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## Speech by Mr. David Lord, Deputy Program Manager, External Economic and Trade Relations, CARICOM

*Regional Meeting: "The VI Bi-regional Summit of Madrid, the recessive dynamics in some European countries and prospects for the economic relations between LAC and the EU"*

*Caracas, Venezuela*

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**Regional Meeting: "The VI Bi-regional Summit of Madrid, the recessive dynamics in some European countries and prospects for the economic relations between LAC and the EU"**

**Perspective of regional and subregional organizations on current economic relations between LAC and the EU**

Permanent Secretariat of SELA  
Caracas, 22 March 2011

**Introduction**

On behalf of the Caribbean Community (CARICOM) Secretariat I wish to congratulate the SELA Secretariat for the initiative to convene this meeting, and to say that the Secretariat welcomes the invitation and opportunity to participate and to present CARICOM's views on the issue before the meeting.

Historically, CARICOM has enjoyed preferential market access to the European Union (EU) through the Lomé and Cotonou Agreements and presently the CARIFORUM-EU Economic Partnership Agreement (EPA). The EPA, signed in October 2008 between the EU and fifteen CARIFORUM States (CARICOM and the Dominican Republic), while maintaining that preferential access, also marked the beginning of a new chapter in CARICOM-EU trade relations, in that it introduced reciprocal preferential access for the EU into the markets of CARICOM/CARIFORUM States.

The focus of my intervention will therefore provide a perspective on economic relations between the Caribbean Community (CARICOM) and the European Union, in the context of the Economic Partnership Agreement.

**Objectives of the EPA**

Among the objectives of the CARIFORUM-EU EPA, are that it should –

- (a) Contribute to the reduction and eventual eradication of poverty through the establishment of a trade partnership consistent with the objectives of sustainable development, the Millennium Development Goals and the Cotonou Agreement;
- (b) Promote the gradual integration of the CARIFORUM States into the world economy, in accordance with their political choices and development priorities; and
- (c) Support the conditions for increasing investment and private sector initiative and enhancing supply capacity, competitiveness and economic growth in the CARIFORUM region.

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The CARIFORUM-EU EPA has therefore been presented as a strategy to help developing countries of the CARIFORUM grouping to build larger markets, foster trade in goods and services, and stimulate investments. The EPA is expected to help CARIFORUM to export more, thereby increasing employment, business opportunities and economic growth, which can contribute to sustainable development.

The Agreement also includes a development component aimed at, among other things, capacity building in the CARIFORUM States, to assist them to improve their capacity to trade competitively. This financial and non-financial development assistance is to be provided by the EU.

### **The EPA and the CARICOM Single Market and Economy (CSME)**

In 2006, CARICOM launched its initiative to create a Single Market and Economy. The full realization of the CARICOM Single Market and Economy (CSME) is critical to the sustainable development of the countries concerned. As a consequence, it is being accorded the highest priority. In this regard, the development support that the EPA promises is seen as an instrument for strengthening the implementation capacity and resources needed to take the CARICOM Single Market and Economy (CSME) forward. **This is a critical feature of the future of the economic relations between CARICOM and the EU.**

CARICOM and the EU are like-minded in viewing trade and private sector development as necessary for economic growth, poverty reduction and the achievement of the Millennium Development Goals. The significant additional financial resources being provided by the EU under the 10<sup>th</sup> European Development Fund for strengthening regional integration processes in the region, and the commitment by the EU to ensure that the region receives an adequate share of Aid for Trade resources is indicative of this.

The experience of Member States of CARICOM in attempting to discharge the obligations which have come due under the Agreement, has put a strain on their limited technical and financial resources, resulting in delay in meeting some of the early timelines established by the Agreement. This highlights the critical importance of the development cooperation provisions of the Agreement. Early access to the resources provided under the 10<sup>th</sup> EDF to facilitate EPA capacity building in the CARICOM/CARIFORUM States would enhance the ability of those States to give effect to their obligations under the Agreement.

It was precisely with the shortage of technical skills in mind, that an EPA Implementation Unit was established in the CARICOM Secretariat in 2009. The services of the Unit are available to all CARIFORUM States, and with Aid for Trade resources provided by the Department of International Cooperation of the United Kingdom, is able to put at the disposal of States, skills in the areas of Trade and Customs, Law, Services and Public Information. The Unit will also pay special attention to the needs of the private sector, which is expected to be the major beneficiary under the EPA.

### **Changing Nature of the regional Economy – Rise in importance of Services**

While trade in goods continues to play an important role in the economic development of many countries of CARICOM, the Region has begun to experience a change in the

nature of the regional economy, with a significant reliance on services. The increasingly diversified Services sector is the fastest growing in the Region, contributing between 60 and 90 per cent of the economic output in Member States and also provides employment for an increasing number of persons. With the exception of Belize, Guyana, Haiti and Trinidad and Tobago, services account for the major share of total exports of individual countries. Therefore, while market access for goods remains important, greater attention will be paid by the region to expanding opportunities for services exports in the context of CARICOM/CARIFORUM-EU relations. In this regard, the incorporation of services in the EU-CARIFORUM Economic Partnership Agreement (EPA) is critical and the importance of the need for all assistance to be provided by the EU and its Member States to translate the market access provisions into meaningful access for CARICOM service providers would be paramount in any CARICOM/CARIFORUM-EU relations going forward.

### **Initiatives to spur investments**

In the context of the deepening of the integration arrangement and the creation of the CARICOM Single Market and Economy, the region has formulated a number of initiatives aimed at creating the conditions to attract investments to enhance competitive production, spur trade, propel economic growth and achieve sustainable development in the Caribbean.

In this regard work is well advanced on the formulation of a Harmonized Investment Policy Framework for CARICOM States. It provides for Investment and Incentives Policy Harmonization, including a CARICOM Investment Code. It is a regime aimed at attracting and promoting private sector investment (national, intra-regional and extra-regional) in support of the development objectives of the Community. The intention is to transform and market the Community as a single investment space.

While these initiatives will effectively create the framework for a free investment area for CARICOM nationals, at the same time, it is intended that foreign investors will be able to conduct their business on the basis of virtually similar conditions throughout the single market making it easier for our business persons in CARICOM to interface with the international market place. This would be a critical pillar if a meaningful CARICOM-EU economic relationship is to develop and flourish.

### **Impact of Global Developments - Implications for EPA implementation**

In 2008, when the CARIFORUM-EU EPA was signed, the full effects of the global financial and economic crisis were just becoming clearer. These global developments have contributed to the failure of key businesses, decline in consumer wealth, substantial financial commitments incurred by governments and a significant decline in economic activity, globally.

While there have been projections of recovery in the developed countries, it is not entirely clear how soon and to what extent the recovery will begin to manifest itself in developing countries, especially the small vulnerable economies such as those of CARICOM.

In the European Union, the crisis has been felt significantly, and as they continue to grappling with the fall-out of the crisis including the continued weakness of the Euro against other currencies, including the United States dollar, this translates into a negative impact on the real value of export earnings by CARICOM, to the EU.

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For CARICOM countries, the knock-on effects of the financial instability and uncertainty in the industrialized countries, including the EU, are compounding the effects of the already significant rise in food prices, high fuel costs and declining remittances. In addition, the Region has been experiencing a decline in the Tourism industry and construction sector, leading to unemployment and reverse migration. The effects of natural disasters have also impacted the economies of many countries in the Region. Further, the reduction in revenue intake from import tariffs resulting from the scheduled tariff liberalization, also threatens a worsening of countries' fiscal balances.

In addition, as the EU concludes other Free Trade Agreements (FTAs) with other groupings and countries, competition for access to the EU market will intensify for CARICOM exports, further eroding or diminishing the region's margin of preferential market access. This has been the case with the reduction of the MFN tariff on bananas imported into the EU; and although the EU has undertaken efforts to mitigate the fall-out through the Banana Accompanying Measures (BAM), the impact of the reduction has been devastating to banana exporting countries of CARICOM.

Notwithstanding this fast evolving context, CARICOM countries diligently continue their efforts to implement the EPA. The concern at this stage therefore, is to determine the extent to which the projected benefits under the CARIFORUM-EU EPA, articulated in the objectives of the Agreement, are likely to be negatively impacted by the financial and economic crisis which affected the EU, a key source of development assistance provided for under the CARIFORUM-EU EPA.

### **CARICOM Initiative to address Issue**

Being cognizant of the difficulties brought on by this global financial and economic crisis in the EU, Heads of Government of the Caribbean Community (CARICOM), meeting in July 2010, mandated the CARICOM Secretariat to conduct an assessment of the impact of global developments on the projected benefits under the CARIFORUM-EU EPA.

Among the objects of the work to be undertaken would be -

- (i) to determine the extent to which developments in the global economy since the signing of the CARIFORUM-EU EPA, have affected CARICOM Member States' capacity to realize the projected benefits under the Agreement, namely, building larger markets, fostering trade in goods, stimulating investments and placing CARICOM countries on a path to sustainable development;
- (ii) to identify initiatives to be considered at the national and regional levels with a view to overcoming implementation difficulties resulting from global developments;
- (iii) to determine measures which could be taken to ensure the projected benefits under the EPA are secured in light of global developments; and
- (iv) to provide guidelines in respect of the approach the Region might adopt in the first five-year review, provided for in the agreement.

### **Conclusion**

Finally, for CARICOM economies to successfully integrate into the global economy and multilateral trading system, it is clear, not only increased market access is required, but also broad-based financial assistance and technical cooperation to address structural deficiencies and supply-side constraints. In view of this, CARICOM has in the past and will continue to work with the EU to maximise the use of available European Development Fund (EDF) resources and to also utilize Aid for Trade to strengthen trade-related infrastructure; increase regional competitiveness and productivity; and diversify the Region's productive base.