported were low skilled agricultural workers). Movement of labour within the region was largely from countries such as Guyana and Jamaica and to countries such as Barbados and Trinidad and Tobago.

Another presentation by the ECLAC Secretariat noted that the EPAs meant that Caribbean countries would have to restructure their economies to maintain a competitive, welfare-enhancing niche in the world economy. This restructuring would entail the revitalising of stagnant production, exchange and institutional arrangements and diversifying into new activities such as informatics, cultural and health services to widen the base for growth and development.

He noted that financing was probably the major constraint on the restructuring process, as capital scarcity was characteristic of the region. The challenge therefore was to raise sufficient long-term finance for productive activities in manufacturing, services such as tourism and new growth activities. From the standpoint of the banking sector, this would necessitate great market access

to increase competition in the sector. This should drive the cost of credit and reduce interest rate spreads, which were a major impediment to access to finance, particularly for SMEs.

It was suggested that the regional stock market should be further developed to mobilise greater equity capital to facilitate business start-ups and the restructuring of stagnant enterprises. To this end countries should seek to achieve improved harmonization of company legislation, credit rating of companies, dispute settlement mechanisms and further division of ownership and control to boost the listing of traditionally family held businesses.

With respect to international finance, it was observed that the EU allocation of finance for restructuring and more competitive insertion of ACP economies in the world economy was inadequate. The initial EU budgeted amount for restructuring of approximately 40 million Euros barely covered the loss of a few Caribbean countries, as Guyana's loss of earnings alone from the price cuts was estimated at over US\$40 million, about 34 million Euros.

He concluded that Caribbean countries facing the removal of preferences needed a financing arrangement akin to a 'Marshall Plan' to provide an adequate pool of grant and concessionary loan financing, technical assistance, trade facilitation and institution building to catapult the restructuring process.

In response to the presentation on financing, one participant shared his experience that in interviews with banks, the problem with financial intermediation was structural. As an example, the costs of maintaining an ATM machine was much higher in the Caribbean where there might be 300 users per ATM than, say, in Latin America, where the number of users might reach 3000. Since markets were small and transparent, collusion was not a choice in the Caribbean but following the leader was a necessity to secure against the risk of the banking industry.

A representative from the Caribbean Export Agency stated that manufacturers were interested in exporting to the EU. However technical requirements for SPS measures made this difficult. Even though the EU provided technical assistance, firms were still struggling to apply and implement the required measures. In response to the availability of technical assistance, it was pointed out however that national groups and countries did not apply.

It was observed by one participant that while governments were required to create an enabling environment for business and economic development, many commercial banks and other private sector interests did not necessarily share a broad-based vision for national development. This had been demonstrated in situations where commercial banks often reduced rates for consumer goods such as motor vehicles instead of doing so for development-oriented projects. It was therefore suggested that a private sector and government development partnership that was not based on the pure profit motive was needed.

It was noted that in the Caribbean the banking system exhibited high liquidity. However, the banking sector in Guyana and the rest of the region was not motivated in financing the agriculture sector but consumer goods. For SMEs interest rates were high and the application process was costly, and in Guyana the large enterprises were still considered SMEs. It was

further pointed out that there was a need to create linkages between universities and firms to close the mismatch gap of skills required and supply of graduates to curb the high mobility of labour among graduates. Another issue raised was the existence of transport constraints to the region. With the bird flu scare, wildlife product exports were being blocked by British West Indies Airways (BWIA), the only airline working out of Guyana, even though exporters had health certificates for their products.

In closing the session, the ECLAC panel set forth some concluding remarks. With regards to restructuring, the financing required could not be provided by commercial banks but rather by investors. In early period of the 1950s, the Commonwealth Sugar Agreement (CSA) facilitated the restructuring of sugar in Guyana, but Lomé did not facilitate the restructuring of industries. The EU could channel funds into a restructuring fund and this should be negotiated within an EPA. With regards to the financial needs of the Caribbean, the region must find a development cross among institutions. Stock markets were underutilised. In the productive sectors, ownership and control were not separated and the vested interests were changing the development orientation of industries. It was also noted that it was important for restructuring to be at a CARICOM level in order to compete at an international level. The real activity was divorced from the financial sector. This dichotomy must be overcome for the CSME to succeed. As for the funding of a regional development fund, it was suggested that the excess liquidity in the banking sector was an option worthy of consideration.

Conclusion

As the Chairman brought the meeting to a close, he invited participants to share any conclusions and suggestions they had. The CARICOM Secretariat suggested that at future meetings, like this, the financial sector and the non-State actors should participate to create more awareness of what the real problems were and how they could contribute.

The representative of Belize queried the possibility of undertaking an awareness initiative at a national level because the private sector was largely uninformed on issues about the EPAs. The participants concurred that non State actors must be included in the programming process and opportunities should be opened for more non-State participation. The agenda for the region should be to keep the discussion alive and focus on the current issues and not on historical debates.

The Chairman then announced that the draft meeting report and revised meeting document “The Cotonou Agreement: selected issues, effects and implications for the Caribbean economies” would be circulated among participants for comments. He thanked the participants for their active participation and formally declared the meeting closed.

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Annex 2

PROVISIONAL AGENDA

1. Welcome and opening remarks
2. Antecedents and origins of the Cotonou Agreement
3. Status of trade negotiations between CARIFORUM and Europe
4. Status of trade relations between CARICOM and Europe
5. Significance and importance of trade preferences
6. Non-CARIFORUM Caribbean States and the Cotonou Agreement
7. Impact of economic partnership agreements
 - External performance
 - Fiscal accounts
 - Economic growth
8. The Cotonou Agreement: Opportunities and challenges
 - Trade in services
 - Production restructuring
 - Labour markets

Annex 3**DRAFT PROGRAMME****Day 1: Thursday 8 December 2005**

- 09:00 – 09:30 Registration
- 09:30 – 10:00 **Agenda Item 1: Welcome and introduction**
- Mr. Rudolf Buitelaar, Deputy Director, ECLAC Subregional Headquarters for the Caribbean
 - Mr. Anthony Smallwood, First Counsellor and Chargé d’Affaires a.i. Delegation of the European Commission to Trinidad & Tobago
 - Ms. Rhonda Wilson, CARICOM Secretariat
- 10:00 – 10:30 **Agenda item 2: The antecedents and origins of the Cotonou Agreement**
- Presentation**
- Mr. Esteban Pérez, ECLAC Subregional Headquarters for the Caribbean
- 10:30 – 10:45 **B R E A K**
- 10:45 – 12:30 **Agenda item 3: The status of the negotiations and the vision guiding the negotiations**
- Presentations and discussion**
- Mr. Ramesh Chaitoo, Services Trade Specialist, Caribbean Regional Negotiating Machinery (CRNM), Barbados
 - Mr. Anthony Smallwood, First Counsellor and Chargé d’Affaires a.i. Delegation of the European Commission to Trinidad and Tobago)
- 12:30 - 13:30 **L U N C H**
- 13:30 - 14:30 **Agenda item 4: An analysis of the trade flows between CARICOM and Europe**
- Presentation and discussion**
- Mr. Esteban Pérez, ECLAC Subregional Headquarters for the Caribbean
- 14:30 - 15:45 **Agenda item 5: Significance and importance of trade preferences for the domestic economy**
- Presentations and discussion**
- Mr. Esteban Pérez, ECLAC Subregional Headquarters for the Caribbean

- Ms. Rajdal Jagarnauth , Ministry of Foreign Trade and International Cooperation, Guyana.

15:45 - 16:00

B R E A K

16:00 - 17:00

Agenda item 6: Non-Independent Caribbean States and the Cotonou Agreement**Presentation and discussion**

- Mr. Rudolf Buitelaar, ECLAC Subregional Headquarters for the Caribbean

Day 2: Friday 9 December 20059:00 - 10:45
Agreements**Agenda item 7: The potential impact of the Economic Partnership****Presentations and discussion**

- Mr. Esteban Pérez , ECLAC Subregional Headquarters for the Caribbean
- Dr. Patrick Antoine, Trade Advisor to the Government of Grenada
- Ms. Celine Anselme, European Commission Delegation, Guyana
- Mr. Leonardo Abreu Padilla, The Dominican Republic

10:45 - 11:00

B R E A K

11:00 - 12:30

**Agenda item 8: Identifying the opportunities of Cotonou
The Services Sector****Presentations and discussion**

- Mr. Ramesh Chaitoo, Services Trade Specialist, CRNM
Dr. Lester Henry, University of the West Indies (TBC)

12:30 - 13:45

L U N C H

13:45 - 14:45

**Agenda item 8: Identifying the opportunities of Cotonou
- Requirements for economic restructuring in the Caribbean****Presentation and discussion**

- Ms. Helen McBain, ECLAC Subregional Headquarters for the Caribbean
- Mr. Oliver Paddison, ECLAC Subregional Headquarters for the Caribbean
- Mr. Michael Hendrickson, ECLAC Subregional Headquarters for the

Caribbean

14:45 - 16:45

Conclusions.