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Marc Pierini

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# THE EUROPEAN COMMUNITY AND THE CARIBBEAN BASIN

Relations between the 10 member states of the European Community and most of the independent countries in the Caribbean Basin are governed by a trade, aid and investment treaty known as the "Lomé Convention". This five-year treaty has been in existence since 1975 and negotiations for another five-year period are now in progress. Other trade and aid schemes apply to 8 other Caribbean Basin countries.

## MAIN CHARACTERISTICS OF THE "LOME POLICY"

Instead of being granted on a purely unilateral, revocable basis like most other trade, aid and investment schemes, the so-called "Lomé policy" has four distinctive features :

- It has a contractual form, i.e. its trade, aid and investment provisions are part of a 5-year, legally-binding treaty. This means that a) financial aid comes in an agreed amount over the five-year period, b) the one-way free trade area is irrevocable, and c) the so-called "Stabex" scheme guarantees the stabilisation of earnings from agricultural exports. All this means that Caribbean governments can rely on highly predictable trade and aid benefits from the 10 countries of the European Community. For Caribbean businessmen, it has meant permanent duty-free access to the 260 million people market of Europe since 1975 and assured availability of a wide array of public financings.

- It is a multipurpose agreement that offers an array of trade, finance and investment measures, combined in one single agreement. Each Caribbean country has equal access to these instruments, but it is agreed that the least favoured countries get proportionately more financial aid than the more advanced ones.

- It provides for permanent dialogue between Europe and the Caribbean governments, both at technical and political level. High officials, Cabinet members and members of Parliaments meet at regular intervals to clear any difficulty that might have arisen in economic or political relations between Europe and the Caribbean.

- It addresses, on an equal footing, a group of developing countries, thus preventing discrimination on purely political grounds. Therefore, in the event of political change, trade and aid benefits are not altered, E.C.-supported investment programs are not interrupted.

## THE LOME CONVENTION IN THE CARIBBEAN

The Lomé Convention includes 64 developing countries in Africa, the Caribbean and Pacific Basins. Those belonging to the Caribbean Basin are : Antigua, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Christopher, St. Lucia, St. Vincent, Suriname, Trinidad and Tobago.

### Trade :

The Lomé Convention grants duty-free access to the European market without reciprocity, subject to compliance with the agreed rules of origin. Exports from these 13 Caribbean countries to the European Community total about 1.5 bn $ annually. For those products also part of the E.C. Common Agricultural Policy, there is preferential access. For sugar exports, a special agreement guarantees a higher than world level price for agreed supplies : this alone represents annually a 30 mio $ bonus in export receipts for sugar-exporting countries. The E.C. exports to these 13 countries amount to 1.1 bn $ annually.

### Finance :

A wide array of financing instruments is available to these 13 countries through the Lomé Convention in the form of grants, soft-loans or World Bank-type loans. Those can be used to finance a) country programs or regional Caribbean programs, b) government, semi-public or private investments, c) any sector from transport infrastructure to tourist hotels, from basic rural production to a regional airline and d) various forms of financial involvement such as direct help to government investment or lines of credit to development banks, or equity participation. The two financial arms of the Lomé Convention are the European Development Fund and the European Investment Bank : together they allocate annually about 60 mio $ to these 13 Caribbean countries.

### Specific instruments :

A scheme called "Stabex" provides for compensation of shortfalls in earnings derived from exports of agricultural commodities to Europe. Another scheme, called "Sysmin", is providing finance for rehabilitation operations in the mining sector.

THE RULES OF ORIGIN UNDER THE LOME CONVENTION

One common feature between the U.S. CBI and the E.C. Lomé Convention is the provision for a one-way free trade area. Both schemes try to avoid what is known as "passthrough operations" and include similar provisions for "rules of origin".

The exceptional step of granting duty free access to a given group of developing countries implies the setting up of some discipline in order to ensure that the duty-free area results in a genuine trade preference for the countries concerned.

How do the rules of origin work ? There are three cases :

- Products that are wholly obtained in the exporting "ACP country" (1) : these are automatically "originating products".

- Products processed and exported by an "ACP country" that are made of products, parts or components coming from other "ACP countries", from the E.C. countries or from their overseas territories : they are "originating products" as the Lomé Convention provides for cumulative origin.

- Products where other products, components or parts are coming from a non-ACP, non-EC country : here the rule is that the third country product must undergo sufficient processing, in order to prevent "passthrough operations".

How to know ? Protocol No. 1 to the Lomé Convention and its Annexes sets the rules of origin applicable to ACP countries. As a general principle, "sufficient processing" means processing which results in a change of tariff heading in the E.C. Common Customs Tariff. There are three exceptions :

* processing operations that result in a change of tariff heading but are too simple to be accepted, or that can be accepted under specific conditions : they are listed in a negative list known as the "A List".

* processing operations that do not result in a change of tariff heading but are complex enough to be accepted : they are listed in a positive list known as the "B List".

* products totally excluded (minerals, oils, hydrocarbons) = "C List".

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(1) "A.C.P. countries" stands for the 64 African, Caribbean and Pacific member countries of the Lomé Convention.

This Protocol No. 1 and its attached lists (A, B and C) provide adequate definitions for granting the "certificate of origin" on a clear and predictable basis. Special procedures govern litigations and fraudulent uses of the rules of origin.

The rationale behind the enforcement of rules of origin is simple : the E.C. has gone all the way to zero-tariff treatment for a grouping of 64 developing countries, including 13 Caribbean countries. In order for them to benefit fully from these provisions, in order also to protect the E.C. tax-payers (who ultimately put up the money that custom duties receipts would have earned), some rules of the game have to apply and to be respected.

Another reason is that legally-guaranteed zero-tariff arrangements are a powerful incentive to lasting investments in capital, technology and know-how. In turn, one must ensure that the beneficiary country (i.e. its economy, its budget, its people) ultimately benefit from these investments, not a third country. Serious enforcement of the rules of origin is also a way to ensure that investors will be committed to the host country.

## RELATIONS WITH OTHER CARIBBEAN BASIN COUNTRIES

Relations between the European Community and the 5 Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) and with Panama, the Dominican Republic and Haiti are governed by a different set of arrangements, of a more traditional kind, i.e. the E.C. Generalised Scheme of Preferences (GSP) and annual foreign aid allocations.

### Trade :

The E.C. is the third main export outlet of these 8 countries and absorbs about 1.22 bn $ annually, i.e. 17% of their total exports. Nearly 30% of their exports to the E.C. enter duty-free or is eligible to the favourable GSP treatment, another 50% enters at a duty of less than 5%. On the other hand, the European Community exports to these 8 countries are worth about 1.25 bn $ annually. Seminars are run by the E.C. in these countries to help their economic operators fully utilise the opportunities offered under the European GSP.

### Finance :

Over the past 5 years, European Community aid to these 8 countries averaged 50 mio $ per year and came entirely in grant form. It was used mainly for projects in the rural sector, also for food aid and regional integration institutions. Together, the European Community and its Member States provide about 17 % of the total Official Development Assistance received by these countries.