THE SINGLE EUROPEAN MARKET OF 1992, DEVELOPING COUNTRIES AND TRINIDAD AND TOBAGO'S AGRICULTURAL EXPORTS

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ABSTRACT

The 12-nation European Economic Community is set to become the world's largest single market of 320 million inhabitants by the end of 1992. The goal of removal of all physical, technical and fiscal barriers is likely to have differing impacts on the exports of developing countries. This paper focuses on the likely impact on Trinidad and Tobago's agricultural exports. While there remains much uncertainty as to the net effect of the unified market on developing countries, it is found that Trinidad and Tobago's agricultural exports may not be unduly affected. This view however should not be allowed to engender complacency for this country is an exporter of other products to the EEC, products which may not be in the same position as agricultural exports. Further, it is this country's interest to join with its Caribbean partners in preserving whatever preferences exist while at the same time seeking to penetrate a unified Europe on a more competitive basis.

INTRODUCTION

It is with some regret that one reads the observation of a former UN official, Gosh (1989) who in discussing implications of the formation of the Single European Market,1992 (SEM) laments that the Third World, which exports more to the European Community (EEC) than either to the United States or Japan "*have shown so little collective alertness to this change*" or nearer home, the remarks of the former Secretary General of the African, Caribbean and Pacific (ACP) group, in which he chides the Caribbean region for its lack of involvement in the Uruguay round of negotiations [Sunday Guardian, March, 25, 1989].

The point is (and it cannot be over-emphasized) that if underdeveloped countries are to achieve sustained economic growth they must consider as one of their foremost priorities, the necessity to keep in constant touch (participating as necessary) with global developments. Indeed, some will even argue that they must be able to anticipate important changes and be flexible enough to take appropriate action. It is with these thoughts in mind that this paper is written.

On completion of the internal market by 1992 (or thereabouts) the 12-nation European Community (EEC) of some 320 million persons will become the world's largest single trading block and as some think, the single most important determinant of the course of the world trading system over this decade, the last decade of this century.[1] It is crucial therefore that Trinidad and Tobago and the Caribbean in general should concern themselves with such developments.

Europe is important to Trinidad and Tobago for several reasons. Chief among them is the fact that this country belongs to the ACP group which has just concluded its fourth preferential agreement with the EEC under the Lome Convention.[2] The bulk of the country's agricultural exports is sugar which enters Europe via the United Kingdom under the Sugar Protocol of the Convention. There remains some uncertainty in respect of the status of provisions in the new Lome IV Convention after 1992.

If Europe becomes a "*free Europe*" tradewise rather than "*fortress Europe*" as some fear then the opportunity for increased agricultural and other exports will be great. Indeed, it is in this light that the rest of the world has been asked to see the change. However, in the case of agricultural

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[1] While Pregg (1989) states that the Single European Market will probably be the major determinant of world trade over the next five years, one envisages at least twice that period.

[2] At the time this paper is being written, the new Lome IV Convention is unavailable to this writer.

exports one of the major hindrances is likely to be the Community's Common Agricultural Policy (CAP) unless major reforms are made.

This study intends to examine the likely implications of the Single Market for developing countries in general and Trinidad and Tobago's agricultural exports in particular. It is divided into four sections. This section is Section I which contains the introduction to the paper. In Section II the possible effects of the Single Market on developing countries is examined briefly while in Section III the author focuses on the likely effect on Trinidad and Tobago's agricultural exports. A discussion in Section IV concludes the study.

THE SINGLE EUROPEAN ACT AND DEVELOPING COUNTRIES - THE ISSUES

The Single European Act came into effect in July 1987 following the submission of a White Paper to the European Council by the Commission of the European Communities some two years earlier. The goal is to remove all physical, technical and fiscal barriers amongst Member States of the Community such that there will be a unified trading block by the end of 1992 in which unrestricted internal movement of goods, services, labour and capital will take place.[3]

Major economic benefits which Member States of the Community are expected to derive are greater competitiveness, higher rates of economic growth and lower unemployment rates. The rest of the world is expected to benefit primarily from the growth in imports into the EEC consequent on the faster economic growth which is anticipated.

Concern has been expressed by both developing as well as developed countries as to the likely implications of the Single Market for their own welfare. This concern stems primarily from the uncertainty in respect to trading and other relations which may follow unification. Developing countries which presently benefit from *inter alia* preferential trading arrangements with the EEC are particularly concerned that the changes may adversely affect them after 1992. Trinidad and Tobago is a member of the 67 African, Caribbean and Pacific (ACP) group of countries which enjoy preferential trading arrangements with the EEC under the Lome Convention. A key question is, can the provisions of the Single European Act override those of Lome IV so as to adversely affect the ACP countries and if so, how likely is this to happen? The truth is that it is difficult to be definite.

A major way in which developing countries are expected to benefit from the formation of the world's largest single market is via the economic growth which is expected to result from the removal of barriers and restrictions. By so doing, production costs, it is argued will be reduced and economies of scale derived. Higher growth in the EEC which is projected in some quarters to reach up to 7 per cent is expected to induce greater import demand from the rest of the world. However, Davenport (1989) among others, notes that while internal barriers will quite likely be removed, the position in respect of imports from developing and other countries is much more complicated, especially with regard to products such as textiles, footwear and primary agricultural commodities. This is so for several reasons including the fact that Europe will become much more integrated and self-sufficient thereby likely inducing adverse trade diversion effects rather than positive trade creation effects on many developing countries. In any case, demand for primary commodities which are not produced in the EEC is not expected to be strongly dependent on growth in GDP argues Davenport (1989).

While it seems certain that in the long run, high levels of economic growth can result and consequently drive imports, in the short term, unemployment in the EEC may rise, growth may not be too high and it is likely that the rest of the world may experience a deteriorating trade balance [Gosh, 1989; Fieleke, 1989]. The latter is possible partly because the weaker members of the group may request and receive greater protection from the stronger ones, at least in the short run when adjustment will be most difficult. Greater protection may very well be detrimental to developing countries exports.

Another important feature of the proposed Single European Market is the harmonisation of technical and other regulations which have differed across EEC countries and thereby hindered trade in the past. Uniform standards for example would mean that once a product meets the requirement of one member of the community it can automatically be traded in the markets of all members. While this measure should facilitate exports of developing countries on the one hand it must be recognised that while uniformity will indeed make some markets more liberal, others may become more protected compared to what they were prior to unification. In particular, there is some concern on the part of developing countries that standardisation may be

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[3] See for example. the document by the Commission of the European Communities (1989).

used to keep out imports which may be competing with similar products from an EEC member country of dependency (Courier, No.118).

Of particular importance to Trinidad and Tobago as a member of the ACP group, is the status of the just concluded ten-year Lome IV Convention as it relates to the provisions of the Single European Act. While the Commission's Deputy Director-General for Development has answered that "*the Community is fully aware in approaching 1992, of its international obligations, including Lome and will fully respect them*" [Fairclough, 1989], one is also reminded by J. Pelletier, President of the European Council that "*one has to realise that the negotiation of the new Lome Convention by the 12 Member States of the EEC and the 66 ACP countries cannot interfere with the twelve's negotiation of the Europe of 1993*" [Courier, No. 117, 1989]. It appears that one will have to wait until after 1992 for the outcome.

Another issue relates to the relationship between the Single Market and the EEC's Common Agricultural Policy (CAP). This policy *inter alia* sets the rules in respect of agricultural imports into the EEC. These rules are considered to be very costly and highly protective of European agriculture [Rosenblatt et al., 1988], so much so that specific steps have been taken in the recent past to reform the system. There is no indication, however, that the Policy would be substantially modified before 1992. Developing countries therefore cannot expect much relief by way of a freer European market in respect of their agricultural exports. It is however noteworthy that many developing countries do benefit from the CAP via relatively cheaper food imports from the subsidised EEC exports.

Other concerns which have been expressed by developing countries in respect of the Single Market relates to (i) the likelihood of a diversion of new investments from developing countries to the enlarged Single European Market, and (ii) a greater interest by EEC countries in their East European neighbours, to the detriment of developing countries.

The fact is that the net benefit to developing countries, individually or as a group, of the Single European Market in 1992 is fairly uncertain. What seems certain is that some countries and/or sectors will gain while others will lose and it is up to each country to examine its particular position. The ultimate outcome depends importantly on (i) the degree of restriction on developing countries' exports, (ii) whether or not particular commodities from developing countries are also produced within the Community or their dependencies and (iii) in the case of the Caribbean countries, the degree of competitiveness of their exports *vis a vis* other countries. In the context of the latter consideration the words of the former Secretary General of the ACP group is noteworthy "*the name of the game now is competition not political preferences*" [Sunday Guardian, March 1989].

THE SINGLE EUROPEAN MARKET AND TRINIDAD AND TOBAGO'S AGRICULTURAL EXPORTS

By far, agricultural commodities account for the largest single share of exports of non-oil developing countries as a group and the EEC is the world's largest importer of such commodities. Consequently the potential impact of the Single Market is of critical importance to developing countries, particularly in respect of agricultural exports. The fact that the EEC market for agricultural commodities is so highly protected under the Community's Common Agricultural Policy also gives rise to concern by some countries.

In the case of Trinidad and Tobago, while agricultural exports to the EEC now account for only a small proportion of total exports (approximately 2 percent), the country is at present actively encouraging its farmers and others to venture into export as a means of increasing and diversifying the country's sources of foreign exchange, particularly in the area of non-traditional exports. Indeed the value of what might be considered non-traditional exports to the EEC rose from $.9 million in 1986 to about $3 million in 1989 with the major markets being the UK and the Netherlands.

Trinidad and Tobago's agricultural exports to the EEC as a proportion of total exports to the community increased from 13.8 percent in 1986 to 24.6 percent in 1988 (Table I). This increase occurred despite a decline in the value of all exports to the EEC from 14.5 percent of total country exports to 7.6 percent, over the same period. Accounting for this proportionate increase has been increases in the exported value of non-traditional agricultural products such as Crustaceans and Molluscs (shrimps etc.); vegetables, fruit and nuts (fresh and dry); preserved and prepared fruit and spices. However, the value of these exports were relatively quite small. On the other hand, sugar alone accounted for an average 75 percent of the value of total agricultural exports over the three-year period, 1986-1988. Exports of both cocoa and coffee have both declined over the period.

Sugar

Approximately, 80 percent of this country's sugar exports is sold to the EEC via the UK under the Sugar Protocol of the Lome Convention. The export of sugar to the EEC is explicitly guaranteed "*for an indefinite period*" under the first Lome Convention. There appears to be some consensus that sugar exporters would not be adversely affected by the formation of the Single Market by 1992. In this context, the European Commission's Deputy Director-General for Development sought to allay fears of Caribbean sugar exporters in particular when he said "*so far as sugar and rice are concerned they are both already covered by Community regimes within the Lome Convention, which are fully compatible with the internal market, thus 1992, as such, will have no effect on existing arrangements*" [Fairclough, 1989]. However in respect of the just concluded ten-year Lome IV Convention there is some suggestion that sugar producers are likely to face a reduction and/or freeze in sugar prices for the next few years [Sunday Guardian, March 25, 1989].

In the medium-longer term the use of cane sugar as a sweetener is not promising partly because of the rapid growth of artificial sweeteners but also because the EEC, while the major market for this country's sugar, is itself a net exporter of sugar. Further, even if the Community's Common Agricultural Policy (CAP) is liberalised in the context of the Uruguay Round of the GATT negotiations, presumably to the advantage of the more competitive exporters of tropical cane sugar, Trinidad and Tobago is unlikely to be a major beneficiary of such reform given its high cost structure of production in relation to many other developing countries.

It has been suggested that reform of the CAP via abolition of national production quotas can, on the other hand lead to an increase in the supply of beet sugar in the Community thus threatening cane sugar exports of the ACP [Gonzales, 1989]. While not impossible this scenario appears unlikely if only because of the extent to which beet sugar would have to be subsidized in order to make it cost competitive to the European consumer compared to tropical cane sugar.[4]

Rum

The longer term possibilities for rum which is a by-product of sugar is perhaps more promising than that of raw sugar. Rum is exported under the Rum Protocol of the Lome Convention. It enters the Community duty free but under national quotas and other restrictions. Exports of alcoholic beverages, mainly rum from Trinidad and Tobago to the EEC was valued at $14.7 million in 1988 from $12.3 million in 1987 (Table I).

The formation of the Single Market is likely to be somewhat of a threat to rum exporters partly as a result of some trade diversion which is likely to arise. In particular, the tropical dependencies associated with France, Spain and Portugal which produce rum are likely to be major beneficiaries. These countries, along with West Germany which produces rum from potatoes, will be better placed on competition of the Internal Market to increase supply to the Community and to forestall any attempt by ACP countries to gain better preferential arrangements.

Housty (1989) has pointed to the fact that Caribbean rum may suffer adversely from the mutual recognition provision of the Single Act which will allow German rum from potatoes to compete with Caribbean rum. However, this by itself should not be a serious obstacle provided there is free circulation within the EEC as the Act promises. There is sone concern however, that France may move to ensure protection for French rum either by resisting free circulation or changes to the quota system set under Lome III.

The debate may intensify, regardless of the agreement reached under Lome IV. Nevertheless, Laurie (1990) opined that Community wide quotas will replace existing national quotas and overall restrictions will be abolished. Indeed the unified market is considered a tremendous boost for Caribbean rum exports.

Cocoa

Cocoa beans from developing countries can enter the EEC duty-free under the Lome Agreement. This is expected to continue under Lome IV. With respect to the Single European Market one estimate is for an increase in EEC import of some ECU 50 million (TT$212.5 million) due to projected lower VAT rates in the Community which is expected to increase demand [Davenport, 1989]. However, internationally, price remains depressed in the context of six consecutive years of surplus production and the related inability of the International Cocoa Organisation (ICCO) to arrive at a new cocoa pact.

Trinidad and Tobago, however, appears to have no problems in selling its cocoa on the

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[4]The introduction of a budgetary guideline in February, 1988 in respect of expenditure under the CAP seems to be a major constraint on larger subsidies. See Rosenblatt et al (1988).

international market largely because of the high grade of cocoa produced. Indeed, industry sources indicate that it is not uncommon for foreign purchasers to come to this country to purchase cocoa. In this scenario therefore this country does not need nor does it access preferential treatment as far as cocoa is concerned. However, excise duties on by-products are known to be high in some EEC countries. Reduction of these duties in the context of fiscal harmonisation under the Single Market will quite likely boost European demand. Trinidad and Tobago therefore needs to arrest its declining output and export of recent years and to focus on increasing production in coming years. Indeed, industry forecasts for the next few years point in this direction.

Coffee

Coffee like cocoa is also entitled to preferential treatment under the Lome Convention. This is not expected to be different under the new Lome Agreement. The Single Market in 1992 is expected to abolish excise duties on coffee and thereby increase community imports by 3 percent [Davenport, 1989]. While world prices are also projected to increase, this is doubtful given the surplus on the world market.

The value of Trinidad and Tobago's coffee exports to the EEC which has been lower than that of cocoa had declined steadily between 1986 and 1988 (Table I). This has been in line with lower domestic production consequent on depressed prices and destructive bush fires.

It appears that while the Single Market is unlikely to pose a threat to coffee exports from Trinidad and Tobago, the international price is likely to remain depressed and may even fall given world market conditions and the related inability of the International Coffee Organisation (ICO) to steady prices. In any case unlike cocoa, this country produces a low grade of coffee which consequently fetches a low price on the international market. Further, unlike cocoa, most of the coffee produced is consumed here. This situation is not likely to change in the next few years.

Bananas

Banana producers in the Caribbean are expected to face tremendous difficulties in the European market after 1992 due to price and quality competition mainly from Central American producers. In respect of "The Dominican Republic, and the Caribbean countries which export bananas to the UK have ended a row over market by agreeing to send their fruit to different parts of Europe". This can only be a temporary solution for by 1992, provided there is no strong preferential agreement under Lome IV, with the removal of internal barriers to trade, the Caribbean will find it difficult to compete in Europe with lower cost bananas from the Dominican Republic and elsewhere. There is therefore little hope for Caribbean bananas in a free European market after 1992.

Trinidad and Tobago does not now produce any significant amount of bananas. This does not seem to be particularly disadvantageous especially at this juncture. However, in February 1990 it was reported that there is some move afoot in the country to revitalize and reorganise banana production *"to its glory of the recent past"*.[5] Producers and others would be well advised to weigh carefully any such action in light of the current and projected situation of the international banana industry. It seems that if there is one consensus among researchers from both developed and developing countries, it is that banana exporters from ACP countries are in for a tough battle after 1992 as far as the European market is concerned.

CONCLUSION

While the effect of the Single Market on Trinidad and Tobago's agricultural exports is fairly clear the net effect on the country's overall export position and in general on developing countries is not quite certain at this time. This is so for several reasons.

Firstly, the EEC's external trade policy regime and its impact on other countries after 1992 have not been clearly enunciated. Secondly, the status of preferences under the Lome IV Convention *vis a vis* provisions of the Single European Act, in cases where they are in conflict is yet to be determined though provisions of the Act are likely to override those of the Convention if necessary. Thirdly, the response of the EEC in respect of specific trade preferences and barriers is likely to depend importantly on action by the USA, Japan and the developing countries themselves on these issues. This is not easily predictable.

However, it seems that Trinidad and Tobago, which has been experiencing an increasing share of agricultural exports to the EEC as a proportion of its total export trade with that group, ought not to be unduly worried. This view it is

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[5] In February 1990, the Minister of Food Production and Marine Exploitation launched the Banana Advisory Committee.

recognised, may very well be reversed with regard to other exports. Sugar, which is the major agricultural export to the EEC is likely to continue to enjoy preferential treatment under the new Lome IV Convention. Other agricultural exports such as cocoa, coffee and rum may not face insurmountable adverse conditions. Bananas on the other hand, which it seems after 1992 will have to compete in Europe with much cheaper supplies is not a significant export commodity of this country at this time.

Nevertheless, there is an important though old lesson for Trinidad and Tobago as well as the wider Caribbean from this "*banana experience*". It is, that as long as these countries remain high cost producers of any commodity (or service) which is exported or which they hope to export, competitors, whoever they may be, will sooner or later, in one way of the other, be a serious threat and consequently in this scenario these countries will have little choice but to resign themselves to be forever seekers of preferences. Preferences which are not always in their long term interest.

While it might be true that Trinidad and Tobago need not be unduly worried about Europe 1992 in respect to its major agricultural exports the same is not necessarily the case for other exports to the EEC. Consequently further research is necessary. In any case it seems realistic that the Caribbean as a group should attempt to protect whatever preferences it currently enjoys but only as temporary support, for the world trading system seems set on a course of minimum protection and preferences, certain actions to the contrary notwithstanding. In the context of negotiated preferences, if as some argue, the new world order is likely to take the shape of distinct trading blocks rather than one big world of many buyers and sellers, then it seems reasonable that Caribbean countries must seriously support the formation of a Single Caribbean Market.

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TABLE 1
AGRICULTURAL EXPORT FROM TRINIDAD AND TOBAGO TO THE EEC
(TT$ Million)

PRODUCT	1986	1987	1988
Sugar[1]	68.7	86.6	80.2
Coffee	6.0	5.3	-[3]
Cocoa	5.2	4.8	3.9
Crustaceans and Molluscs	-	-	.8
Vegetable (Fresh & Dry)	.2	.6	.6
Fruit & Nuts (Fresh & Dry)	.1	.3	.5
Fruit (Preserved & Prepared)	.3	1.3	.2
Spices	.3	.6	.6
Alcoholic Beverages	18.2	12.3	14.7
TOTAL AGRICULTURAL EXPORTS	99.0	111.8	101.5
	(13.8)[2]	(17.8)	(24.6)
Total Exports to the EEC	715.6 (14.5)	627.9 (11.9)	411.8 (7.6)
TOTAL COUNTRY EXPORTS	4,933.4	5,264.6	5,423.5

Source: Central Statistical Office, Overseas Trade Report - Part B, 1986-1988
Notes:

1 Includes a small amount of honey
2 Figures in parentheses are percentages
3 Indicates very small quantities.