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ECONOMIC COMMISSION FOR LATIN AMERICA
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NOTE ON
MEETING OF COUNCIL OF MINISTERS
OF THE
EAST CARIBBEAN COMMON MARKET

(DOMINICA, 8-9 JULY 1972)

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Note on
Meeting of Council of Ministers
of the
East Caribbean Common Market
(Dominica, 8-9 July 1972)

The Ministers were desirous of reaching broad agreement on various issues scheduled for discussion in the wider CARIFTA forum, particularly on the subjects:

- (i) Implementation of the ECCM common external tariff;
- (ii) Negotiation of the proposed CARIFTA common external tariff;
- (iii) Introduction of the Scheme for harmonization of fiscal incentives to industry;
- (iv) The position of the LDC's in CARIFTA;
- (v) Association with the enlarged European Economic Community.

It transpired that the ECCM countries arrived at common views on items (i), (ii) and (iv), with Antigua reserving its position on item (iii) and Grenada remaining 'open' on item (v). To some extent the discussion was inhibited by the expectation that either St. Lucia, St. Vincent or Grenada would elaborate on the Petit St. Vincent Statement, in which an accord had been announced as having been arrived at between those three Governments on matters like movement of persons. Some of the other Governments apparently were annoyed at having been 'left out'.

ECCM CET

2. The ECCM Secretariat summarised the present situation as: (a) 300 copies of the printed tariff already delivered to each Government;

- (b) corrigendum pages in process of printing to be circulated shortly;
- (c) legislative action in the States can be effected within two months;
- (d) the format permits of introduction of the c.e.t. as national tariffs, so each Government can act independently thus reducing the necessity for simultaneous action by all Governments. Against this background the Council decided the c.e.t. should be put into effect on 1 September 1972.

A draft protocol to the ECCM Agreement for implementing the c.e.t. was submitted by the Secretariat.

Some Governments felt they could meet the target date while others felt they were not ready administratively. Acceptance of the fact that those Governments which brought the new tariff structure into operation earliest would gain an advantage, stimulated the request for immediate ECLA assistance with implementation.

CARIFTA CET

3. The Council decided that no action would be taken on the CARIFTA c.e.t. until the ECCM c.e.t. was in operation; thus making implementation of the ECCM common tariff a prior condition for negotiation of the CARIFTA tariff.

It was also the view of the Council that certain advance studies were necessary, in particular: (i) the fiscal and revenue implications, both collectively and individually for the ECCM countries; (ii) examination of the special arrangements in the CARIFTA c.e.t. for the LDC's including the extent of protection for new industrial activity; (iii) trade policy obligations and implications for the ECCM countries.

Harmonization of Fiscal Incentives

4. The formulation of the position for the LDC's worked out at the June meeting of CARIFTA Officials had the essential points that: (a) the LDC's should specify both the maximum length of tax holiday under the scheme, and the differential between maximum concessions in the LDC's and the MDC's; (b) the MDC's should accommodate any provisions they wish to make for "special areas" within the scope designated for the MDC's.

Not much discussion was generated. The Ministers decided that - (a) the maximum be 17 years, (b) the differential be 7 years, (c) the scheme await implementation of a regional policy for industry.

Position of LDC's in CARIFTA

5. The focal point of the discussion was that industrialization in the LDC's remained as remote as it had been before the creation of CARIFTA. The general view was that the industrial possibilities

identified by the EIU should be the basis for a concerted CARIFTA programme in which: (a) MDC's would abstain from establishing any industry considered suitable for location in the LDC's; (b) MDC's would direct entrepreneurs and institutions to invest (reserves in the case of institutional investors) in the LDC's; (c) MDC's should legislate special tax exemptions for investments made in LDC's; (d) there would be lower CARIFTA area origin requirements for products from the LDC's; (e) there should be establishment of some machinery for industrial promotion in the LDC's. All these points were incorporated into the common position the ECCM countries would adopt in CARIFTA Council discussions.

6. In fact, it was the general feeling that no meaningful discussion of the various items on the CARIFTA agenda could be conducted unless these concessions were obtained from the MDC's. On the one hand they were not prepared to assume further commitments to new measures in CARIFTA without some definite results under such a programme as outlined at para 5. On the other hand, there was reluctance to take any action that might prejudice their Part IV Association with the EEC without these assurances from the MDC's.

Association with Enlarged EEC

7. Several Ministers felt the way was still open for negotiations with the EEC beyond the provisions of Part IV of the Treaty of Rome. Others were unclear of the extent (if any) to which they can negotiate directly with the EEC. There was some acceptance of the fact that the UK would be reluctant to negotiate on matters that may adversely affect her other interests, particularly settlements for other dependent territories of the Commonwealth. It was agreed that (i) Part IV was inadequate; (ii) special arrangements would need to be negotiated for bananas and perhaps other commodities; (iii) united CARIFTA action was desirable; (iv) nothing should be concluded that would adversely affect any aid they might receive from the EDF.

8. There was no substantial discussion of reverse preferences and absolutely no mention of the way in which tariffs against UK and other EEC countries would be brought into alignment, (i.e. made to be non-discriminatory). Further, there was no attempt at quantification of

the problems, so the argumentation could not really crystallise into a pattern of trade policy.

Comments

9. The ECLA interventions were directed entirely towards calling attention to some of the impediments and implications. The central problem of the LDC's in CARIFTA, is not lack of opportunities but the inability to make use of them. It seemed fairly clear that expansion of industrial activity in the LDC's can be realised only by manufacturers from the MDC's actually going to the LDC's and setting up some operations there. The problems are not only lack of infrastructure, lack of capital and entrepreneurial skill, lack of commercial links, but most important lack of know-how in some elementary technological processes. What is required is practical demonstration. These points were made in the discussions.

10. As the chief proponent of the need for rational approach by the LDC's, and hence the need for the ECCM, ECLA's immediate role has to be to give intensive help with implementing the ECCM common external tariff. This involves not just assistance to the Comptrollers of Customs, but also assistance to the officials concerned with trade policy, those concerned with the legislative instruments, and those responsible for trade statistics. All these aspects have received some ECLA attention over the past two years. Now the pieces have to be brought together in a concerted effort.

11. Beyond that, the ECCM Secretariat is seeking ECLA assistance with the studies mentioned at paragraph 3, as preparatory to the LDC's formulating their negotiating position for the CARIFTA-wide common tariff. Also, it is very clear that unless specific assistance is given in evaluating the benefits and costs of Part IV Association to the enlarged EEC, the Associated States Governments will continue to be uncertain as to the implications of some alternative courses of action.

Really useful assistance to the CARIFTA LDC's would therefore also involve a reappraisal of the ECCM-CARIFTA relationship, particularly in the context of trade policies with third countries.

12. The crucial weakness is that the ECCM Secretariat is unable to provide substantive analysis for the several subjects. There will be no significant progress in the ECCM until there is available a pool of competent technicians. The assistance the ECCM Secretariat has so far been given by ECLA and the CARIFTA Secretariat is far from adequate to cope with their range of needs.

The target dates set in the ECCM Agreement for introduction of common agricultural, fiscal and other developmental policies have gone, and the Ministerial Council still has not got even draft proposals for consideration. It is important to bear this in mind, as progress in the ECCM is one factor that strongly influences progress in CARIFTA.

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24 July 1972

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SPECIAL MEETING OF
THE COUNCIL OF MINISTERS
OF THE
EAST CARIBBEAN COMMON MARKET
(DOMINICA, 8 - 9TH JULY, 1972)

ECCM POSITION ON CERTAIN AGENDA ITEMS FOR
TENTH MEETING OF CARIFTA COUNCIL OF MINISTERS

The ECCM Council of Ministers met in Dominica on 8th - 9th July 1972, discussed four of the major items on the Agenda for the Tenth Meeting of the CARIFTA Council of Ministers and agreed on the following positions in respect of each of the following items:

AGENDA ITEM No.4: THE PRESENT AND FUTURE POSITION
OF THE LESS DEVELOPED COUNTRIES
OF CARIFTA WITHIN THE REGIONAL
INTEGRATION MOVEMENT
(Paper cc 4/72)

2. ECCM Ministers agreed that:
 - a. the problem of inequitable distribution of CARIFTA benefits is the problem of polarisation itself;
 - b. polarisation is an inevitable consequence of integration of economies that are at different levels of development;
 - c. polarisation can be minimised by the creation and activation of certain effective devices;
 - d. while there is need for a wide variety of measures to bring greater benefits to ECCM countries, certain priority areas should be chosen into which the maximum effort would be put;

- e. the greatest need is for a package of measures that would help enhance the industrialisation process in the LDC's and so enable them to produce and sell goods on the CARIFTA market;
- f. industrialisation in the MDC's has been based on import substitution and there are limitations on how far import substitution can go given the small size of even the CARIFTA market and the pattern of income distribution which creates a bias in the composition of demand not only in favour of imports but towards those imports that are most difficult to displace by domestic production;
- g. it is important that the LDC's should be allocated certain of the import substitution industrial sectors;
- h. an agreed list of industries should form the basis of further advance in this direction and the following conditions should obtain:
 - i. the MDC's should give a commitment that they will not, for the ensuing 15 years, establish any of the industries which have been identified as being suitable for establishment in the LDC's;
 - ii. where such an industry is based on regional raw materials for which an MDC is an important source of supply that MDC should guarantee to satisfy the requirements of the industry in the LDC before disposing of its supplies in any other way;
 - iii. to encourage their nationals and companies to invest in these new industries the MDC's should introduce legislation immediately to exempt from taxation or company profits that portion of income or company profits which is invested in these new industries in the LDC's;
 - iv. to the extent that Governments of the MDC's have control over the investment policies of the institutional investors, e.g. Pension Funds and Insurance Companies, in their territories they should direct that their portfolio distribution should show a satisfactory percentage of investments in these new industries in the LDC's;

- v. the origin rule should be amended so that exports from the LDC's could qualify for Area Tariff Treatment on the basis of 35 percent value added;
- vi. potential equity participants throughout the region, both in the private and in the public sectors, should be brought together immediately by some appropriate regional institution. (This could be the Caribbean Development Bank) to appraise them of the industrial development possibilities in the LDC's and to lay the foundation for future discussions about the financing of these industries.

3. As far as benefits in the agricultural sector are concerned, Ministers recognised the limitations of the AMP based as it is on the conditional basis of trade; and in order that some immediate benefits accrued to the LDC's the following conditions must obtain:-

- i. "in order to remove the conditional basis for AMP trade which is regarded as one of its major weaknesses (PP 1-4 of CC 11/72), the MDC's should commit their markets to taking specific quantities of selected commodities from the LDC's. In turn the LDC's should immediately undertake to produce these crops in order to meet and satisfy their 'commitments';"
- ii. "that prices for the agreed quantities should be determined within the AMP machinery;"
- iii. "the MDC's agree to undertake whatever national measures are necessary to ensure that their capacity to absorb the agreed quantities of the products is not affected;"
- iv. "that special technical assistance be provided to the LDC's to ensure the creation and proper functioning of the necessary machinery to guarantee as far as possible the attainment of the production targets and quality of produce to meet their commitments; and"

- v. "that this should be a long-term arrangement with annual increments in quantities traded and that there should be regular evaluation of the programme at the Meetings of Chief Technical Officers and Agricultural Planners."

AGENDA ITEM No.5: FINALISATION OF THE SCHEME FOR THE
HARMONISATION OF FISCAL INCENTIVES
TO INDUSTRY
(Paper cc 1/72)

4. Ministers agreed that a scheme of harmonisation for the CARIFTA region was desirable but they recognised that in the circumstances of the ECCM territories, particularly in terms of their level of development vis-a-vis other countries in the region, their main interest was in a harmonisation scheme that compensated them for their relative inferiority in regard to other, far more important factors influencing investments in the region. Among these other factors are size, natural resources, population and, especially, the level of infrastructural development, including social infra-structure.

5. Accordingly, ministers took the position that, in light of the limitations of the proposed fiscal incentives scheme as an instrument for sharing out the total volume of investments available to the region at any moment of time the introduction of the scheme must go hand in hand with the implementation of more direct measures to channel investments into certain areas, in particular, there must be a regional policy for the location of industries.

6. On this basis ministers endorsed the following statement made by ECCM officials at a recent CARIFTA meeting of officials; except that, unlike their officials, they still saw little merit in the case for "special areas", while they were prepared to agree to a maximum tax holiday period of 17 years with a 7-year differential between the MDC's and the LDC's:

"The LDC's see considerable merit in the case made for 'special areas', but are disturbed at what seems to be the addition of new dimensions to the concept of 'special areas'. When the concept was first introduced, it was to the LDC's, synonymous with depressed areas".

"It seems to the LDC's that attempts are being made to use the concept of special areas as an instrument of Industrial Location policy. If this is the objective, then it seems to the LDC's that there are non-fiscal measures that could be used more effectively in the attainment of this goal."

"However, because of the difficulties which MDC's seem to have, and in the interest of Regional Co-operation, the LDC's would be prepared to accept the revised concept of special areas, provided:

- i. there were clearly defined criteria approved by Council for determining whether or not an area was a special area;
- ii. a team of independent experts visited all the MDC's in order to ascertain, in collaboration with national Governments, whether an area which a country wanted to be given special area treatment has the characteristics of a special area;
- iii. after the incentive scheme became operational, the Council should from time to time, request an independent team of experts to examine and report on any of these areas in the light of changing circumstances."

"However, the LDC's are deeply concerned about the already long period of tax holidays proposed. The LDC's may find difficulty in agreeing to a regime that exceeded fifteen (15) years."

"At the same time the LDC's want to maintain an attractive and meaningful differential between the highest level of incentive applicable in an MDC and the highest applicable in an LDC."

"In their view, this condition could not be met with a differential of less than five (5) years. But, recognising that fiscal incentives by themselves are of limited value in influencing the flow and direction of industries, the LDC's are of the very strong view that the introduction of a regime of harmonised incentives must be simultaneous with the implementation of a regional policy for the location of industries."

7. In summary the ECCM position is:

- (i) the harmonisation scheme is desirable;
- (ii) as far as tax holidays are concerned there should be a maximum period of 17 years;
- (iii) there should be a differential of 7 years in the maximum period of tax holiday an LDC can give and what an MDC can give;
- (iv) individual territories should be able to vary within these maxima the total number of years of tax holiday they give to an enterprise;
- (v) harmonisation should not be proceeded with until a regional policy for the location of industry is implemented.

8. Antigua reserved its position on the whole question of harmonisation.

AGENDA ITEM No. 6: THE CARIFTA COMMON EXTERNAL TARIFF
(Papers cc 2/72 and cc 2/72 corr.1)

9. Ministers affirmed that they had not yet accepted even the principle of a Common External Tariff for CARIFTA and that, in any case, they could not participate in any discussions on a CARIFTA CET until the ECCM CET had been implemented. In addition, their participation in such discussions would have to wait:

1. a study of the revenue and fiscal implications arising out of the adoption of the CARIFTA CET on individual Governments and on the ECCM States as a group;

- ii. a thorough examination of the special concessions proposed for the LDC's and in particular the length of the transitional period;
- iii. a study of the trade policy obligations of the ECCM States;
- iv. a report on commercial and protective policies for the ECCM;
- v. a common ECCM approach to the CARIFTA CET;
- vi. a decision on an ECCM position vis-a-vis the EEC;
- vii. the effective implementation of special measures devised to bring greater CARIFTA benefits to ECCM countries.

10. The studies mentioned above should be completed within four months.

AGENDA ITEM No.7: THE RELATIONSHIP BETWEEN THE CARIFTA COUNTRIES AND THE ENLARGED EUROPEAN ECONOMIC COMMUNITY (Papers cc 3/72 and 3/72 Add.1 Rev.1).

(See TC 5/72 Addendum 1).

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CARIFTA AND THE EUROPEAN ECONOMIC COMMUNITY

Ministers endorsed the analysis in Secretariat Paper TC 1/72 and in respect of particular issues they took the following positions:

i. The vital export interests of ECCM Countries -

While association with the EEC is a condition for participation in measures for protecting the markets of EEC primary producers, such measures will fall outside the association agreements themselves since existing agreements do not provide adequate protection for ECCM vital export interests:

a. adequate protection for sugar must include a quota arrangement guaranteeing sugar producers a market for at least their Commonwealth sugar agreement quotas at prices no less favourable than those paid to producers in the French Antilles;

b. duty free entry for bananas is inadequate as the Community's 20 per cent tariff under the Community's CET will not compensate for the relative inefficiency of the Windward Islands industry compared with producers in Latin America and Africa. Adequate protection must include either quota arrangements as the continuation of existing marketing requires.

ii. Preservation of CARIFTA - To the extent that the "deepening" process in CARIFTA goes hand in hand with the implementation of special measures to confer greater CARIFTA benefits on the LDC's; then ECCM countries might see their long term prospects as being linked with CARIFTA. Accordingly an association agreement with the EEC would have to take this factor into consideration.

iii. Preference Arrangements - the granting of reverse preferences to Europe should be strongly resisted. The following points were noted:

- a. developing countries in general have been maintaining in UNCTAD and other international forums the principle that trade and economic relations between developed and developing countries should not involve reciprocity on the part of the latter;
- b. a strong body of opinion is developing in the EEC favouring the complete abolition of reverse preferences because:

firstly, existing arrangements have never been universally applied,

secondly, pressure from developing countries have brought about a trend in favour of a progressive reduction of tariff and other barriers imposed on the exports of developing countries and,

thirdly, the reduction of the value of benefits derived have resulted in a corresponding reduction in the significance of these benefits,

fourthly, the U.S. 'threat' not to extend its GSP to countries giving preferences to Europe may well be used to our advantage to resist pressure from the Community.

All the above forces suggest that there might be some movement by Europe on the question of reverse preferences.

However, if we had to give reverse preferences, these should preferably be on a limited range of goods.

Rights of Establishment - This is not the problem that it earlier seemed to be because it is based strictly on the principle of reciprocity and for a given activity only. Further it makes allowance for discriminatory treatment for activities arising out of regional commitments.

Aid Considerations - The immediate attraction of association for a number of ECCM territories is the prospects of increased aid. Commitments by both the United Kingdom and Canada that their aid programmes would not be affected by association were noted. Also noted was the fact that although there were still uncertainties about the quantum of aid that might be disbursed in the ECCM countries for existing EEC Associates, EDF aid has been a significant net addition to their other aid programmes.

A CARIFTA Approach to Europe - On the basis of the existing association agreements it would seem that an arrangement by which ECCM countries were associated under Part iv. and the independent CARIFTA countries were associated under Yaounde would preserve the integrity of CARIFTA. But Part iv and Article 238 would present difficulties, while Part iv and a Trade Agreement would seem to be almost impossible.

(The ECCM Secretariat's views on the Conclusions and Recommendations in the CARIFTA Officials Report REP 15/72 page 51 were not considered in detail by ministers. They are, however, in keeping with the general positions above, and are to be found in ECCM Secretariat Paper No. TC 1/72 at page 13 onwards).

Ministers then summed up their position on the ECCM as follows:

1. On no account can we abandon our listing under Part iv at this stage.
2. Those matters for which Part iv does not provide adequate protection should be the subject of discussions at an early date.
3. Any joint CARIFTA approach to which we, as a group, can subscribe must embrace these two factors as minimum provisions.

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