

TRADE POLICY REVIEW

Report by

BARBADOS

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Barbados is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Barbados.

CONTENTS

	<i>Page</i>
I. INTRODUCTION	5
II. MAJOR CHALLENGES	5
III. MACROECONOMIC INDICATORS	6
(1) GROSS DOMESTIC PRODUCT (GDP)	6
(2) FISCAL POLICY	6
(3) NATIONAL DEBT	6
(4) INFLATION	6
(5) MONETARY POLICY	6
(6) INTERNATIONAL RESERVES	7
(7) TRADE PERFORMANCE	7
IV. MAJOR SECTORS	7
(1) AGRICULTURE	7
(2) MANUFACTURING	8
(3) SERVICES	8
(i) Tourism	8
(ii) International business	9
V. TRADE AND TRADE RELATED POLICIES	9
VI. TRADE RELATIONSHIPS	9
(1) CARICOM SINGLE MARKET AND ECONOMY	9
(2) CARICOM-BILATERALS	10
(3) PREFERENTIAL TRADE ARRANGEMENTS	10
(4) ECONOMIC PARTNERSHIP AGREEMENT	10
VII. MULTILATERAL TRADE RELATIONS	10
(1) SMALL VULNERABLE ECONOMIES WORK PROGRAMME	11
(2) AGRICULTURAL NEGOTIATIONS	11
(3) NON-AGRICULTURE MARKET ACCESS (NAMA) NEGOTIATIONS	11
(4) SERVICES NEGOTIATIONS	12
(5) AID FOR TRADE	12
VIII. THE WAY FORWARD	13
IX. CONCLUSION	13

I. INTRODUCTION

1. Since its last trade policy review in 2002, Barbados has continued to pursue its development goals within the context of a liberalized economy with transparent trade policies. Its economic and social development continues to be grounded in a number of factors which have contributed significantly to the quality of life enjoyed by its approximately 274,000 citizens. These factors include a stable government, democratic freedoms, the advancement of human rights, an independent and fair judicial system, a well educated and trainable labour force, and sound economic management.

2. As a small developing economy, Barbados remains very much aware that its size and lack of natural resources can be a constraint to sustainable growth and development. It is also aware that the nature and direction of its trade policy regime are critically important in determining the performance of its economy. It is for this reason, that the Government has been pursuing an outward looking trade policy at both the regional and international levels.

3. With the establishment of the CARICOM Single Market in 2006, Barbados and other countries of CARICOM have moved closer to the creation of the CARICOM Single Market and Economy (CSME). In order to ensure that the Region is prepared for trade liberalization at the global level, CARICOM has concluded a number of trade agreements with third countries. Barbados has codified these agreements in its domestic legislation. In addition, the Government is actively considering the signing of an Economic Partnership Agreement between CARIFORUM¹ countries of which it is a member, and the European Union.

4. At the multilateral level, Barbados remains committed to discharging its obligations as a member of the World Trade Organization (WTO), and is fully participating in the Doha Development Round.

5. This report will describe the major challenges facing Barbados, and the performance of its key economic indicators. It will also discuss its major sectors, its trade policies and its trade relationships with other countries. The report will also highlight Barbados' participation in the WTO and speak to the way forward.

II. MAJOR CHALLENGES

6. The last six years have been a challenging period for Barbados due to a number of global developments. World security has been threatened by a number of conflicts throughout the globe; major international natural disasters such as hurricanes, earthquakes and tsunamis have also occurred; and new and re-emerging diseases such as Severe Acute Respiratory Syndrome (SARS), Bird Flu, Pandemic Flu and tuberculosis have impacted on world health. These factors have threatened Barbados' tourism industry - its largest foreign exchange earner.

7. In addition, after a period of no increases in the guaranteed price for sugar exported to the EU market, Barbados experienced in 2006 a reduction in that price. Sugar is Barbados' single largest agricultural export and has contributed significantly to Barbados' foreign exchange earnings. As of 2009, this product will no longer benefit from a guaranteed price and market. Sugar will be exported duty-free and quota free to Europe.

8. The persistent increases in the world market price of oil have added to the economic burdens of Barbados. These higher prices have also affected the price of basic food commodities in the

¹ CARIFORUM countries are CARICOM countries plus the Dominican Republic.

country by way of increased shipping cost and higher manufacturing and distribution costs. Recent projections of a world recession could further undermine economic growth in Barbados as well.

9. As a small vulnerable open economy, Barbados remains at serious risk from the impact of these varied factors which are beyond its control. The Government is cognizant of the fact that such challenges can reverse the economic gains which the country has achieved to date.

III. MACROECONOMIC INDICATORS

(1) GROSS DOMESTIC PRODUCT (GDP)

10. Barbados' economic landscape has undergone some significant changes since the country's last Trade Policy Review. On average the economy grew by a real value of 3.3% annually. This growth was uneven as was reflected in 0.7% in 2002, 4.1% in 2005, and 4.3% in 2007. Most of this growth, however, has been in the non-tradeable sectors, especially in construction. In terms of the tradeable sectors the contribution to GDP in 2002 for sugar, non-sugar agriculture, manufacturing and tourism was 17.3%. In 2007 it was 18.5%.

(2) FISCAL POLICY

11. During the period since the last review, Government continued to adopt a fiscal policy geared towards promoting growth in the economy, especially to counteract the slowdown in global growth during 2001/2002. Government expenditure during this period was aimed at counteracting the slow down in global growth in 2001/2002, and more specifically at promoting economic activity in the tourism sector through a number of projects. A major project was the redevelopment of the Grantley Adams International Airport. This led to a significant increase in the fiscal deficit from 2.5% in 2000/2001 to 5.4% in 2002/2003.

12. Barbados sought to reduce the fiscal deficit after the 2001/2002 recession and was quite successful in doing so. In 2003, the deficit fell to 3% of GDP. In 2007 the deficit stood at approximately 3.8% of GDP.

(3) NATIONAL DEBT

13. During the period 2002 to 2007, the Central Government's debt rose from BDS\$3.7 billion to BDS\$5.3 billion. This debt as a percentage GDP was 68.9% in 2007. The foreign component of the debt was approximately 20% GDP, while the debt service ratio was 6.7%.

(4) INFLATION

14. The average inflation rate in Barbados was relatively low in the period under review. In 2002 the rate of inflation was 0.2%. This rose to 1.4% in 2004 before peaking at 7.3% in 2006. At the end of 2007 the inflation rate was 4.1%. The volatility in the international price of petroleum and petroleum products have led to the recorded increases in the rate of inflation. These price increases have been partly responsible for the widening of the visible trade balance as well.

(5) MONETARY POLICY

15. In terms of monetary policy, the minimum deposit rate as set by the Central Bank of Barbados fluctuated during the six year period. At the end of 2002 the rate was 2.5%. However, it was

increased to a maximum of 5.25% at the end of the second quarter of 2007 before being reduced to 4.75% during the remainder of that year.

16. In 2007, the security reserve requirement was reduced from 12% to 10% in keeping with commitments to continue the process of financial liberalization.

(6) INTERNATIONAL RESERVES

17. Notwithstanding the country's widening trade deficit, the foreign reserves held by the Central Bank have remained at an almost constant level between 2004 and 2007. In 2007, the net international reserves stood at BDS\$1.5 billion. The import reserve cover for goods stood 29.4 weeks at the end of 2007.

(7) TRADE PERFORMANCE

18. Over the 2002 to 2007 period, Barbados' visible trade deficit increased moderately. In 2002 domestic exports stood at BDS\$333 million, while imports were BDS\$2.1 billion. At the end of 2007, domestic exports were BDS\$598 million, while imports stood at BDS\$3.3 billion.

19. Barbados' trade with CARICOM countries has been growing steadily. In 2007, imports were BDS\$833 million or 25% of total imports, while exports were BDS\$356 million or 60% of total domestic exports. Major exports to CARICOM during the period included crude oil, building cement and paper labels. Major imports included motor spirits and diesel, and food items.

20. Most of Barbados' exports are to Trinidad and Tobago, while the USA accounts for the largest share of imports. Other major trading partners are the United Kingdom and Canada.

IV. MAJOR SECTORS

(1) AGRICULTURE

21. The instability in the world economy after the events of September 11th, 2001, has further underscored the importance of national food security, particularly for vulnerable Small Island Developing States and Net Food Importing Countries like Barbados. Since that time, Barbados has been placing greater emphasis on achieving a higher degree of food security to ensure that its citizens have uninterrupted access to food. Accordingly, a National Food Security Plan has been developed by the Government of Barbados.

22. As part of the National Food Security Plan, agricultural stakeholders identified a list of sixteen commodities in which they believe Barbados can achieve a high degree of self-sufficiency. These include poultry, fresh milk and a number of vegetables.

23. In addition, Barbados has been promoting the greater use of technology to ensure efficiency and productivity within the sector. The Government considers that the use of new production techniques is necessary to take Barbados into the future with a vibrant agricultural sector. New production techniques which are being encouraged include greenhouses and hydroponics technologies.

24. Barbados continues to promote agro-processing as a practical solution to not only achieving its food security goals, but also as a mechanism to provide sustainable livelihood opportunities for vulnerable members of the society. In addition, agro-processing continues to facilitate the cohesive

partnership between the agricultural sector and other sectors, including the local manufacturing sector. At the end of 2007, the output of the agro-processing sub-sector was valued at approximately BDS\$182.1 million - a 35% increase over its estimated value in 2002.

(2) MANUFACTURING

25. Barbados recognizes the importance of manufacturing to its economic and social development, and the linkages that exist with the other sectors of the economy such as agriculture and tourism. Barbados also recognizes the importance of value-added industries and products. It therefore maintains a relatively liberal trading regime, with generally low applied tariffs. The local manufacturing sector which comprises the food and beverage, electronic components, chemicals, petroleum products, and non metallic mineral products, employs approximately 9,565 persons.

26. Government assists the sector through the Special Technical Assistance and Incentive Fund, the Industrial Investment and Employment Fund and the Brands of Barbados – Programmes that are compatible with this country's WTO obligations.

27. The Special Technical Assistance Fund is an initiative aimed at improving international competitiveness and stimulating growth in the local manufacturing sector. The Industrial Investment and Employment Fund is a facility which allows for the recapitalization and retooling of manufacturing entities. The Brand of Barbados Campaign is charged with building awareness of locally manufactured products and the importance of manufacturing to the Barbadian Economy. It is also charged with promoting linkages, where possible, between the manufacturing, agriculture, tourism and services sectors. In addition, this programme provides exposure of Barbadian products to international buyers through support for attendance at overseas trade shows.

(3) SERVICES

28. The services sector in Barbados has continued to grow and to play a key role in the economic and social development of Barbados.

29. In recent years, Government has implemented a number of instruments to enhance the performance of this sector. These included the creation of the Barbados Coalition of Service Industries to mobilize services based organizations and to assist them in their development thrust. In addition, Government also enacted legislation to assist bodies such as Accountants and Architects in better regulating their professions.

30. The two major foreign exchange earning services sectors in Barbados are tourism and international business.

(i) Tourism

31. Government's commitment to ensuring the long term survival of Barbados' primary foreign exchange earner is evidenced by its continued emphasis on the marketing and promotion of the sector as well as the allocation of resources towards the development of tourism related infrastructure. The Barbados Tourism Authority (BTA), as mandated under the Barbados Tourism Authority Act CAP. 342, continues to *promote* and facilitate the efficient development of tourism through the design and implementation of appropriate marketing strategies for the effective promotion of the industry. The Barbados Tourism Investment Inc. (BTI) is the Government agency responsible for the development of Barbados' tourism product through the attraction of investment of specific tourism related projects.

The BTI, in recent years has facilitated Government's Urban Renewal and Development Programme. This programme consists of the infrastructural renewal of tourism centres throughout the island.

32. Tourist arrivals in 2002 comprised 498,000 long stay visitors and 523,253 cruise passengers. In 2007 there were 581,515 long-stay visitors and 616,354 cruise passengers. Receipts from tourism in 2007 totaled BDS\$2.4 billion.

(ii) International business

33. The international business sector continued its positive growth with respect to new registrations. All sectors recorded increases in new registrations. For example, in 2002 there were 296 international business companies and in 2007 there were 506.

34. The revenue accruing to Government from this sector has been increasing over the years. In 2002, revenue stood at BDS\$241 million. In 2007, revenue was BDS\$492 million.

35. In order to ensure the stability and continued growth of the international business sector, Government has continued to extend its network of Double Taxation Agreements and Bilateral Investment Treaties. The negotiation of such agreements avoids the effect of double taxation and provides for a suitable framework for the protection and promotion of Foreign Direct Investment.

V. TRADE AND TRADE RELATED POLICIES

36. During the period under review, Barbados has maintained a transparent trade policy regime especially as it relates to import licensing and taxation.

37. In 2004, Barbados increased the number of products from regional and extra regional sources which required import licenses under the Miscellaneous Controls (General Open Licence) Regulations. These products which are mainly agricultural goods include live poultry, ham, bacon, milk and cream, tomatoes, biscuits and ice cream. The licensing regime is for monitoring purposes only, and no licenses have been refused.

38. In terms of taxation, Government in 2001 increased the rate of customs duty on a number of manufactured goods from the CET rate of 20% to a rate of 60%, as allowed under its WTO commitments. This policy was introduced to provide temporary relief to that sector which was being challenged by increased imports. In 2006 the rate of duty on some garments was returned to the CET rate.

39. A cess tax was introduced on 1st September 2005 for a period of 18 months. The tax was originally levied on extra regional imports at the rate of 3% and was increased to 6% in January 2006. This temporary tax was introduced to dampen the demand for imports. The cess was abolished on 28th February 2007.

VI. TRADE RELATIONSHIPS

(1) CARICOM SINGLE MARKET AND ECONOMY

40. Barbados is a founding Member of the Caribbean Community (CARICOM) which was established in 1974. It fully implements the agreed duties in the Customs Union, which are currently set at 40% on agricultural goods and 20% on industrial goods imported from outside the region.

Barbados, with the permission of CARICOM, imposes WTO bound rates on a number of sensitive products, particularly agriculture.

41. In 2006, Barbados joined other CARICOM countries in creating the CARICOM Single Market, which allowed for the free movement of some factors of production, as well as goods and services produced in the region. In preparation for this, it passed the CARICOM Single Market and Economy Act in 2004 which amended a number of pieces of legislation to make them compatible with the Revised Treaty of Chaguaramas. The full CARICOM Single Market and Economy is to be established by 2015.

42. Barbados recognizes the Caribbean Court of Justice in both its original and appellate jurisdiction. The Headquarters of the court are in Trinidad and Tobago.

43. Barbados also actively participates in other CSME institutions. These include the Caribbean Regional Organization on Standards and Quality (CROSQ) established in 2002, and the Caribbean Competition Commission which was inaugurated in January 2008 in Suriname.

(2) CARICOM-BILATERALS

44. As part of CARICOM, Barbados has signed bilateral trade and economic cooperation agreements with five countries within the hemisphere. These countries are Venezuela, Colombia, the Dominican Republic, Cuba and Costa Rica. CARICOM is currently having exploratory talks with Canada regarding the possibility of negotiating an enhanced trade and economic cooperation agreement with that country.

(3) PREFERENTIAL TRADE ARRANGEMENTS

45. Barbados has been benefiting from preferential trade arrangements with the USA under the Caribbean Basin Initiative (CBI), Canada under the CARIBCAN arrangement, and a number of GSP programmes. However, it was graduated from the GSP programme offered by the USA in 2006.

(4) ECONOMIC PARTNERSHIP AGREEMENT

46. On the 16th of December 2007, the Draft Economic Partnership Agreement (EPA) between CARIFORUM countries and the European Union (EU) was initialed by the Principal Negotiators of the two Parties, thus signaling the conclusion of negotiations for a new trade and economic relationship between CARIFORUM and the EU, which commenced in April 2004. The Agreement is to be signed by both Parties in July 2008.

47. The draft Agreement consists of an exclusion list which allows for 13.1% of specific goods, mainly agriculture products, imported by CARIFORUM from the EU to be excluded from free trade. Duties on all other items are to be eliminated on a phased basis ranging from 5 to 25 years. The EU liberalized almost 100% of its trade with CARIFORUM countries from January 1st 2008. In the area of services, the EU has agreed to liberalize approximately 90% of its services sectors, while Barbados has agreed to liberalize some 75% of its sectors.

VII. MULTILATERAL TRADE RELATIONS

48. Barbados places high priority on the fulfillment of its WTO obligations and on the Doha Development Round of negotiations.

49. In keeping with its obligations, Barbados applies WTO approved tariff rates. The majority of Barbados' incentive programmes have been adjusted to make them consistent with WTO rules and consideration is being given to the appropriate mechanisms to bring its export subsidy programmes under Article 27.4 of the ASCM under conformity. Notwithstanding human resource limitations, Barbados has been endeavouring to make notifications as required.

50. In the current WTO negotiations, Barbados has been emphasizing the concerns of small vulnerable economies and the challenges which these economies face in integrating into the global economic system.

(1) SMALL VULNERABLE ECONOMIES WORK PROGRAMME

51. Barbados has been actively participating in the Small Vulnerable Economies (SVE) Work Programme. The Group has been working to deepen the engagement of small economies in the negotiation process and also to build understanding among WTO members of the problems confronting these economies. The Group also seeks to find solutions to these problems.

52. SVE proponents emphasize that while no single characteristic or problem by itself can be said to be unique to small, vulnerable economies, it is a combination and the intensity of several of these characteristics and problems that give rise to SVE vulnerability. This acute vulnerability differentiates small states from other states which may be affected by similar characteristics, but to a lesser degree and with less impact.

53. Barbados has coordinated the work of the group of 23 resident SVEs since 2004 (this number includes the members represented by the Organization for Eastern Caribbean States (OECS) and the Pacific Islands Forum). During this period the SVEs have tabled over thirty different proposals in the areas of NAMA, Agriculture, Services, Fisheries Subsidies, Horizontal Subsidies, TRIPS, SPS, TBT, Trade Facilitation, Accession and Aid for Trade. This reflects the fact that SVEs concerns and difficulties span a wide spectrum of the negotiations.

(2) AGRICULTURAL NEGOTIATIONS

54. Barbados has predominantly defensive interests in agriculture, given the small size of the agriculture sector and the fact that it is a net importer of such products. Some of the key areas of interest to Barbados in the negotiations include the tariff reduction modalities, Special Products, the Special Safeguard Mechanism for developing countries, and Tariff Quota Rates administration. Barbados also has vested interests in discussions on *de minimis* and domestic support measures. Further, as a small economy and a Net Food Importing Developing Country, the discussions and modalities on export credits and export credit guarantee schemes are also of interest.

(3) NON-AGRICULTURE MARKET ACCESS (NAMA) NEGOTIATIONS

55. The issues of policy space and policy flexibility are important to ensuring that small developing countries like Barbados have all available tools and sufficient time to facilitate economic and social development. Indeed, policy space in the past has been used to assist domestic industries which were in distress.

56. Barbados' NAMA interests are pursued through the group of Small, Vulnerable Economies (SVEs). As part of that group, and given that tariffs are the principal means of safeguarding domestic industries, proposals have centered on the magnitude of proposed tariff reductions. Barbados is of the

view that reduction requirements must take into account existing and future development objectives, thus recognizing the need for small economies to continually re-orient and adjust to market forces.

(4) SERVICES NEGOTIATIONS

57. Given the contribution of the services sector to its economic development, Barbados' approach to liberalization is one that seeks to carefully balance the opportunities and challenges facing small, vulnerable economies. Barbados therefore pursues an approach that facilitates the development of its domestic capacity, gradual liberalization of the service sector and the creation of a capacity to export.

58. Barbados' principal sectoral interests in the negotiations include Entertainment Services, Professional Services, Financial Services (Insurance and related services), Solar Heating Services, Health Tourism and Network Management Services. The Government has made an initial offer in a number of areas including Computer and Related Services, Research and Development services, Business Services, Environmental Services and Transport Services. This is a reflection of Barbados' commitment to the further liberalization of the services sector.

59. Within the rules-making framework of services negotiations, Barbados has been particularly active in the multilateral efforts aimed at the development of horizontal disciplines on domestic regulation in the areas of licensing requirements and procedures, qualification requirements and procedures, and technical standards.

60. Barbados, in collaboration with its SVE counterparts, has made a number of submissions within the Services Special Session and Working Party on Domestic Regulation on specific areas of trade-related interest to small, vulnerable economies.

(5) AID FOR TRADE

61. The Aid for Trade initiative at the WTO is of particular importance to Barbados. Despite its middle income developing country status and the fact that Barbados is unable to gain access to traditional forms of development aid, the imbalance in Barbados' sectoral contribution to GDP demands developmental assistance to the productive sectors.

62. Barbados was one of the developing countries active in the preparatory Aid for Trade discussions and indeed sat as a member of the Task Force. Barbados, with the support of other Small Vulnerable Economies, submitted a wide-ranging proposal on Aid for Trade which sought to identify many of the areas of priority for these economies. The overarching message of the submission was that Barbados and the SVEs view an effective and supportive Aid for Trade architecture as a complimentary mechanism to allow small, vulnerable economies to achieve a balanced outcome to the Doha Development Agenda.

63. It is crucial that the financing for Aid for Trade is predictable, sustainable and effective as it is important for recipient countries to be able to predict the level of likely aid flows within a particular period. It is also important to economies such as Barbados that the scope of Aid for Trade remains broad enough so that any sector and initiative of interest to trade development is not *a priori* excluded. Areas of potential benefit to Barbados include: development and modernisation of trade policy, research and product development, standards and regulations, and broad trade development assistance.

VIII. THE WAY FORWARD

64. In pursuit of its development strategy, Barbados will focus on a number of issues which are fundamental to achieving economic growth.

65. As a small developing country, Government sees education as being critical to Barbados' economic progress. It will therefore seek to develop its human resources both to improve the quality of life of its citizens and to earn valuable foreign exchange through the export of services.

66. In the area of health, Barbados is aware that the greatest challenge facing the country is improving its health system to address lifestyle health issues, including HIV and AIDS, which impact negatively on its human resources. Emphasis therefore will be placed on developing and executing appropriate strategies designed to mitigate the problems affecting Barbados in this area.

67. With respect to the productive sectors, the Government of Barbados will implement new strategies, including the creation of an innovation fund, to re-vitalize those sectors that are in need of assistance. It will also provide appropriate incentives, and foster public and private sector partnerships to address such issues as funding for these sectors.

68. The sugar industry which traditionally has been the mainstay and the main money earner for Barbados, has also been negatively affected by changes in the global trading environment. The Government of Barbados has therefore embarked on the restructuring of this industry, transforming it into a sugar cane industry in order to derive greater benefits from the sugar cane plant. This will allow for the production of ethanol, the generation of electricity for domestic use, and the production of branded sugars for both the domestic and export markets.

69. Given the rising cost of energy, Barbados will implement aggressive policies to ensure that its oil import bill is reduced. The policy, which is multifaceted, will involve the provision of significant incentives to encourage ownership of fuel efficient vehicles, particularly motor cars, and the use of solar energy to meet the needs of consumers and businesses. Barbados will also seek to exploit any petroleum resources which may exist within its territorial limits.

IX. CONCLUSION

70. Notwithstanding the many challenges currently facing Barbados as a small developing economy, and signs of future challenges, the Government of Barbados will continue to pursue a development strategy which recognizes the rules of the multilateral trading system. This strategy will include the deepening of Barbados' relationship with CARICOM and other countries within the context of multilateral disciplines.

71. Barbados sees the successful outcome of the Doha Development Round as critical to the reinforcement of the above mentioned strategy. For Barbados, a successful round would be one that takes fully on board the concerns of small vulnerable economies.
