BUILDING RESILIENCE ACROSS THE CARIBBEAN POST-COVID-19
ABOUT ECLAC/CDCC

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was established in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the subregional headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the subregional headquarters for the Caribbean. Nine years later, the Commission’s widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

Key Areas of Activity

The ECLAC subregional headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organisation’s mandate. At present, the overarching articulation of this mandate is the Millennium Declaration, which outlines the Millennium Development Goals.

Towards meeting these objectives, the Secretariat conducts research; provides technical advice to governments, upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialization include trade, statistics, social development, science and technology, and sustainable development, while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, climate change, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC subregional headquarters for the Caribbean also functions as the Secretariat for coordinating the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the subregional headquarters in Port of Spain.
Caribbean leaders have provided economic and social support to address the challenges, however, these economies now face rising indebtedness, and a likely liquidity crisis. These have been compounded by ongoing vulnerability to climate change and an active hurricane season. For these reasons the subregion, must renew its efforts towards identifying and capitalizing on opportunities to building resilience in a post-COVID-19 global economy.

As member States work towards jump-starting the recovery in their economies, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) continues to advocate for greater multilateral financial assistance and provide evidence-based technical support to ensure countries overcome the negative impacts of the pandemic. This support is vital as we must ensure that our member States remain focused on achieving the Sustainable Development Goals (SDGs). Mindful of this, ECLAC has hosted or participated in several regional discussions aimed at stimulating economic recovery post-COVID-19.

At the biennial Caribbean Development Roundtable held in September 2020, the central theme was “Securing debt sustainability and resilience in the time of COVID”. Attended by representatives of 22 Caribbean countries and 6 observer countries, the meeting provided a platform for member States to discuss their experiences in light of the pandemic. The general concern for regional heads and policymakers centered around the COVID-19’s the severe impact on the tourism sector and the decline in commodity prices. Although these issues preceded the advent of COVID-19, they were aggravated by restrictions during the pandemic. It was agreed that there was urgent need to provide innovative solutions to mitigate the economic fallout from the pandemic in the Caribbean. There was the need also for immediate relief in the form of liquidity support to offset falling revenue streams.

In light of these challenges, this edition of the FOCUS provides an assessment of the impact of the global pandemic on the subregion’s critical revenue generating sectors and offers recommendations on how to reinvigorate Caribbean economies post-COVID-19. This includes an assessment of recovery efforts in the tourism industry; one of the most significantly affected sectors. Policymakers in tourism-based economies were challenged to find tenuous balance between securing the safety of their citizens and restarting the economy with a focus on reviving the tourism sector. The options for policymakers in commodity exporting economies are also limited as they face low commodity/energy prices compounded by limited demand and over supply. We explore ways to recoup potential revenue losses by addressing the issue of transfer risk pricing.

The pandemic has put a spotlight on food security - particularly among poor households - due to loss of income and employment. It has renewed discussions on the importance of strengthening food systems by supporting food security, addressing non-communicable diseases (NCDs) and building climate resilience. We argue that the time is opportune for Caribbean countries to design and implement an integrated food system which could also address future crises.

Finally, the devastating impact of the pandemic reignites the call for economic transformation centered around improved growth, diversifying our economies and providing decent jobs. ECLAC presents a strategy towards achieving these goals in the medium term, given the current financial constraints. Such transformation is central to building long-term sustainability across the subregion.

This issue suggests that there is much work to be done as we seek to rebuild with resilience post COVID-19. We believe that through careful planning and the implementation of innovative policies, the subregion has the opportunity to build forward. ECLAC remains committed to supporting this effort towards recovery and renewal.

Yours in Focus

Diane Quarless
In the first half of 2020 COVID-19 spread rapidly across the world, overwhelming health systems in many countries. In a concerted effort to control international transmission of the virus, many states either closed their borders or stringently limited travel. The Caribbean was no exception; most countries went into varying degrees of ‘lockdown’, and for the most part have remained that way for much of 2020.

Since the service economies of the subregion are highly dependent on travel and tourism, the applied restrictions in international traffic, along with strictly imposed domestic social distancing measures, have had adverse effect on Caribbean growth prospects and macroeconomic performance. Figure 1 depicts the contribution of tourism to gross domestic product (GDP) in 24 Caribbean countries. In these small, vulnerable, highly indebted economies, there are few alternate growth prospects, especially in times of crisis. Therefore, policymakers have had to find that impossible balance between keeping their citizens safe and protecting the continued viability of their essential tourism industries.

The initial spread of COVID-19 was relatively slow across the subregion, and many governments made cautious decisions to begin reopening for tourism by the middle of 2020. Antigua and Barbuda, Jamaica, Saint Lucia and the United States Virgin Islands, reopened in June. The Bahamas, Cuba, the Dominican Republic, Guadeloupe and Saint Vincent and the Grenadines all reopened on 1 July, while Aruba, Barbados, Grenada, Turks and Caicos and other Caribbean territories reopened later that month. Anguilla and Dominica opened in August; others plan to reopen in the coming months.

This article examines the varying methods applied to safely restart the tourism industry in the countries of the Caribbean, as at September 2020.

SAFETY PROTOCOLS

In March, a Caribbean Tourism COVID-19 task force was created, comprising representatives from the Caribbean Hotel and Tourism Association (CHTA), Caribbean Public Health Agency (CARPHA), Caribbean Tourism Organization (CTO), Organization of Eastern Caribbean States (OECS) and the Global Tourism Resiliency and Crisis Management Centre. The task force’s mandate was to assist Caribbean States with guidelines and training for COVID-19 safety protocols. While there has been some coordination, countries have applied different procedures for allowing entry.

Most of the reopened States and territories require proof of a negative polymerase chain reaction (PCR) test taken within a few days of travel, and subject visitors to temperature checks and other health screenings. Cuba, Dominica, Grenada and Saint Vincent and the Grenadines require that visitors take COVID-19 tests upon arrival at points of entry.

Some countries have a tiered testing system depending on where the visitor’s travel originated. Antigua and Barbuda established a “travel bubble” with visitors from several Caribbean Islands not requiring state quarantine; Barbados and Saint Lucia implemented similar strategies, with the latter marketing it as a “Bubblecation”. Grenada has implemented a three-tiered entry requirement system based on the classification of the visitor’s country of origin. Visitors from low risk countries (mainly CARICOM countries) are required to take a COVID-19 rapid test upon arrival. Those from medium risk countries (Canada, UK and EU) are required to provide negative PCR tests seven
days before departure and take a rapid test upon arrival. Visitors from high-risk countries (countries with active and widespread transmission) must provide proof of a negative PCR test seven days before departure, take a PCR test upon arrival and remain in quarantine until negative tests are returned.

**ACCOMMODATION**

On arrival, there are several other measures that countries have implemented for controlling the spread of the disease and keeping both tourists and residents safe. Social distancing measures, requiring facemasks in public spaces and temperature checks have been introduced. Reopening hotels have had to implement sanitization and health and safety protocols to keep guests and staff safe.

In addition to these measures, some countries have also made attempts to keep tourists separate from residents. Tourists in Saint Lucia must stay confined to hotel premises except when on an excursion organized by the hotel. Jamaica has established a “COVID-19 resilient Corridor” along the northern coastline from Negril to Port Antonio, within which all tourism activity is restricted, and only certified tourism businesses can operate. Cuba has physically distanced tourists from the main island by restricting tourism activity to all-inclusive resorts on five remote islands off its northern coast.

There have also been some innovative responses to the slowdown in stayover and cruise visitors. To compensate for the loss, some countries are promoting long-term tourism. Barbados has its “Welcome Stamp” programme, which allows visitors to stay for up to a year. This is meant to attract visitors from source markets who are working remotely for an extended time due to the pandemic. Anguilla has introduced a similar programme.

**EARLY RESULTS**

Following the partial reopening of the industry during the summer, July and August saw the rate of spread of the disease steadily increasing in several Caribbean economies. The Bahamas closed its border to commercial flights from the US on 19 July, following a resurgence in COVID-19 cases. The Bahamas closed its border to commercial flights from the US on 19 July, following a resurgence in COVID-19 cases. Puerto Rico reopened on 15 July but implemented major restrictions such as closing bars and limiting beach usage following a surge in cases. Even some countries that did not reopen their borders, such as Trinidad and Tobago, experienced a surge in cases. On the other hand, some other economies remained relatively unaffected by the pandemic, at least up to mid-

A proxy for tourist visitors is the number of daily departure flights. The number of departures fell off sharply in March 2020 with the implementation of border closures. There has been a slow upward trend since then, with some acceleration in July, but then a levelling off afterward (see figure 2). Most of the increase since June can be attributed to the Dominican Republic. While data remains limited, it is clear that the situation is still far from pre-pandemic levels. International travel trends also remain depressed. Despite the reopening of borders, and the improvement of travel sentiment (Destination Analysts, 2020), many potential travelers are still reluctant to fly again.
CARIBBEAN GOVERNMENTS HAVE HIGHLIGHTED THEIR VULNERABILITIES IN A VARIETY OF FORA, POINTING TO THE EXISTING FINANCING GAP AND THE NEED FOR CONCESIONAL SUPPORT, IN ORDER TO ADDRESS THE EFFECTS OF THE PANDEMIC. AT A MEETING OF MINISTERS OF FINANCE HOSTED BY ECLAC IN APRIL, MANY OF THE PARTICIPANTS SHARED THE VIEW THAT THE SUBREGION COULD NOT AFFORD TO ACCUMULATE ADDITIONAL DEBT.

In addition, during the Financing for Development in the era of COVID-19 initiative supported by Secretary-General Antonio Guterres and co-convened by Canada and Jamaica, Member States reiterated their financing need to address COVID-19 and other challenges.

ECLAC estimates that due to the virtual collapse of the tourism sector and the decline in commodity prices, the debt burden - which is some 67 per cent of GDP on average - and the debt servicing which is 30 per cent of government revenue, will increase. While this is a challenge, it presents an opportunity to determine how to pursue economic transformation in the post COVID-19 period. Such transformation must entail, at minimum, improving growth, diversifying the economies of the subregion and creating decent jobs.

This article suggests a strategy focused on identifying what needs to be done to achieve these goals in the medium term within the limits of the current financial constraints. Key areas include the need to develop industry policies to identify priorities, the need to improve the environment for business, and finally, to address the technology gap, which is critical if the Caribbean is to improve its competitiveness and its capacity to innovate.

**THE ROLE OF INDUSTRIAL POLICIES FOR SUSTAINABLE ECONOMIC GROWTH**

The reliance of Caribbean economies on a few sectors and activities have had severe consequences due to their susceptibility to negative external shocks. Tourism services and energy production are major contributors to foreign exchange earnings, which is a binding constraint in the Caribbean. The subregion needs an industrial policy that is embedded in its post-pandemic development plans and policies to drive resilient growth.

According to ECLAC (2014), industrial policy, broadly understood, comprises a very diverse array of instruments and include those designed to improve companies’ access to financing, those whose purpose is to generate and diffuse new technologies and know-how, training instruments, incentives for single market economy (SME) partnership and internationalization, quality certification programmes and production cluster policies. In the Caribbean context, industrial policy must address the shortage of physical capital, technology and human capital, import dependence and responses to negative external shocks through economic diversification. Such policies must make existing activities and sectors more competitive and broaden the envelope of entrepreneurial activities. The overall objective is to generate new export activities, move up the value chain in existing sectors and encourage local firms to also launch their activities abroad.1 In addition, industrial policy must encourage foreign direct investment, especially those operations that support domestic activity and encourage knowledge generation and capability building. Such policies must also embrace historically disadvantaged groups such as women, young people and persons with disabilities, who tend to operate outside of the well-organized business sectors.

A good starting point is to focus investment in the domestic capital sector, which can use capital services to generate foreign exchange. Two examples are the generation of education and health services for export, rather that purely for domestic consumption which has been the traditional role of these sectors. A broad range of additional green activities can also be identified, including opportunity for renewable energy, ICT services especially with respect to vulnerability reduction among households and incentivising exports in the areas such as the creative industries. In light of the above, four conditions are necessary for the establishment of an effective industrial policy.

1. Engagement with a broad a range of private sector actors to identify what activities are possible for efficient production and what supporting services - including logistics, global interconnection and quality standards - would enhance this.

2. Identification of those activities that can benefit from public private partnerships;

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2 The evidence is that fewer Caribbean firms export relative to other SIDS (IDB 2014).
this must be pursued in the context of transparency and accountability.

3. Identification of clear criteria for public support to priority areas, including financial and technical support, and specification of conditions for such support.

4. Monitoring and evaluation of the policy space to determine what policies work efficiently and scale up those activities and opportunities which enhance productivity and increase export capacity.

IMPROVING THE BUSINESS ENVIRONMENT

In light of the challenges arising from high debt and fiscal stresses in the public sector, much more effort must be expended to incentivize the private sector to expand its activities, including export. This can be achieved by encouraging existing private sector interests and expanding the space for new actors to enter the private sector.

With respect to improving the climate for business, an aggressive effort needs to be pursued, especially where new finances are not required. The figure above shows how far the Caribbean must travel to improve its business environment. Using the case of Singapore as an example the Caribbean is way behind with respect to other countries, given the ranking of each item. In addition, innovative instruments that reduce risk and incentive new activities are critical to diversifying productive activity.

Given the fact that COVID-19 will encourage greater use of information and communication technology (ICT), governments must put in place a broadband infrastructure to encourage interconnection across all sectors of the economy. This must also imply addressing e-governance in order to improve the efficiency of government services. While the need to encourage existing activities is important, governments can also encourage new actors, especially young people and women, through its procurement policies. Governments can, for example, set aside a percentage of their budgets to procure services from small businesses that are unable to compete with well-established firms and larger businesses. At the same time, governments must insist on quality standards and other criteria so that these businesses can grow over time.

ADDRESSING KNOWLEDGE GENERATION AND DISSEMINATION ACROSS ALL SECTORS

The need for an industrial policy to identify priorities, coupled with improvement in the business environment, must be supported by increasing knowledge generation and innovation in the wider society if the Caribbean is to compete successfully. Success of this framework requires consistent investment by governments and the private sector in knowledge generation to improve labour productivity and to encourage innovation in all areas of economic activity.

The evidence is that the Caribbean ranks poorly on most indicators of knowledge generation such as the global innovation index and the knowledge generation index. Not surprisingly, there is evidence of a considerable decline in labour productivity (Caribbean Outlook 2020) and it is the case that a large percentage of the labour force in the subregion is unskilled. If large numbers of workers are located in low-skilled, low-productivity activities which are predictors of poverty and inequality due to lack of decent jobs, it would be difficult to achieve the targets in the relevant Sustainable Development Goals (SDGs).

The approach to building local capability for knowledge-generation and innovation, it is suggested, lies in four important areas. First, there must be renewed and consistent investment in science, technology, innovation and the broader area of knowledge-generation, beginning with the education system, which must emphasize science, technology, engineering, the arts and mathematics (STEAM). Given the limited capacities of each country, synergies must be exploited at both the national and regional levels through collaboration and cooperation. One area that has received emphasis as a potential area for economic diversification while supporting food security has been agriculture. However, Caribbean agriculture, to be competitive, must be technologically driven and this requires a greater emphasis on knowledge-generation and dissemination along the domestic agricultural value chain.

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REVITALIZING CARIBBEAN AGRICULTURE FOR FOOD SECURITY, HEALTH AND CLIMATE RESILIENCE AFTER COVID-19

Michael Hendrickson*

COVID-19 has significantly impacted the economic and social welfare of Caribbean peoples. The most direct effect has been on citizens’ health, economic sectors - especially tourism and transportation - and employment and incomes. Agriculture has not suffered the level of direct impacts as other sectors. Nevertheless, poorer households have faced food insecurity, in part due to loss of employment and incomes. The Caribbean Food Security and Livelihoods Impact Survey of July 2020, found that 2.9 million people were estimated to be food insecure, compared with April 2020 and one-third of respondents were skipping meals or going one day without eating (CARICOM et. al, 2020).

Therefore, the pandemic has renewed debate on the importance of food systems and their links to food security, on the epidemic of non-communicable diseases (NCDs) and on climate change in the Caribbean. Indeed, deaths from the pandemic have been highest among persons suffering from obesity and NCDs, including diabetes, hypertension and heart disease. Obesity, for example, has quadrupled from 6 per cent in 1975 to 25 per cent in 2019 (FAO, 2019). NCDs in the subregion pose a major threat to achieving the SDGs relating to food and nutrition, security and health.

The challenge is for the Caribbean to reform its agriculture and food systems to promote food security, ameliorate the epidemic of NCDs and better adapt to and mitigate the impacts of climate change. This does not mean that the Caribbean would be able to produce enough food to feed its population. However, the subregion can and certainly must do more to meet its demand for healthy and nutritious food to aid the health and well-being of its citizens.

The Jadgeo Initiative and projects by the Caribbean Agricultural Research and Development Institute (CARDI) and other agencies have provided important groundwork plant genetics, climate resistant varieties and other measures to increase productivity. The opportunity is now available to build upon this foundation. Moreover, there is concern that the Caribbean might not be as fortunate in a future pandemic, which might lead to a major disruption in the international food supply chain with severe consequences for its food security.

This article argues that the Caribbean should seize the opportunity presented by COVID-19 to design and implement a strategy to develop an integrated food system. This strategy should use the latest scientific and technological research to tackle bottlenecks in food production, reduction of post-harvest wastage, transport and logistics, processing, awareness and education, to cope with an increase in consumer demand for locally produced food.

THE CASE FOR AN INTEGRATED FOOD SYSTEM IN THE CARIBBEAN

Modern research on food systems has paid greater attention to their integrated and synergistic nature, recognizing that the food value chain from farm to table is not a stand-alone process, but is linked with economic, nutrition, health and environmental concerns. This points to the need for a rethinking of food and agricultural systems in the Caribbean to better balance these concerns.

An integrated triple-duty food system (ITFS) can set the subregion on the right path in this respect (World Bank, 2019). An ITFS can be defined as a food system that tackles the triple threats of food insecurity, NCDs and climate change. It facilitates food security, and optimizes the use of resources and ecosystems to the benefit of present and future generations. It also ensures access to sufficient high quality, safe and nutritious food at an affordable price to maintain a healthy life, in the context of environmentally sound production, distribution and consumption practices (adapted from Capone et. al, 2014 p; and World Food Summit, 1996). Therefore, the four pillars of food security: availability, access, utilization and stability are central to an integrated food system.

How can an integrated food system help the subregion? There are four possible ways worth considering. First, it can better help the subregion to address the food security concern that is reflected in the high food import bill, estimated at over US $5 billion in 2019 (Caribbean Business Report, July 2020). An important part of an ITFS is a harmonized food information system that provides information on imports and domestic production of specific foods, food prices and changing consumer demand. This information could help the Caribbean target investment to areas where food deficits exist, including fruits, vegetables and lean meat production.

According to the OECD (2020), daily consumption of fruit and vegetables

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in the Caribbean ranges from 65 grams in Haiti and Trinidad and Tobago, to 220 grams in Jamaica, far below the recommended 400 grams per day. A revitalized food production system could help to increase supply and reduce prices, thereby making fruits and vegetables more affordable for households. There is also the opportunity to increase production of lean protein including healthier pasture-grazed cattle and small ruminants. This could help reduce expenditure on imports of these protein sources, saving the subregion significant foreign exchange.

Second, a systems model could provide a joined-up approach for assessing the synergies and feedback loops between food production, processing and consumption, and the spike in NCDs in the subregion (Murphy and Samuels, 2020). With respect to synergies, it can help the subregion better map and exploit opportunities by replacing a portion of the staples, including cereals and meat imports, with domestic production. According to FAO (2016), cassava can replace 400,000 metric tonnes of wheat flour and 40 per cent of corn that is used for poultry feed. Indeed, cassava replacements alone can help to reduce the Caribbean’s food import bill by 5 per cent, while also providing a healthier food option.

Furthermore, a systems approach can help the subregion to assess constraints in financing, technical assistance, capacity building and alleviation methods. Adequate access to finance remains an important constraint to increased food production and processing among SMEs in the Caribbean (IDB, 2018). However, it is not likely that the private sector alone would meet this funding deficit. Therefore, public private partnerships could provide an option for funding potentially viable projects. In addition, systems planning could provide a framework for targeting technical assistance in areas such as greenhouse production, improved irrigation and drainage systems and post-harvest waste reduction that can benefit farmers. A critical advantage of a food systems approach is that it allows greater coordination and cooperation among farmers and food processors. Horizontal coordination could allow small farmers to jointly source inputs such as fertilizer and pesticides and to pool their production to meet large scale supermarket or hotel sector demand and undertake joint transport of the products to market. This could be facilitated by information technology, including inventory management software (Caroline Krejci and Benita Beamon, 2015).

RECOMMENDATIONS FOR REVITALIZING CARIBBEAN FOOD SYSTEMS FOR FOOD SECURITY, HEALTH AND ENVIRONMENTAL PROTECTION POST COVID-19

The pandemic provides a window of opportunity for a major thrust in strengthening food security for improved health and environmental protection. This stems from the recognition that food security, health and climate change are interrelated challenges that must be addressed jointly.

In the first place, the Caribbean needs to increase the production of healthy foods, including complex starches such as cassava, sweet potato, yam, and fruits and vegetables alongside meat, poultry and fish. The platform that has been established by CARDI and the Inter-American Institute for Cooperation, including the development of plant and animal varieties that are more adaptable to changing climatic conditions, should be used for scaling up production.

Improved tax, subsidies and technical assistance incentives should be provided by governments to attract increased private sector investment in key areas of agricultural production. This should be supported by government procurement from these firms for its school feeding and community food support programmes. This could help to reduce cash support programmes, as a portion of assistance could be provided in the form of healthy foods from government-supported farmers markets.

Second, an integrated system can leverage ICT to improve farm land management. This could start with improved zoning to reduce the capture of prime, arable land for housing and commercial use. It could also incorporate technical assistance to maintain land fertility, monitor river systems to reduce flooding and to ensure overall sustainable land use.

Third, private producers and governments need to strengthen other segments of the value chain. Incentives should be provided for SMEs in the sector to develop or improve their food processing plant and labelling capacity to meet the demands of an increasingly savvy regional consumer (FAO, 2016). Transport and logistics systems need to be upgraded to efficiently move farm produce to consumers. This should include investment in regional shipping, to transport surplus produce from one country to another. There is also the need for better public private partnerships to increase packing and cold storage capacity to maintain food produce quality and to reduce wastage.

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While transfer pricing risks are present in various industries in the subregion, this article, which is based on the findings of a policy paper by ECLAC Caribbean, focuses on mitigating these risks in the energy sector in Guyana and Trinidad and Tobago.

TRANSFER PRICING CONUNDRUM IN THE ENERGY SECTOR

Because multinational corporations tend to have multiple subsidiaries and divisions across countries, the risk of transfer pricing is greater among these entities. Small developing economies often lack the capacity to monetize their natural resources and therefore engage multinational companies to explore these commercial opportunities, using fiscal incentives as the primary tool to attract foreign direct investment.

Guyana and Trinidad and Tobago rely heavily on multinational energy companies for the development of their respective energy sectors. Multinational energy companies (MECs) commonly use complex, international supply chains that contract and insert specialist companies into the process of bringing vital commodities from its source to the final market (Diagram 1). This entails interaction between several actors, at different stages and in different countries. MECs conduct business with their subsidiaries, paying them for services, and subsequently transferring value. The process in which value is exchanged in these related party transactions is called transfer pricing.

Since countries invariably have differing effective tax rates, the minimization of taxes can facilitate profit maximizing. Since different countries have different effective tax rates, MECs can reduce their global tax payments by shifting income from highly taxed jurisdictions to locations with lower taxes. While profit shifting can be achieved through the reallocation of real activities, it can also be accomplished through the manipulation of transfer prices.

Caribbean economies are increasingly grappling with the need to increase revenue generation in order to create the necessary fiscal space for financing economic recovery during the post-COVID-19 era. For subregional energy exporters, optimizing natural resource rents has re-emerged as a leading policy objective. Mitigating transfer pricing risk has gained prominence as a key modality for achieving this policy goal.

**Diagram 1: Oil and gas global value chain**


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2. ‘Navigating Transfer Pricing Risk in the Oil and Gas Sector: Essential Elements of a Policy Framework for Trinidad and Tobago and Guyana’.
3. Here the goods include raw materials, intermediate products, capital machinery, and finished products.
(Swenson 2000). Transfer pricing risk can occur two ways: either undercharging for transactions or overcharging for transactions between divisions of a company.

Multinational energy companies (MECs) are able to reduce their tax liability through base erosion and profit shifting (BEPS) by shifting value along their global value chain. In this scenario, MECs control the global hydrocarbon value chain while host countries act somewhat as observers rather than active players.

This can result in hydrocarbon-rich developing countries earning less than their fair share of hydrocarbon revenues. As such, governments must delicately balance the necessity of fostering economic activity, attracting the necessary inflow of foreign capital, and ensuring the accrual of an optimal share of the natural resource rents to the domestic economy. For natural resource-rich small developing economies the latter invariably necessitates preventing transfer pricing through appropriate policy setting.

**EMPIRICAL ANALYSES AND POLICY RECOMMENDATIONS FOR CARIBBEAN ENERGY EXPORTERS**

It is important to note that Guyana and Trinidad and Tobago are at different stages in the life cycle of their hydrocarbon industries. Trinidad and Tobago has over 100 years of experience in the oil industry, and over 20 years of experience in the export of LNG.

In comparison, commercial discoveries of oil were made offshore Guyana in 2015, and the country commenced the export of crude oil in 2020. Therefore, the Guyana hydrocarbon industry is at a nascent stage, while Trinidad and Tobago’s is mature. Despite this, neither Trinidad and Tobago nor Guyana has a robust framework in place to address transfer pricing or reduce the associated risk.

The hydrocarbon industry is particularly susceptible to transfer pricing as exploration and production typically requires multiple parties and contractual relationships. The risk can also occur in the pricing of hydrocarbons sold downstream. For example, in the natural gas industry, despite it being a homogenous commodity, there are different markets (Asia (JKM); European (NBP); or North America (HH)) which causes a variation in prices. In the 2000s, LNG suppliers and LNG buyers gradually introduced more flexibility in their contracts, allowing the supplier to switch destinations for natural gas. However, under the existing arrangement, Trinidad and Tobago is not allowed to fetch higher natural gas prices in other markets when they fluctuate, subsequently resulting in a loss of potential revenue.

The allocation of natural gas to different markets is not a problem for the LNG exporting country. However, if a government’s contract with the LNG exporter is locked into the benchmark price of a specific market, but the LNG cargoes are diverted into higher priced markets, then the government would not receive a netback based on the higher priced markets. In fact, this could result in a situation where the LNG exporter is exporting to the highest priced markets, but is computing a netback based on the lowest priced market. Since the spreads between the regional markets could be as high as $10/ mmbtu in bullish periods, it could result in significant loss in revenue for the government (See Figure 1).

In fact, transfer pricing has been mentioned by the authorities to exist in Trinidad and Tobago. In its recent Natural Gas Master Plan, the government of Trinidad and Tobago noted that in times of high LNG prices, when there should have been upside sharing as off takers diverted cargoes away from the US to higher value markets, there was no increase in value going to the government.  

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3 Poten and Partners (2015, 252) assert “The US is now no longer an attractive market for LNG but T&T is stuck with HH as a base price under these marketing arrangements, with the majority of the actual sales revenue now being captured by the marketing entities offshore.” They go on to state “Poten’s estimate of the combined potential value loss from the four ALNG trains averaged around $6 billion per year between 2011 and 2014 ... the existing arrangements are not optimally capturing value for T&T.” (Poten and Partners 2015, 254). The Minister of Energy also asserted “In general, Poten and Partners have found that the beneficiary of the substantial value generated by the Trains were not so much the upstream gas suppliers; rather offshore jurisdictions which were either low priced markets or high priced markets but with the revenue not flowing back to Trinidad. In the majority of transactions, the offtake arrangements for upstream companies involve sales to downstream marketing affiliates, which potentially lead to non-arm’s length transactions.” (Khan 2017, 8).

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![Figure 1: Estimated tax revenues under the 3 scenarios, 1999-2018 (TT$)](image)
In attempting to estimate the potential revenue loss from transfer pricing in the natural gas sector for Trinidad and Tobago⁵ the following were discovered:

- Over the 2010 to 2014 period while the natural gas price was high, it was estimated that that revenue collections by the government could have been approximately 5 times higher.

- In 2018, while natural gas prices were low, the government could have generated tax revenue that was approximately 6 times higher than actual receipts - amounting to an estimated US$2.6 billion in revenue loss from the natural gas sector alone.

Moreover using Wavelet Transformation, Copula, and Predictive Causality, it was shown that there exists strong positive dependence between the GDP decays employed, which suggests that Trinidad and Tobago’s GDP is likely to move in the same direction as its energy revenue. Therefore, growth in Trinidad and Tobago’s energy revenue would be accompanied by GDP growth, however, the impact is felt within 2-4 quarters, but dissipates thereafter.

This signals that a crucial first step towards mitigating the transfer pricing risk inherent in the energy sector would entail regional governments developing an appropriate fiscal and legislative framework that ensures multinational companies charge prices between its subsidiaries based on the arm’s length principle. This would address, among other things, potential shifting in the destination markets for natural gas. As such, it is recommended that any framework introduced by the governments of Guyana and Trinidad and Tobago should include the following four essential elements:

1. Designation of a Revenue Authority to set a Fair Price for the Hydrocarbons;
2. Implementation of Advanced Pricing Agreements;
3. Establishing a Reporting and Monitoring Framework;
4. Addressing the Natural Gas Netback Prices.

Further, the fiscal terms enshrined in licenses and production-sharing contracts for extraction of hydrocarbons by MECs should be sufficiently flexible so that, as market conditions change and/or issues relating to transfer pricing and BEPS arise, investors and governments can resolve emerging sticking points in a mutually beneficial way. There is a strong incentive to do so since hydrocarbon projects tend to be long-term investments (20+ years), and MECs prefer to maintain positive relationships with host governments.

**CONCLUSION**

Caribbean countries were already in a difficult fiscal position pre-2020; a situation now exacerbated by the impact of the COVID-19 pandemic and attendant measures to contain its spread. Contracting liquidity has therefore emerged as one of the most urgent issues facing these economies. ECLAC is committed working with Member States towards finding solutions to this existential challenge.

Given that ECLAC’s empirical work has revealed a strong positive dependence between GDP and energy revenue in Trinidad and Tobago for example; and estimated that under the current production sharing contract the effective rate of tax for MEC’s in Guyana lies between 5.13% and 3.56%, maximizing energy sector revenue could be critical to post-COVID-19 recovery in the subregion’s energy exporting economies. Indeed, the magnitude of the estimated revenue loss due to transfer pricing in Trinidad and Tobago’s natural gas sector, should serve a cautionary tale for Guyana, as it seeks to navigate the development of its energy sector.

Minimizing the leakage of hydrocarbon rents may, however, require nudging multinational energy companies in the direction of charging prices between its subsidiaries at the arm’s length principle.

**REFERENCES**


CONCLUSION

The rapid change of fortune of some economies that were previously good examples of implementing effective measures to slow the spread of the virus illustrates the uncertainty inherent in the presence of COVID-19. Nine months after the World Health Organization (WHO) was notified of a “pneumonia of unknown cause” in Wuhan, China, the epidemiological information is still evolving.

While a globally available vaccine is still on the horizon, medical treatment of the disease has improved, and case fatality rates have fallen steadily since April. Caribbean policymakers need to keep abreast of the rapidly changing information about treating and preventing the disease and apply this knowledge to their local health and tourism sectors.

To aid in the recovery of the tourism sector, The World Travel and Tourism Council has advocated for removing barriers to travel, such as quarantine measures, travel advisories and bans on non-essential travel. Travel advisories and bans prevent the possibility of insurance coverage for travelers. The Council also promotes “air corridors” to countries with similar disease spread. Some Caribbean countries have implemented such corridors within the subregion, but still face challenges since the main market for most of them is the United States.

While the Caribbean should continue with strategies that mitigate the slowdown in tourism, such as advocating for debt relief and the extension of the Debt Service Suspension Initiative, Caribbean governments should simultaneously aim for the restoration of their tourism sector in a controlled manner and continue production as much as is possible in the “New Normal”.

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ADDRESSING STRUCTURAL TRANSFORMATION IN THE CARIBBEAN IN THE POST-COVID-19 PERIOD (CONTINUED)

Second, the community of practice which generates knowledge, must interact with the business community. This is necessary for the marketing of ideas and forging a closer link between those who create and those who can successfully market new ideas and products. As part of the contribution of governments, incentives can be provided to encourage such interaction, but these must be carefully implemented and re-assessed to determine value for money.

Third, since foreign direct investment (FDI) is an important source of innovation and a potential source of knowledge transfer, which should be encouraged to help build local capability and attract a higher quality of investment in the future.

Fourth, there is need to periodically review government policies, including the impacts of budgetary allocation to assess the efficacy of programmes and policies. Regular public expenditure reviews (PERs) should be instituted to determine what programmes are ineffective and to scale up those that are effective over time.

CONCLUSION

Governments are constrained especially in their budgetary process due to a high debt burden and debt service costs. Governments can improve their impact and efficiency through the use of industrial policies to signal to all stakeholders what are their priorities for a post COVID-19 economy.

In addition, governments need to improve the business environment, by focusing on areas which do not require considerable financial resources. Finally, in line with the new economy based on knowledge and information, they must invest consistently in knowledge-generation and dissemination, which can be applied to all sectors and activities to improve export capacity and increase competitiveness.

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REVITALIZING CARIBBEAN AGRICULTURE FOR FOOD SECURITY, HEALTH AND CLIMATE RESILIENCE AFTER COVID-19 (CONTINUED)

Fourth, governments with inputs from NGOs need to embark on strong education and awareness campaigns to encourage citizens to improve their dietary habits. This would require a professional team with expertise in psychology, marketing and dietary habits to design an effective campaign.

Further, the Caribbean needs to implement a comprehensive climate change adaptation strategy to reduce the impacts on agriculture and food security. This requires key components, including research and analysis on climate resilient crop varieties, especially drought and flood-resilient varieties of cassava, sweet potato and other crops. Technological research is also needed into the most appropriate materials for constructing wind-resistant structures to house farm animals and build green houses. These are essential for facilitating a consistent supply of high-quality food inputs for processing and direct farm to table sales. An integrated approach can also allow Caribbean farmers to pool their resources to purchase farm insurance.

CONCLUSION

The Caribbean has long been challenged to produce more food to improve its food security and reduce the epidemic of NCDs that has arisen in recent decades. Despite pronouncements by heads of government and policymakers, the opportunity to optimize domestic food production has not been seized.

Arguably, one reason for this is that the subregion has not taken a food systems approach to addressing health and environmental concerns that arise from food production. This article argues that the time is ripe to take a food systems view that examines bottlenecks in production, transport, logistics, education and awareness, among other areas. This approach could provide a basis for assessing how one constraint impacts another and how they might be jointly addressed. This food system approach could finally help to pivot the subregion towards improved food security, better health outcomes and protection of the environment.

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RECENT AND UPCOMING MEETINGS

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