

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE WORKING PARTY ON THE CARIBBEAN FREE TRADE AGREEMENT

1. The Working Party was appointed by the CONTRACTING PARTIES at the twenty-fifth session to examine, in the light of the relevant provisions of the General Agreement, the Caribbean Free Trade Agreement and to report to the CONTRACTING PARTIES.
2. The Working Party met on 21 and 23 September 1971 under the chairmanship of Mr. G.O. Niyi (Nigeria) replacing Mr. Beecroft (Nigeria) who had been unable to attend the meeting. The composition of the Working Party was as follows:

Australia	Guyana
Barbados	India
Canada	Jamaica
Dominican Republic	Trinidad and Tobago
European Communities and their member States	United Kingdom
	United States

It had available the text of the Agreement (L/3074) and the replies from the member Territories to the questions asked by contracting parties (L/3547).

3. The representative of the secretariat of the Caribbean Free Trade Agreement, in an introductory statement, indicated the historic and geographic background which provided a logical case for economic integration in the Caribbean region. With the accession of British Honduras in May 1971, the membership of the Agreement now extended to twelve territories. It was important to note that the member Territories were predominantly agricultural, depending heavily on one or two primary products for their export income. Manufacturing accounted for about 15 per cent of gross domestic product in the most advanced member Territory and about 2 per cent in the least advanced. Approximately 50 per cent of the area's food requirements were imported. A major problem in the area was the high and rising level of unemployment ranging from 12 to 20 per cent in the various member Territories. Experience had shown that transportation problems constituted a more serious obstacle to trade than the customs tariffs.
4. The Agreement itself had been in operation for over three years and the results were generally encouraging. Special recognition had been given to the needs of the least developed among the member Territories through the provision of a longer transitional period for the removal of certain duties and the application of the Agricultural Marketing Protocol, primarily for their benefit. The Protocol was more an administrative device for the orderly marketing of agricultural products rather than a barrier

to trade with third countries. With regard to the list of exceptions to liberalization, the Protocol contained a list of twenty-two items representing about 1 per cent of intra-CARIFTA trade. Article 39 of the Agreement was also designed to facilitate the closer integration of the least developed territories.

5. The Agreement had resulted in the dismantling of import duties and import restrictions on substantially all the trade between the member Territories. As indicated in Annex 11 of L/3547, over 90 per cent of intra-CARIFTA trade was now liberalized. The Agreement did not seek to create barriers to trade with third countries and, indeed, the member Territories were very dependent on imported raw materials and components for their industrial development. It was the view of the member Territories of CARIFTA that the Agreement was consistent with Article XXIV of GATT.

6. Members of the Working Party indicated their sympathy and support for the efforts being made towards economic integration under the Caribbean Free Trade Agreement. They agreed that it was important to develop measures which would provide increasing employment opportunities for the people of the region and improve living standards through progressive economic development. In this connexion one member specifically stated that the CARIFTA member Territories could be assured of his country's continued active support for economic development in the region.

7. The Working Party noted that CARIFTA was already a free-trade area in which substantially all the trade among member Territories was liberalized. As regards the question of compatibility of the Agreement with Article XXIV of GATT, some members stated that their authorities, after due examination, had concluded that it was consistent with this Article.

8. Another member indicated that his government did not contest the fact that a free trade area as defined in Article XXIV:8(b) had been established but had reservations as to its compatibility with the GATT. He referred to the Agricultural Marketing Protocol which established a restrictive régime on imports from third countries of a number of specified products until intra-Caribbean surpluses of these items had been taken up. This included some products in which his country had a significant trade interest in the Caribbean region. It was recognized that in the first three years of the operation of CARIFTA, each member Territory was allowed to import from third countries up to 30 per cent of its imports of any commodity covered by the Protocol without prior permission of the secretariat. As that period had, however, now expired, third countries might face a virtual embargo on imports of these items unless a shortfall occurred in domestic availabilities. His government was therefore concerned at the possible trade effects of the Agricultural Marketing Protocol and its lack of consistency with Articles XXIV:4 and XXIV:5(b) and further with Articles XI and XIII of GATT. This member considered that there were more positive ways for the promotion of agriculture other than through import restrictions including agricultural research, extension services, improved marketing and marketing techniques.

9. Another member stated that his government also shared the view that CARIFTA did not present difficulties under GATT Article XXIV as far as trade in industrial products was concerned. His government had reservations, however, regarding the compatibility of the Agricultural Marketing Protocol with Article XXIV:5(b) but expressed the hope that, in the implementation of the Protocol, member Territories of CARIFTA would respect their international contractual obligations.

10. The representative of the CARIFTA secretariat stated that the agricultural sector in respect of food products was very largely undeveloped especially in the least developed member Territories. Food imports from third countries continued to constitute more than 50 per cent of total requirements. Moreover, statistics revealed that these imports from third countries had in fact increased during the period 1967 to 1970. Although the three-year period provided for in the Protocol had expired, CARIFTA would continue to remain dependent in a large measure on imports from third countries. As indicated earlier, the Protocol was, in substance and effect, an administrative arrangement permitting the small agricultural surplus to be marketed in an orderly manner. Without some such arrangement, difficulties could be experienced in satisfactorily marketing even this small quantity available. Similar comments applied with respect to Article XXIV:5(b). In the application of quantitative restrictions and licensing, there was no discrimination between suppliers as regards imports from third countries. He assured members of the Working Party that member Territories would be prepared to consult with any contracting party who felt that the CARIFTA arrangements were causing injury to their exports. He further pointed out that all countries, both developed and developing, faced problems in connexion with agriculture and used various support measures. Member Territories believed that the import surcharge recently introduced by a contracting party would have an infinitely greater effect on Caribbean export trade than the Agricultural Marketing Protocol was likely to have on imports into the region from third countries.

11. Members of the Working Party representing member Territories of CARIFTA referred to the origins of the Agricultural Marketing Protocol, which recognized that the more developed Territories were in a more favourable position to benefit immediately from the liberalization of intra-trade on account of the relatively higher degree of development of their manufacturing sector. The least developed of the Territories with only a narrow industrial base had greater need for the expansion of agricultural exports to the more developed Territories. Although the Protocol originally provided for equal treatment in the allocation of markets, the CARIFTA Council of Ministers subsequently agreed that the surpluses of the least developed Territories should be given priority in the regional markets over the surpluses of the more developed Territories. Regional trade thus now takes place in conformity with these allocation arrangements. Members of the Working Party welcomed the clarifications provided by the CARIFTA representative and by members representing member Territories.

12. In response to an enquiry concerning the status of the East Caribbean Common Market, the representative of the CARIFTA secretariat stated that it was a quite separate Agreement outside CARIFTA established by a number of CARIFTA member Territories. Economic and commercial relations with third countries were a

matter for the member Territories themselves, provided such relations did not lead to any direct conflict with the CARIFTA obligations of these Territories.

Conclusions

13. The Working Party expressed sympathy and understanding for the efforts of the member Territories of the Caribbean Free Trade Agreement to promote economic expansion and diversification of trade in the area through closer integration of their economies. The Working Party agreed that, as duties and other restrictive regulations had already been eliminated on substantially all the trade between the constituent territories, the Agreement provided for the establishment of a free-trade area within the meaning of Article XXIV:8(b). Some concern was, however, expressed at the possible effects of the Agricultural Marketing Protocol on trade with third countries and at the consistency of the Protocol with paragraphs 4 and 5(b) of Article XXIV. The Working Party noted the explanation given on the part of the member Territories that the Protocol was in the nature of an administrative arrangement to provide orderly marketing possibilities for a very small surplus of certain agricultural commodities largely for the benefit of the least developed member Territories and that it was not their intention to raise new barriers to trade with third countries. The Working Party also noted the assurances given by member Territories of their readiness to consult on any problems that might arise in connexion with the operation of the Agricultural Marketing Protocol. The Working Party noted further that the operation of the Agricultural Marketing Protocol was kept under review by the appropriate CARIFTA authorities and suggested in this connexion that the present report should be taken into consideration in such reviews.