



TOWARDS A  
CARICOM SINGLE MARKET  
AND  
ECONOMY

*CARIBBEAN COMMUNITY SECRETARIAT*

63777





# TOWARDS A CARICOM SINGLE MARKET AND ECONOMY

PREPARED BY THE CARIBBEAN COMMUNITY SECRETARIAT  
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## FOREWORD

The modern phase of the integration movement among the English-speaking Caribbean countries had its genesis, in large measure, twenty-five years ago with the signing of the *Dickenson Bay Agreement* by Antigua and Barbuda, Barbados and Guyana in December 1965. By 1968, under this Agreement which established the Caribbean Free Trade Association (CARIFTA), twelve English-speaking Caribbean countries had committed themselves to embark upon the process towards the integration of their several markets into one. The momentum of this initiative led later, in 1973 under the *Treaty of Chaguaramas*, to the launching of the ambitious drive to create the Caribbean Community and Common Market.

Today, nearly twenty-six years since Dickenson Bay, and over eighteen years since Chaguaramas, we frequently find ourselves engaged in searching evaluation of that to which we had set our hand in these two land-mark instruments, and of how we have fared along the road that has brought us to this point. In this appraisal, we are profoundly aware of two basic truths: firstly, that the goals of Dickenson Bay and Chaguaramas are still largely unfulfilled; and secondly, that whatever the reasons for the non-attainment of these goals up to the present time, the need for integration, economic and otherwise, among Caribbean countries, remains a compelling imperative.

This would have been so in any circumstance, on account of the objective implications of our small scale as individual societies, and having regard to the predisposing circumstances of our shared historical experiences, our common cultural, social, political, and legal values and institutions, as well as the geographical closeness of many of our national communities. But the evolving state of the contemporary world makes it even more so, as with uncertainty and apprehension we watch the old international order being prised loose from its familiar moorings, and anxiously prepare to construct for ourselves a viable regional platform from which our peoples can interact with the new dispensation that is emerging in the Latin American and Caribbean region, in the Hemisphere,

the full range of issues that are pertinent to the creation of a CARICOM Single Market and Economy, and is intended to be a basis for discussion within the Community, as well as background to Ministerial deliberations on the subject, including, in particular, the Special Ministerial Meeting on the CARICOM Single Market and Economy scheduled for October 22-23, 1991.

It is hoped that out of these public discussions and Ministerial deliberations on the ideal range of requirements for a Single Market set out in the document, we can arrive at a clear sense of what the political traffic will bear. This in turn will help us come to clear and definite policy decisions on what we must do as a Community to advance the construction of a common economic space of our own in CARICOM. The creation of that common economic space is not an academic or idle theoretical pursuit. It represents an urgent practical tool which our people need in order to better draw on their own regional environment and on the environment of the wider world to improve their economic and social well being.

***Roderick Rainford***  
***SECRETARY-GENERAL***  
***Caribbean Community Secretariat***



## ***PREFACE***

The Caribbean Community Secretariat in seeking to conceptualise the Single Market and Economy agreed upon by the Tenth Conference of Heads of Government of the Caribbean Community, held in Grand Anse, Grenada in July 1989, commissioned a study to examine the concept, objectives and structure of a Single Market and Economy as they would apply to the Caribbean Community.

This study was the subject of a discussion at a High Level Meeting of Regional Officials and Experts convened in April 1991 and was accordingly revised to reflect the views and recommendations of the participants.

This document is aimed at technical personnel of the region and those with an interest in following the more detailed arguments underpinning the proposals for the CARICOM Single Market and Economy.

***Desiree Field-Ridley***

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## EXECUTIVE SUMMARY

Heads of Government of the Caribbean Community in 1989 declared their intention to work towards the establishment of a CARICOM Single Market and Economy. To this end, a timetable was agreed upon for the implementation - for the most part by 1993 - of a number of outstanding Decisions and Treaty Provisions relating to the Common Market and the introduction of new ones relating, *inter alia*, to the free movement of persons.

The implementation of the decisions taken by Heads of Government at Grand Anse is, for the most part, behind schedule. New dates have been agreed for the introduction of the revised CET, the Rules of Origin and the Harmonized Scheme of Fiscal Incentives; the first phase in the scheme for movement of capital (cross-listing and cross trading) has been postponed to April 1991 and it has been agreed that the re-establishment of the CARICOM Multilateral Clearing Facility (CMCF) would be deferred. Arrangements have not been agreed for the free movement of persons as specified or the elimination of the requirement for passports and it is doubtful that all the remaining barriers to trade - even without taking into account those that are authorized - will be removed by July 1991.

The Caribbean Community and Common Market is a hybrid. It is both less and more than a Common Market and both more and less than a Customs Union. The Treaty itself, while for example, declaring the establishment of a Common Market, introduced a number of safeguard clauses qualifying the free movement of goods; placed trade in services on a less than equal footing to trade in goods; limited the movement of capital to regulated movement only and explicitly denied that there was any obligation for Member States to grant freedom of movement to persons. Even with these limitations many of the positive provisions have not been adhered to or have been breached.

(ii)

The CARICOM decision to establish a Single Market and Economy for CARICOM will mean the full establishment of the Common Market to provide for the Single Market and the introduction of a number of areas of economic integration to give effect to the Single Economy. It is assumed that there is no decision that the Region is at the moment envisaging a political union and therefore the definition does not assume the characteristics of a total economic union. It was, however, envisaged that the Single Market and Economy would function as nearly as possible, just as a single country would. But this would be only insofar as it served as a market for goods and services and for factors of production with some degree of harmonization of economic policies. In theory, the precise amount of harmonization of economic policies beyond that necessary for the functioning of the common market is not quite fixed. It would seem that this could be influenced by the objectives which the Region had set itself. It would certainly be less than total economic integration which would require a high degree of political union.

Thus a combination of economic theory and the practical experience of the European Community (EEC), the nearest example, suggests that the Ideal Single Market and Economy should have free movement of goods, services, capital and people, a common external tariff, a common trade policy, free circulation with supporting regional monetary, fiscal and economic measures.

#### OBJECTIVES OF THE CARIBBEAN COMMUNITY

As indicated earlier, the degree to which the harmonization of policies is pursued will depend to some extent on the goals of the grouping. Integration is not necessarily a goal in itself unless it is at the stage where political unity is the ultimate aim, in which case all policies will be harmonized or integrated. Rather, integration should best be seen as the tool chosen to achieve a set of objectives. In which case the level of integration chosen need only be as is necessary to achieve these goals.



(iii)

The CARICOM objectives as spelt out in the Treaty between the Preambles and the listed objectives, are as relevant now as they were then, though perhaps not totally adequate in the world of 1991. To this end, three additional objectives - relating to the need for being competitive; organising for increased production and for expanding trade and economic relations with other Caribbean and Latin American countries have been identified.

In setting out the objectives of the Caribbean Community it could then be stated that the overall goal should be:

- a viable community, economic and social;

with the related primary objectives of:

- . full employment;
- . improved standards of living and work;
- . accelerated, coordinated and sustained economic development;

supported by subsidiary objectives relating to:

- . the expansion of trade and economic relations with other Caribbean countries and Latin America;
- . the achievement of increasing levels of competitiveness;

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- . the organization for increased production;
- . the achievement of a greater measure of economic leverage and effectiveness of its Member States in dealing with other States, groups of States and entities of whatever description;
- . coordination of foreign policies of Member States;
- . functional cooperation including:
  - the efficient operation of certain common services and activities for the benefit of its peoples;
  - the promotion of greater understanding among its peoples and the advancement of their social, cultural and technological development;  
and
  - activities in specified fields.



## **A SINGLE MARKET AND ECONOMY**

A genuine Single Market and Economy has been described as having the following attributes:

### **1. Free Movement of Goods and Services**

- (a) elimination of all tariffs, quotas and other non-tariff barriers on intra-regional movement;
- (b) harmonization of standards to ensure acceptability of the goods and services being traded;
- (c) harmonization of conditions and regulations relating to the establishment and operation of services;
- (d) minimum rules of origin; and
- (e) uniform customs laws and the simplification and harmonization of customs documentation and procedure.

### **2. Common External Tariff**

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3. **Free Circulation**

This is based on the concept of the free movement of all goods and services behind common customs walls with:

- (a) provision for the collection and sharing of customs revenue - a clearing house; and
- (b) reduction in customs checks though there might be need to have increases in customs controls to guard against abuse in the way of drug trafficking, etc.

4. **A Common Trade Policy**

and provision for:

- (a) joint representation in international economic negotiations; and
- (b) consultation on and coordination of bilateral trading and other arrangements.

5. **Free Movement of Capital**

facilitated by:

- (a) abolition of foreign exchange controls;
- (b) a common exchange rate discipline;

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- (c) fixed exchange rates and free convertability of regional currencies or a common currency;
- (d) integrated capital market; and
- (e) coordination/harmonization, of monetary and fiscal policies.

6. **Free Movement of Labour**

- (a) elimination of the need for national passports, work permits and other impediments to intra-regional travel using instead some agreed form of identification recognizing the holder as a national of the Region.
- (b) mechanism for accreditation and equivalency to ensure the acceptance of professional and technical certification on a region-wide basis;
- (c) provision for transfer of remittances, pensions, etc.;
- (d) harmonization of social services, for example, education, health, housing, etc.;
- (e) harmonization of social security measures/benefits; and
- (f) harmonization of conditions of work.



(viii)

7. Harmonization/coordination of, some aspects of economic policy such as national budgeting.

8. Other Measures

- (a) provision of funds and technical assistance for the regions disadvantaged;
- (b) right of and rules for establishment with provision of rules for fair competition;
- (c) common investment policy especially for foreign investors;
- (d) provision for the acquisition, development and transfer of technology;
- (e) reliable transportation and telecommunication facilities; and
- (f) an information campaign. Integration is more than an inter-governmental concern. It is therefore important that all sectors of the community are involved in the process.

Of particular importance are the establishment of funds and technical assistance for the disadvantaged regions and the instituting of an information system for integration issues.

In the integration process the next step could be a Monetary Union which would have to deal with issues like:

- (a) the establishment of a regional Central Bank responsible for regulating the money supply, credit expansion, exchange reserves, interest rates, liquidity levels;

(ix)

- (b) external exchange rate policy;
- (c) supervision of commercial banks and the banking system;
- (d) free circulation of all monetary and financial instruments with banking, securities and insurance services offered uniformly throughout the area;
- (e) a single currency.

9. **Institutional**

The institutional arrangements necessary for the effective functioning of the Single Market must include:

- (a) a central bureaucracy which, apart from being responsible for the administrative matters, is also responsible for promoting and facilitating decision-making and implementation, and also for carrying out functions essential for the development of the integration process;
- (b) a greater reliance on majority-voting rather than unanimity;
- (c) separation of the decision-making functions to make it possible for the central bureaucracy to make decisions of an operational nature;

(x)

- (d) measures for ensuring the implementation of decisions taken, e.g:
  - (i) redesigning the Region's legislative process to ensure some degree of automaticity in implementation by making provision for community law to be part of the national laws in each country; and
  - (ii) establishing a central body to be the custodian of the community law and to be the arbiter in disputes involving the community, Member States, and individuals - both legal and natural.
- (e) At the level of the Member State, the designation of a specific government agency for integration matters.

But is this the integration arrangement which would best suit CARICOM needs?

Given what the Region's objectives are and what is involved in a genuine single market, the measures for a CARICOM Single Market and Economy would differ from the prototype only in the specifics.

#### **CARICOM SINGLE MARKET AND ECONOMY**

The CARICOM Single Market and Economy has been structured to build on what is already in place for the Caribbean Common Market and Community. For the Single Market provisions, additional to those for the free movement of goods have been added to facilitate the movement of



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services, labour and capital and include supporting monetary and fiscal measures. For the Single Economy, provisions necessary for the functioning of the economy beyond the market for goods, services and factors of production need to be introduced. These relate to the coordination of fiscal policies in addition to those existing economic and monetary policies already in place.

The CARICOM Single Market and Economy would differ only in detail from the ideal Single Market and Economy. It would be based on the free movement of goods, services, capital and labour with the supporting monetary, fiscal and economic policies for the Single Market. There would be some amount of additional harmonization of economic policies for the Single Economy to provide for a much higher degree of production integration.

The Caribbean Common Market's primary, if not exclusive, focus was in seeking to provide an integrated market through trade liberalization measures. For the Single Market, the focus must be on facilitating the free movement of labour and capital so as to provide a supportive base for the integration of production. For the Single Economy the focus continues to be on support for production.

The measures recommended for the CARICOM Single Market and Economy differ from those identified for what has been called a genuine Single Market and Economy as follows:

- (a) standards are not necessarily all being recommended for harmonization in that it was recognized that a system of a mix of mandatory and voluntary standards would need to be put in place;
- (b) free circulation is not being recommended at this stage;

(xii)

- (c) free movement of persons does not include the harmonization of social services;
- (d) the trade policy does not necessarily have to be common;
- (e) a single currency has been recognized as needing levels of monetary cooperation not yet being recommended and would therefore need to be further studied as would the possible introduction of exchange rates that can be fixed but adjustable within limits; and
- (f) while generally internal taxes should lean more towards approximation than to harmonization, it was necessary to recognize that internal taxes have had a significant effect on the structure and rate levels of the CET and the ability to negotiate harmonized rate levels. It was also recognized that they have significant effects on consumption levels and hence the ability of Member States to sell in each other's market.

The total package of measures was identified with a view to strengthening the internal market thus making it more attractive to produce not only for that market, but to produce in that market for other markets. For example, the free movement of factors of production would facilitate a more efficient allocation of resources and therefore more competitive production for all markets.

The goals of full employment, improved standard of living and work conditions, economic development are all dependent on the Region's achieving a level of competitiveness which enables its exports, and, therefore, its resources to grow.

(xiii)

The measures recommended as necessary must, as a priority, integrate the factor markets so as to facilitate production integration. They are intended to:

- (1) strengthen the Community's institutions and therefore its ability to function effectively;
- (2) regularize intra-regional trade in goods and services so it becomes what it was intended to be - free trade. The Region is one outlet - in differing degrees of importance - for the exports of Member States and therefore should be as receptive to those exports as it could be;
- (3) provide a supportive and facilitating infrastructure for the promotion of competitive production. For example, the monetary policies are intended, inter alia, to facilitate the free movement of the capital/investible resources so necessary to finance development. However, without action in the fiscal area, the burden would fall totally on the monetary instruments thereby making them less effective. Therefore attention would need to be paid to the coordination/harmonization of fiscal policy. The more integrated the financial (monetary and fiscal) markets become, the greater pressure there is for mutually consistent macro-economic policy without which the exchange rate could become very volatile. Hence the need to keep the policies in all these areas under review;
- (4) strengthen common regional and structural policies in an effort to develop as balanced an economic structure as possible and so prevent pressure on the integration process.



The entire set of measures being proposed for the CARICOM Single Market and Economy is set out at Chapter III.

### **TREATY PROVISIONS**

In the examination of the Treaty a number of Articles have been identified for deletion or amendment or implementation. Chapter V discusses the issues and recommendations and Appendix V gives a summary of the recommendations.

Other Treaty provisions recommended for amendment relate to the free movement of capital and labour and free trade in goods and also to the external trade policy. The deletions recommended, related, for the most part to a tidying up to reflect expired Treaty provisions or policy revisions. Those for deletion include Articles 28 and 29 after a transitional period. Articles which now need to be implemented are connected with economic and fiscal arrangements.

### **SCHEDULE OF ACTIVITIES TO ACHIEVE 1994**

The deadline for introducing the CARICOM Single Market and Economy is only about two and one half years away. In this time period, a series of decisions have to be taken; studies have to be commissioned, executed, discussed and recommendations agreed upon; legal provisions have to be drafted, agreed upon and passed through the legislation process; measures have to be implemented.

Chapter VI lists the studies which have to be undertaken and seeks to set out a timetable for implementation of the measures. Since the studies themselves are intended to inform the action to be taken in certain areas, it is not possible to be totally definitive in fixing the schedule. Any timetable will have to assume the total commitment and preparedness of Member States to meet almost continuously - at various levels - technical and political - on the issues which have to be resolved. A number of areas will have to be dealt with simultaneously.

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## INTRODUCTION

Heads of Government of the Caribbean Community at their Tenth Meeting at Grand Anse, Grenada declared their recognition of the need to work expeditiously together to deepen the integration process and strengthen the Caribbean Community in all its dimensions to respond to the challenges in the global economy. Accordingly, they declared their determination to work towards the establishment, in the shortest possible time, of a single market and economy for the Caribbean Community. To that end, a number of steps were identified to be taken by 4 July, 1993.

At their Eleventh Meeting in Kingston, Heads of Government observed that:

"the process for establishing a Single Market by 1993 - to which we committed ourselves in the *Grand Anse Declaration* - is well on the way ...

We are now positioned to go further."

Accordingly they agreed to a number of institutional arrangements.

While there is no evidence that the Caribbean Community did agree at Grand Anse to a Single Market by 1993, there is no doubt that in 1989 the Caribbean Community did make a commitment to work towards the establishment of a Single Market and Economy within the shortest possible time. It could be interpreted that in 1990 the Community in its Kingston Declaration fixed 1993 as the date for establishing the Single Market. Since then several Heads of Government have made repeated reference to a CARICOM Single Market in 1994.

In the meanwhile, note was taken of the fact that among the decisions taken by Heads of Government at Grand Anse, was one establishing an Independent West Indian Commission with - as the Commission itself spelled it out - the mandate that, inter alia,

"the Commission should formulate proposals for advancing the goals of the treaty of Chaguaramas which established the Caribbean Community and Common Market (CARICOM) in 1973".

While acknowledging that in theory, the two decisions could be conflicting if perchance the Commission's evidence does not lead in the same direction, this observation was not pursued.

This exercise seeking to set out the process and the implications of that process, towards the establishment of a Single Market and Economy is being undertaken within the context of the decisions already taken and being implemented. It thus, for example, incorporates the Grand Anse and Kingston Declarations. It also takes into consideration some of the more recent views expressed on the Caribbean Common Market.

The Secretary-General of CARICOM in his Paper presented to the Tenth Meeting of Conference in 1989 had pointed to the issues of how common the regional Common Market was or was intended to be. He identified a number of areas where action would have to be taken if the objective of a Common Market with provision for the free movement of goods, services, capital and labour and with the facilitating economic, monetary and fiscal arrangements, were to be achieved.

The following analysis and proposals also very much take into account developments at the international level, in particular the European Economic Community's (EEC) move towards a Single Market in 1992 and plans for beyond 1992.

While it is obvious that the latter grouping is closest both in terms of timing and structuring - to that which CARICOM is seeking to achieve - it must be acknowledged that there are significant differences between the EEC and CARICOM. For example:

- (a) the EEC is a grouping of developed countries while CARICOM comprises developing countries;
- (b) internal trade accounts for more than 60 per cent of the EEC's total trade but only 10 per cent of CARICOM's;
- (c) except for the United Kingdom, and Ireland the Member States of the EEC are all on the same land mass with contiguous borders. CARICOM States are each separated from each other by the sea;
- (d) the EEC has had a long history of integration and has had provision for such a single market since the Treaty of Rome in 1957. Further the EEC has been working actively towards that 1992 goal since 1985. CARICOM on the other hand has, from the inception, provided for limits to a truly common market in the Treaty establishing the Community. Further it has set itself a very tight time span for the achievement of its goals - 1991 to 1993; and



- (e) even more specifically, the integration process in the EEC has had from its inception, institutional arrangements geared towards supporting the decision-making and implementation process. CARICOM is now to give consideration to what institutional arrangements are required to strengthen its integration process and maintain credibility.

Notwithstanding these differences there are lessons to be learnt from the EEC's experiences. This study therefore draws heavily on the literature surrounding the Single European Act (SEA). For ease of reference a summary of the EEC's progress towards the Single Market is given at Appendix I. It provides a useful frame of reference against which to examine the recommendations for the institutional arrangements for the CARICOM Single Market and Economy at Chapter IV.

This Paper seeks to move logically from trying to identify what it is that CARICOM wants to achieve, describing the vehicle chosen - the Single Market and Economy - to achieve the identified objectives and suggesting the way in which this can be done together with an indicative programme for implementation.

The emphasis of the measures identified is not intended to be exhaustive but just enough to indicate the issues involved. Because of the importance attached to institutional arrangements these are dealt with in a separate Chapter (IV) even though they are an integral part of the definition of both the prototype Single Market and Economy and the CARICOM Single Market and Economy and therefore of the Treaty provisions.

The discussion takes cognisance of the fact that there is a mandate elsewhere for a study to be undertaken on the establishment of a Monetary Union. A list of the References used is at Appendix IV.

## **CHAPTER I**

### **DEFINING A SINGLE MARKET AND ECONOMY**

What do we mean by a Single Market and Economy? Since the decision is to move further on in the integration process towards the establishment of a single market and economy, it must mean a deeper phase in the integration process if not the deepest. How exactly it is defined for CARICOM would depend on what CARICOM feels would best achieve the objectives they have set for themselves.

The process now going on in the European Community towards a Single Europe by 1992 could provide some valuable insights for us. The Treaty of Rome establishing the European Communities in 1957 made provision for the free movement of goods, services, persons and capital, a common customs tariff; common commercial policy; the establishment of a system to ensure free competition; a common policy for agriculture and for transport; the co-ordination of economic policies; the approximation of the laws of Member States to the extent required for the proper functioning of the Common Market; the creation of a European Social Fund for Workers; the European Investment Bank and the association of overseas countries and territories. The Single European Act (SEA) of 1987 sought to consolidate and make some alterations to existing organizations and systems instead of creating new ones. It did however lay down a new decision-making procedure providing for qualified majority decisions, and added the new activity - co-operation in foreign policy. It also moved from an insistence on harmonization and centralization to one of mutual recognition. Most importantly SEA explicitly states its objective as to contribute together to making concrete progress towards European Unity. In essence the Single European Act



sought to remedy the fact whereby thirty (30) years after the Treaty of Rome, there still remained physical, technical, fiscal, administrative and regulatory barriers.

Technically a Single Market must be the structure and functioning of a market as if it were within the borders of a single country - a single legal space with no borders in between. It is therefore expected that there will be freedom of movement of goods, services, people and capital. There must also be the fiscal, monetary, administrative and other measures in place to facilitate this movement. With free movement, it then becomes necessary for regulatory systems to be put in place to ensure some balance in the distribution of costs and benefits of the new regime and also to ensure that there are some rules by which the game is played.

The focus of attention away from the market itself towards the effects of market integration and providing for both the repercussions and further facilitation indicates that the integration process has moved beyond the market stage on to the broader stage - the economy. Economic imbalances among Member States would have to be corrected by policies affecting the structure of their economies and the costs of production. The attainment of national economic objectives becomes more dependent on a co-operative approach to policy making. Increased economic interdependence between Member States necessitates a more effective coordination of policy and a strengthening of common regional and structural policies. However at this stage of economic union, all policy functions which could be carried out at the national level without adverse repercussions on the cohesion and functioning of the economic (and monetary) union would remain without the competence of the Member State. This should however need to be within an agreed macro-economic framework and subject to binding rules and procedures. A Single Economy must then be a regional system which closely approximates a national economy.



## THE INTEGRATION PROCESS

But let us back track a bit in the Caribbean integration process. The Region moved from free trade (CARIFTA) to what it defined as a common market (CARICOM). In theory, if the Region had really moved to a Common Market it would have followed a path from a situation where trade restrictions were abolished for products largely or wholly produced in the area on to the addition of a Common External Tariff (CET) on all imports into the Region and the abolition of trade restrictions on all intra-regional trade flows. At that point there would have been the need for some mechanism for the apportionment of customs revenue among the Member States according to some agreed formula. With the addition of a common trade policy the result could have been defined as a Customs Union. GATT stipulates that a Customs Union must meet the following requirements:

- (a) the elimination of substantially all tariffs and other forms of trade restrictions among participating countries; and
- (b) the establishment of uniform tariffs and other regulations on foreign trade with non-participating countries.

According to the theory, the next stage on the integration ladder should have been the abolition of restrictions on the movement of labour, capital and technology - a Common Market. But the theory made some assumptions about the levels of development and the Caribbean countries at that time did not feel themselves strong enough to support the unrestricted movement of the factors of production.

A fully fledged common market, thus, consists of one economic space in which goods, payments, corporate stock, bonds and other liquid and illiquid debt certificates, loans, labour and professional services of all kinds, patents and licenses move freely.

But the mere removal of restrictions and discrimination (negative policy integration) can not bring about complete liberalization. Additional measures are necessary to support the step towards the free movement of persons, capital, services and goods.

For example, the free movement of labour/persons requires professional and technical accreditation, (e.g., diploma recognition); harmonization of apprenticeships, of social security schemes, of rules of work safety; coordination of social policies (for example, for improving working conditions and ensuring workers social rights); easy transferability of pensions and remittances. With the free movement of capital, especially at the early stages of development, capital is likely to move from the more under-developed regions to the more advanced regions. Labour migration cannot be relied upon to even out regional income differentials since there always tends to be a resistance to migration if only because of psychological and sociological factors. In addition, labour migration could sometimes further depress small depressed, backward areas. This leaves the need for definitive programmes to be put in place for assisting the disadvantaged regions.

Imbalances will occur as the process of adjustment and restructuring resulting from the removal of barriers impact differently on Member States. Imbalances would also occur from divergent economic policies pursued at national levels and from external shocks to which Member States react differently.



\* National economies in an integrated area cannot be considered as separate units. Financial measures taken by one country to regulate that country's economic activities are likely to spill over and significantly affect activity in other Member States. Subsidies given to some regions will affect resource allocation and growth in other Member States. Budgetary, monetary and exchange rate policy instruments cannot effectively be confined to the national policy domain. As the national economies of Member States become increasingly inter-dependent through trade and factor movements, the need for coordinating monetary and fiscal policies at a union level becomes increasingly strong. The coordination of policies - the adoption of monetary and fiscal targets - becomes increasingly important as integration progresses.

\* However, the harmonization of these financial policies - monetary and fiscal - is more important in unions where the bulk of total trade is with Member States.

At this point the Common Market is moving closer to an Economic Union. An Economic Union is defined as a common market with some degree of harmonization of economic policies (some analysts feel that the degree of harmonization of monetary, fiscal and other policies must be high). In an Economic Union, each Member State is still expected to pursue the economic policies needed, for example, to ensure the equilibrium of that State's overall balance of payments. But at this stage of the integration process the nexus between definition and measures becomes less clear cut. The theory has left us and we are in the realm of extrapolation. The pursuit of the necessary individual policies could result in incompatible national policies which could quickly translate into exchange rate tensions and put an increasing and undue burden on the Region's monetary policy. National Fiscal imbalances could lead to external imbalances, price increases, interest rate increases, wage increases, deterioration in competitiveness and pressure on the exchange rate. But a fixed exchange rate policy - which would tend to be an integral part of regional monetary policy - would eliminate an important indicator of policy inconsistencies among



Community countries and remove the exchange rate as an instrument of adjustment from Member States' set of economic tools. Having both monetary and fiscal instruments managed on a common basis in economic and social circumstances that are different for the different Member States could present a dilemma.

An appropriate balance between the economic and monetary components is necessary. A coherent set of economic policies at the Community and national levels would be necessary to maintain permanently fixed exchange rates between Community currencies and similarly, a coherent set of monetary policies would be necessary for the Community to develop into an Economic Union.

\* \* It is useful to note that as a genuine Common Market constitutes the basis for an Economic Union, it also produces most of the characteristics of a fully fledged Monetary Union. This latter would include a central bank, a common currency (or irrevocably fixed exchange rates with convertability making all regional currencies legal tender and common deficit policy. It would also require the unification and joint management both of monetary policy and of the external exchange-rate policy of the union. There will be the need for transfers of resources to ease the adjustment costs in the transitional period.

Thus, when one reaches the stage of a Common Market, one has got into the arena of policy integration and the lines between Common Market, Economic Union and Monetary Union are no longer so sharp.

Balassa gives us five consecutive steps in the integration process:

- (a) the free trade area;
- (b) the Customs Union;
- (c) the Common Market;
- (d) the Economic Union; and
- (e) total economic integration.

Pelkman sees the first three steps - a,b,c - as pure market integration and last two steps - d,e - as pure forms of policy integration. Yet he says that a fully fledged common market (c) must have positive policy integration to support total liberalization which does not seem very consistent. Notwithstanding, the crux of the matter seems to be that some harmonization is indispensable to a stable integration process and achieving the objectives of the union. However, the degree to which economic policies are harmonized would be influenced by the policy objectives set by Member States.

#### DEFINITION

A genuine Single Market and Economy could therefore be said to have the following attributes:

##### 1. *Free Movement of Goods and Services*

This is assumed to be taking place within a single Market and Economy and not just a free trade arrangement, hence other facilitating measures, for example, elimination of foreign exchange controls are not included here.

Thus, free trade requires:

- (a) elimination of all tariffs, quotas and other non-tariff barriers on intra-regional movement of goods;
- (b) elimination of all legal and administrative restrictions had in services ... .;
- (c) harmonization of standards to ensure acceptability of the goods and services being traded;
- (d) appropriate rules of origin. While technically Rules of Origin should no longer be necessary with an appropriate CET, some basic rules would facilitate free trade, especially in a less than fully or perfectly integrated economy; and
- (e) uniform customs laws and the simplification and harmonization of customs documentation, and procedures.

2. *Common External Tariff*

3. *Free Circulation*

This is based on the concept of the free movement of all goods and services behind common customs walls. For goods and services entering the Region, once they have fulfilled entry requirements - certification of country of origin, tariff or other customs requirements - they are then free to move from country to country without further



restriction. This means that after the point of customs entry, it is no longer important whether the good/service <sup>is</sup> of regional or foreign origin since the foreign content consideration would already have been dealt with at the point of entry. There would then only be the need to administratively ensure that the revenues were allocated to the country finally importing the product. The retention of some very basic Rules of Origin would facilitate the free circulation of goods. The more fully and effectively integrated is the regional economy, the less necessary are Rules of Origin. For example, in a political union, there are other means for dealing with regions which might become disadvantaged through the free circulation of a particular good.

Free circulation would therefore require:

- (a) provision for the collection and sharing of customs revenue - a clearing house;
- (b) reduction in customs checks though there might be need to have increases in customs controls to guard against abuse in the way of drug trafficking, etc.

#### 4. *A Common Trade Policy*

Formulation of a common trade policy and provision for joint representation in international economic negotiations.

## 5. *Free Movement of Capital*

The free movement of capital is the free movement of convertible currency and paper.

This would be greatly facilitated by:

- (a) abolition of foreign exchange controls;
- (b) a common exchange rate discipline;
- (c) fixed exchange rates and free convertability of regional currencies or a single currency;
- (d) integrated capital market;
- (e) co-ordination/harmonization, of monetary and fiscal policies relating, *inter alia*, to interest rates; banking regulations, indirect and direct tax structures and rates.

## 6. *Free Movement of Labour*

To ensure that persons are really free to move not only legally but also in the sense that  
\* they would not be put at a disadvantage, a number of additional measures would need to be put in place, viz:

- (a) elimination of need for passports, work permits and other impediments to intra-regional travel using instead some agreed form of identification recognizing the holder as a national of the Region;
- (b) mechanism for accreditation and equivalency to ensure the acceptance of professional and technical certification on a region-wide basis;
- (c) provision for transfer of remittances, pensions etc.;
- (d) harmonization of social services, for example, education, health, housing, etc.;
- (e) harmonization of social security measures/benefits;
- (f) harmonization of conditions of work.

7. *Harmonization*/coordination of, some aspects of economic policy such as national budgeting.

8. *Other Measures*

With the implementation of the above measures other concomitant measures would have to be put in place, viz;

- (a) provision of funds and technical assistance for the regions disadvantaged;



- (b) right of and rules for establishment with provision of Rules for fair competition;
- (c) common investment policy especially for foreign investors;
- (d) provision for the acquisition, development and transfer of technology;
- (e) reliable transportation and telecommunication facilities;
- (f) an information campaign. Integration is more than an inter-governmental concern. It is therefore important that all sectors of the community are involved in the process.

### **MONETARY UNION**

In the integration process the next step could be a Monetary Union which would have to deal with issues like:

- (a) the establishment of a regional Central Bank responsible for regulating the money supply, credit expansion, exchange reserves, interest rates, liquidity levels;
- (b) external exchange rate policy;
- (c) supervision of commercial banks and the banking system;

- (d) free circulation of all monetary and financial instruments with banking, securities and insurance services offered uniformly throughout the area;
- (e) single currency.

It had been earlier advocated - at 5 above - that the free movement of capital would be facilitated by fixed exchange rates and free convertability or by a single currency. But these measures require other supporting monetary and fiscal measures to maintain them. (Their introduction, however, has to be progressive over time). For example, immutably fixed exchange rates are not possible in a grouping where there are differences in inflation rates and in labour unit costs, in fiscal deficits and in balance of payments strategy, in other words, where there is not convergence in economic policies of Member States. Irrevocably fixed exchange rates are also not possible without a common monetary policy. For free convertability there needs to be at least adequate levels of foreign exchange reserves. A single currency requires even more. There needs to be a central authority responsible for determining the money supply and a more integrated economic policy where growth rates are not too disparate. A single currency should be seen "as a natural and desirable further development of a monetary Union", which while not strictly necessary, would facilitate the monetary management of the union and avoid the transaction costs of converting currencies.

Thus, while some measures have been identified as desirable for the free movement of capital, it is that the effective introduction of such measures will not be totally possible except in a situation of monetary and economic integration. It is also evident that for a Monetary Union to be sustainable, fiscal and economic policies would need to be further harmonized. And with an Economic and Monetary Union, the logical next step would be a total Economic Union. But a

total Economic Union would not be feasible outside a central institutional, and political framework  
- a political union.

### INSTITUTIONAL ARRANGEMENTS

The Community is only as good as its system of decision-making and implementation. All the objectives set and the provisions advocated could come to nought if these cannot be made effective.

The institutional arrangements which are necessary for the functioning of the Single Market and Economy are discussed in Chapter IV.

However there are a number of general institutional properties which it can be said have been identified as expected to be included in integration arrangements viz;

- (a) a Treaty with specific mechanisms for decision-making and implementation;
- (b) provision for judicial review of a Court;
- (c) a minimal presence of loopholes and safeguard and escape clauses with the provision of common and mandatory supervision;
- (d) precise arrangements for the transition period.



## **A CARICOM SINGLE MARKET AND ECONOMY**

A Single Market and Economy as distilled from the various statements made by CARICOM Heads of Government is here taken to mean the development of a truly common Common Market into an Economic Union. It is not taken to mean total economic integration since without a political union, the latter is not viable and there has been no political commitment to a political union.

- Single Market conceptually would mean completing the development of the Common Market recognizing that in a Caribbean context, market integration by itself would not be enough to accomplish our goals.
- Production Integration, that is, the use of resources on a regional basis to produce goods and services not only for the Common Market but also for extra-regional markets, must be a critical component of our integration arrangements. This would need to have significant levels of policy integration to successfully widen production integration as well as to support an effectively functioning Common Market. Hence would need to move on from Common Market to Economic Union.

In addition those monetary policies necessary to support the successful implementation of the required economic policies will be identified and discussed. The introduction of these monetary policies could lead in the future to the introduction of a monetary union.

Thus, in the absence of an existing definition, the description of a Single Market and Economy has been based on what is considered to be the requisite elements of a Common Market and Economic Union with the necessary supporting Monetary Policies.



## **CHAPTER II**

### **OBJECTIVES OF THE CARIBBEAN COMMUNITY**

Article 4 of the Treaty establishing the Caribbean Community sets out the Objectives of the Community and of the Common Market as follows:

- (a) the economic integration of Member States by the establishment of a common market regime (hereinafter referred to as "the Common Market") in accordance with the provisions of the Annex to this Treaty with the following aims -
  - (i) the strengthening, coordination and regulation of the economic and trade relations among Member States in order to promote their accelerated harmonious and balanced development;
  - (ii) the sustained expansion and continuing integration of economic activities, the benefits of which shall be equitably shared taking into account the need to provide special opportunities for the Less Developed Countries;
  - (iii) the achievement of a greater measure of economic independence and effectiveness of its Member States in dealing with states, groups of states and entities of whatever description;



- (b) the coordination of the foreign policies of Member States; and
- (c) functional cooperation, including -
  - (i) the efficient operation of certain common services and activities for the benefit of its peoples;
  - (ii) the promotion of greater understanding among its peoples and the advancement of their social, cultural and technological development;
  - (iii) activities in the fields specified in the Schedule and referred to in Article 18 of the Treaty.

It would seem from the above that the major objective of the Community is economic integration, via the establishment of the Common Market, whose objective is also economic integration, though, with additional objectives such as accelerated, harmonious and balanced development and also a greater measure of economic independence and effectiveness in dealing with other states and entities.

The objectives of the Common Market itself tend to be somewhat repetitive in that the first objective deals with the strengthening, coordination and regulation of the economic and trade relations, while the second objective deals with the sustained expansion and continuing integration of economic activities. The second objective seems to be subsumed in the first and both focus on the integration process. In a sense this seems to lay more emphasis on the method to be used to achieve the ends rather than on the ends themselves.

While one accepts that cooperation and integration, rather than several individual very small states, make for a more viable economic entity, stating integration as the objective runs the risk of focussing efforts away from what it is we are trying to achieve, onto the means by which we are trying to achieve it. This in effect would influence the whole integration process and could very well end up with an attempt to achieve an integration process which is out of step with the economic and social realities. Integration is the means to achieve what is desired and therefore, the degree and nature of integration should be calculated and should be shaped by the precise ends which are being sought.

However, it seems only fair to point out that there can be two paths on the integration road. There is the one which assumes that a Region is definitely heading towards total economic and political integration. Then it would not be a case of conditions being only to some extent as if Member States were operating behind one common set of borders. It would be that Member States know that eventually everything would be harmonized and integrated and that it was just a matter of phasing in the different measures to achieve that goal. It would then not be surprising if Member States had the expectation that integration would solve their major problems, and therefore evaluated the integrated process according to the distance they still had to go in integrating to reach that final goal. In today's world of persistent and pervasive movement towards globalization, integration could not be deemed an unreasonable objective in itself.

Where total integration is the agreed objective, Member States then could not in all reasonableness, be pre-occupied with the endangering of their individual existence or sovereignty, but should then be able to concentrate on finding the best means of implementing the necessary measures for total integration.



The other path is that which defines integration, not as the final goal, but rather as a process with the objective of achieving some defined goals through the promotion of mutually beneficial interdependence. Member States could then use these measures to contribute to and supplement their own national development efforts and to satisfy some common objectives. They would thus consider their contribution in terms of the benefits they would derive and allow the process to proceed only to the level and extent that circumstances demand. This does not mean that the larger total economic space would not be eventually created. There would always be room for that ultimate decision. Even though this would seem to be the more pragmatic or realistic approach, deliberate care must be taken not to define integration measures exclusively in terms of economic benefits. This has proven to be counter-productive especially when political sacrifices are required.

The Preambles to the Treaty itself and to the Common Market Annex are in fact, far more specific in indicating the goals which the Community is seeking to attain. For example, the Preamble to the Treaty points to the hopes and aspirations of the peoples of the Caribbean for full employment and improved standards of work and living and asserts that these objectives can most rapidly be attained by the optimum utilization of available human and natural resources of the Region, by accelerated, coordinated and sustained economic development and by the efficient operation of common services and functional cooperation. In the Preamble to the Annex to the Treaty Governments noted that the CARIFTA Agreement had expressly foreshadowed "the ultimate creation of a viable economic community of Caribbean Territories" and were convinced that closer economic integration among Member States would contribute to the creation of a viable economic community of the Commonwealth Caribbean Countries.



It would therefore seem to follow that the objectives of the Region could alternatively have been more explicitly stated as relating to:

- full employment;
- improved standards of living;
- improved conditions of work;
- accelerated, coordinated and sustained economic development; and
- a viable economic community.

These implicit objectives are as valid now as they were at the time of the signing of the Treaty in 1973.

However, in the light of changes and developments on the international scene over the intervening eighteen (18) years *vis-a-vis* the performance of the Caribbean Community itself, it seems necessary to spell out at least one additional objective, viz;

- the achievement of a greater degree of competitiveness;
- the achievement of effective and efficient production systems.

The Community's survival depends on its successful interfacing with third countries. it must work deliberately towards ensuring that it can compete successfully in the wider market place. If it is to be able to sell increasing quantities of product in that market, the price, quality and choice of product must be right. The actual organization for production will influence our success not only in the regional market but also the extra-regional markets. The organization of the production system must be such that it exploits the entire stock of resources of the Community.

While it might be argued that the above two goals are not on "all fours" with the other objectives of the Community, it is felt that at this stage in the Region's development process they are sufficiently important for them to be specifically identified as objectives. Objectives which would be enhanced by a deepening integration process.

The question has been raised that, given the relatively small size of even all the Member States together, can a Single Market achieve even some of the goals identified. Can the necessary economies be derived so as to provide the competitive edge required. Thus, similarly, it would seem that there should at least be one other objective to be set if the potential of the deepening process is to be realized. The CARICOM Region should seek to achieve the widening of its market to provide a more secure base for supporting and stimulating increased and more competitive production. And here the term widening is used in its widest sense and not simply to mean membership in the Caribbean Community. It is any form of association with non-Community countries which enables the Community to achieve its core objectives. The precise form would be determined by the specific need. For example, if the need is for an enlarged market only, then an association through mechanisms like trade and/or economic agreements could be sufficient.

The Community will then keep the other Common Market objective, viz:

- the achievement of a greater measure of economic independence, and effectiveness of its Member States in dealing with States, groups of States and entities of whatever description;

together with those objectives relating to the coordination of foreign policies and to functional co-operation.

Thus, for the Region, a viable economic and social Community could be seen as the major goal. 4

This would be accomplished through the achievement of the objectives of:

- full employment;
- improved standards of living and work (as required by individuals);
- accelerated, coordinated and sustained economic development (as required by the State);

as well as the objectives of:

- the achievement of increasing levels of competitiveness;
- organization for increased production;
- expansion of trade and economic relations with other Caribbean countries and Latin America;
- the achievement of a greater measure of economic leverage and effectiveness of its Member States in dealing with other States, groups of States and entities of whatever description.

To these should be added the existing objectives of the:

- coordination of foreign policies of Member States; and



- functional cooperation including:
  - . the efficient operation of certain common services and activities for the benefit of its peoples;
  - . the promotion of greater understanding among, its peoples and the advancement of their social, cultural and technological development;
  - . activities in the fields specified in the Treaty.

The Region's conviction of the benefits of and its commitment to integration could then be stated in the Preamble to the Treaty.

The objectives of the CARICOM Single Market and Economy could therefore be considered as relating directly to the major goal:

- a viable economic and social community;

and the objectives of:

- full employment;
- improved standards of living and work;
- accelerated, coordinated and sustained economic development;

- increasing levels of competitiveness;
- effective and efficient production systems based on the larger and more integrated factor market;
- the widening of the Community through the conclusion of trade and economic arrangements with other Caribbean countries and Latin America to provide for a larger product market;
- a greater measure of economic leverage and effectiveness of its Member States in dealing with States; groups of States and entities;

One could, of course, be tempted to observe that if the objectives then and now are roughly the same, why then is a Single Market and Economy now necessary when, then, it was felt that the Community and Common Market that had been fashioned would have done the job. The fact is that they did not. As the Chairman of the West Indian Commission observed "the goals of the Treaty of Chaguaramas - themselves of questionable adequacy seventeen years after their celebration in 1973 - remain unfulfilled". A number of provisions in the Treaty sought to achieve these objectives by seeking to ensure that the necessary institutional and other framework was put in place. To paraphrase the Secretary-General - notwithstanding the pretensions of the labels used and the grand substantive design set out in the Treaty of Chaguaramas, the regional arrangements known as the Caribbean Community and Common Market are very far away from being what they say they are. Worse yet, there is a gap between those arrangements, even with their shortcomings and what is actually on the ground and being done. It is not impossible that the attempt could have been made to keep the labels and make them real in design, practice and operation, thereby making it more possible to achieve their objectives. Instead new labels have been sought. As the

West Indian Commission put it

"in a world in which large size is becoming increasingly advantageous, how can regionalism assist in taking advantage of opportunities to secure more economic space... CARICOM Heads of Government have already declared themselves in favour of working towards a Single Market in 1993"

Perhaps even more importantly, the adoption of new labels could have the psychological benefit of signalling the renewed political will of the Caribbean Community to deepen the integration process.



## CHAPTER III

### MEASURES TO ACHIEVE A CARICOM SINGLE MARKET AND ECONOMY

Given the objectives identified in Chapter II and the performance of the Caribbean Community and Common Market to date, a Caribbean Single Market and Economy must be pre-occupied with increasing its production levels (output), enhancing the quality of the product, increasing the levels of productivity and producing product for which there is increasing demand. In other words ensuring increased levels of production and competitiveness for the Region.

With the Region traditionally absorbing only 10 per cent of its total trade, given existing production patterns, the target must be extra-regional exports to provide the required resources, notwithstanding the very deliberate efforts in train to expand production for intra-regional trade.

Intra-regional trade will always be important for the Region. For the smaller countries, it is a major source of export earnings. For other countries, it serves as the incubator for their foray into the extra-regional markets by seeking to maximize the possible gains. It is therefore necessary to have a properly functioning trading area, and the Common Market has tended to concentrate on this aspect of Common Market activities. One should however, not really be looking to an intra-regional trade regime to achieve the Region's objectives. Those gains cannot be significant enough. The question has been posed (rhetorically?) as to whether the level of economic activity at the regional level, warrants the level of infrastructure required for a Single Market and Economy.

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Or even more to the point, does it provide a sufficient level of incentive to persuade Member states towards greater levels of policy integration. Fortunately, the current levels of intra-regional trade and economic activity must not be judged only as an end in itself, but also as the means to reaping additional benefits in the wider extra-regional market. It is the facilitation of this latter which gives added importance to the integration process.

## **PRODUCTION**

Thus, even while concentrating on extra-regional trade, it is necessary to keep trade in perspective. It should be seen as a vehicle, with the real driving force being the production sector. It is necessary to step backwards to the production system and deal with the issues there. If not, the problems will continue. The beginning of the solution is in the internal market.

Over the years the community has not really been successful in its follow through in focussing on production. Attempts have been made to focus on regional production, to wit, the allocation of Industry Scheme; joint development of natural resources through the Integrated Industry concept; the CARICOM industrial Programming Scheme (CIPS); the CARICOM Enterprise Regime (CER) and Caribbean Community Programme for Agricultural Development (CCPAD). The first could not be described as a success, the next one never really got off the ground, CIPS and CER have not yet been activated and CCPAD has been agreed but is slow in getting off the ground.

The Georgetown Summit in 1986 from which CER and CIPS were resuscitated, had identified the scope for production integration as relating to wood-based industries, clay-based industries; for limestone and sand-based products; for petroleum-based products; for sugar-based products; for cotton and leather-base products; for processed foods and animal foodstuff, for chemical lime and chemical pulp; and for steel-based products.



But even apart from national resource-based production integration there is room for the rationalization and organization of production based on the principle of the most efficient and effective use of the resources - human, natural and financial - of the entire Region for supplying both the intra-regional and extra-regional markets.

At the very beginning of the current integration process, Brewster and Thomas had argued in their study on the Dynamics of West Indian Economic Integration that integration should not be limited to the exchange of goods but should include the integrated production of goods. They felt that it was through the integration of production that the most important economic gains were to be achieved for the West Indies. The production structure of the various Member States suggested that concentration could legitimately be on expanding the production frontier of the Region. William Demas had pointed out that the combined regional market would foster faster industrial growth in the Region as a whole by bringing an ever widening range of industries within the threshold of economic feasibility. The free movement of factors of production would increase the Region's production possibilities of individual territories even further - both in terms of quantity and range - beyond the narrow production possibilities of individual territories.

The Region now has to work deliberately and focus on creating the environment and support to encourage production through incentives and facilitating measures as it has been doing for free trade. Production is required to feed the trade - intra- and extra-regional. The market needs to be of a size which provides the critical mass to facilitate competitive production. Having assured that size through the regional market and other trading arrangements with Third countries, then the success rests with how well the Region organizes its production. The free movement of factors of production creates the possibility and opportunity for ensuring the most effective combination of factors. Instruments like, CER and CIPS can provide an opening for combining those resources in joint production. But experience has shown that the exploitation of these measures requires the



awareness, commitment and active participation of the actors in the production process - the private sectors. One other institutional support measure should be provision for private sector consultations on a continuing basis at least in the early stages.

In a CARICOM Single Market and Economy, the measures adopted must include all those which could give support to competitive production. They must, however, only be as much as is sufficient to achieve that objective. For example, if differing rates of excise taxes have not been seen as hindering trade, then do not attempt to harmonize excise taxes. Also it is not intended that even most of the macro-economic decisions would be taken at the Union level but rather that they would be taken at the national or regional (sub-regional) level within an agreed macro-economic framework. Unless of course adverse repercussions are likely to be felt at the union level. On the other hand, rules for budgetary policies are expected to be binding.

## TRADE

Some measures are obviously more important than others and still others can fall under the heading of ideal rather than essential. For example, a Common Trade policy is ideal in a situation of joint representation since it would more easily facilitate joint negotiation. However if parts of that regional trade policy did not apply to all Member States, it would not make joint negotiation impossible but only more difficult. A common trade policy would however, be necessary if one were to decide on free circulation. Similarly, the simplification of customs procedures, documentation etc., while extremely desirably, is not as immediately critical as ensuring that the CET provides the environment for the Region to maximize its production of goods and services which can be described as originating within the Region.

One of the main measures necessary for the functioning of a Single Market is free trade - the free movement of goods and services. This together with a common tariff on imports from Third countries and a common trade policy vis-a-vis Third countries would be tantamount to a single trading area or Customs Union which is a prerequisite for a single market and economy.

Such a regime is primarily market oriented, dealing with the integration of the market only and concentrating on the abolition of restrictions to movement (negative policy integration). Even so, it would be necessary for other measures to be put in place to ensure some stability at that level of integration, for example, to treat with Regions which are or have become disadvantaged as a result of the introduction of these measures. This latter process becomes even more necessary as the Region moves towards implementing the other basic measures viz; the free movement of labour and capital thereby integrating the market for factors of production.

Insofar as the Caribbean Community is, in some senses, more than a Customs Union and has already adopted the decision to proceed further to a Single Market and Economy and also to a Monetary union, a trade regime is only a part, although an integral part of a larger system on which it is very dependent.

That larger system must have as its focal point, the production system, Just as the trade regime is built upon the advantages of an integrated market, so must the production system take advantage of the free movement of both goods and also of factors of production.

## SINGLE MARKET AND ECONOMY

The measures being proposed for a CARICOM Single Market and Economy take into account the existing Common Market and Community provisions. However whereas, the Common Market focussed on the free trade of goods, the Single Market and Economy will shift the focus to production. The measures for the Single Market seek to ensure that movement of goods would in fact be unimpeded and also that new measures are put in place to assure the freedom of movement for services, labour and capital. Facilitating measures like the CET, export-marketing activities are intended to encourage production while the monetary and fiscal measures are to facilitate free movement and thus efficient production as are the provisions for the rights of establishment and access to transportation.

Provision for the Single Economy further deepens the integration process with provisions for increased levels of economic co-ordination and other monetary and fiscal measures to assure the cohesive functioning of the economy and the achievement of higher and competitive production levels and production integration.

The degree of financial and economic coordination for a Single Economy is more than that which is felt to be required simply for a Single Market but less than for total integration. It must be remembered that the Caribbean Community arrangements already provide for more than a Common Market. How the "more" is determined is very subjective and is influenced by the objectives the Region has set itself. The rule of thumb used is to keep the measures identified for coordination or harmonization at any particular stage, to the minimum required for effective functioning.



The measures which must be put in place for a CARICOM Single Market and Economy are therefore as follows. They are broken down into elements which relate to Trade and to Production thereby attempting to separate those issues which relate to the CARICOM Single Market. The elements relating to the Economy are those which might be described as being more relevant to the effective functioning of the Single Economy than to the Single Market though there are border line cases where a particular measure could apply to either.

## **I. TRADE**

These measures are intended to facilitate the completion of the trade liberalization process, begin the promotion of the free movement of services and provide the basis for external trade relations.

### **1. *Free Movement of Goods***

- (a) elimination of tariffs, quantitative restrictions, and other non-tariff barriers on intra-regional trade;
- (b) the development, harmonization or regionalisation (mutual recognition) of standards - both technical and protective (as relating to health and safety, public morale, national treasures, natural resources). Differing standards with the potential for fragmenting an already small market and further increasing costs of production should not be allowed to emerge. The ideal strategy is harmonization, and, given the early stage at which the establishment of regional standards is worthwhile striving for. As far as possible agreed standards should be mandatory across the Region with

exemptions kept to a minimum.

Standards are often part of a technology package, thus, the Region's importation policy should ensure that in purchasing, these packages should differ as little as possible or in fact should be similar for the same products.

Standards must be established not only to ensure acceptability of goods being traded intra-regionally but also taking the export market requirements into consideration;

- (c) there will, continue to be need for some basic Rules of Origin to facilitate free movement of goods during the period before total integration even with an appropriate CET (as described below). While, with the latter, it is less necessary for Rules of Origin, there would still be some need to distinguish between goods and services which can be described as originating in CARICOM and those originating in Third countries to carry the responsibility for encouraging regional producers to produce goods and services which can qualify for Common Market treatment. There has been some debate as to the relevance of Rules of Origin in a situation of free circulation. As discussed in Chapter I, without a political union some such imperfections will have to remain to facilitate the smooth functioning of the market in the absence of the other tools available to a central Government even with free circulation;

- (d) simplification and harmonization of customs documentation and procedures and application of uniform customs laws in the interest of saving time and costs;

## 2. *Free Movement of Services*

Trade in services should be no less favoured than trade in goods. The free movement of services requires similar facilitation. The measures necessary would relate *inter alia*, to:

- (a) the removal of barriers - legal and other - restricting cross-border movement. For example, trade in services is often inhibited by national public procurement policies which restrict the provision of the particular service to a domestic supplier, it is therefore necessary to open up public procurement to other than domestic supplies if freedom of movement in services is to be achieved;
- (b) the development and establishment of common standards and regulations as necessary to govern the provision of these services in the different Member States;
- (c) provision for the exchange of information on the CARICOM market for services.



National consultations have identified the following services sectors for attention: Tourism and entertainment (and other cultural), financial, educational, professional, telecommunications and medical services. It is recommended that free trade in services begin with the consideration of these sectors. Further indepth study is necessary to identify the requirements for facilitating development and trade and to inform regional action in this area.

### 3. *Common External Tariff (CET)*

Member States have agreed that a CET for the Region must have the characteristics of simplicity, the affording of protection for regional production and also the providing of revenue. While it might be argued that the absence of common tariffs has not so far adversely affected the economies of the Region, this has been so within the context of a common framework and a commitment to the implementation of a CET. The establishment of common tariffs and the binding commitment to implement those tariffs are necessary to provide the Community with the leverage required for successful interfacing with Third countries and entities. The application of the CET must, therefore, leave as little as possible to the individual country's discretion since this is likely to differ from country to country. For this reason the duty-exemptions list should be severely restricted or rationalized. Any transitional arrangements agreed to must also be strictly adhered to.

An effective CET must be structured so as to reflect both the trade and production policies of the Region and be manageable. In other words it must seek to both encourage production and also the use and consumption of regionally produced goods.

It is intended to further develop the existing CET to a stage where, for example, the tariff on a good is the same whatever its use and where, the regionally produced good is protected at all levels of consumption - input into industry, intermediate or final consumption.

#### 4. *Free Circulation*

Is the introduction of the system of "free circulation" necessary or manageable in circumstances where extra-regional trade accounts for somewhere in the Region of 90 per cent of the Region's total trade? It is a logical step where one is establishing a single customs area, as is the case in this situation. It is more manageable where intra-regional trade accounts for the bulk of total regional trade - as is the case with the EEC where it is between 70 and 80 per cent. Then, the amount of extra-regional would be less significant. Free circulation is possible only if there is a common trade policy since once the goods enter the Region and have fulfilled all entry requirements - certification of country of origin, tariff and other customs procedures - they are free to go anywhere in the Region without further restriction. At that stage, whether the good is of regional or foreign origin is no longer important since considerations relating to foreign content would already have been provided for.

In the CARICOM context where all the territories are separated by water, what are the advantages of free circulation? The goods now come into the Region and the carrier then calls at the different ports of entry unless the goods are being transhipped. The stops tend to be discrete stops where the customs processing is done for the particular shipment for that port and the carrier goes on. If transshipment is involved then the goods are not landed in the customs sense and the customs formalities are in the country of consignment. With free circulation and not very significant levels of imports destined for other CARICOM ports or re-exports, it would seem that it would be case

of very little advantage to the facilitation of the physical movement of the goods but very significant increases in the work load and responsibilities of the customs and other administrations. Benefits would accrue only if it is possible for customs processing to take place at the first port of entry. But then, would the existing port facilities be able to handle the increased freight.

Further, a mechanism would then have to be devised for the collection and allocation of customs revenue. Import duties would be uniform (assuming a genuine CET by 1994) but related taxes like consumption taxes could conceivably be different (see section on treatment of indirect taxes), thereby complicating the procedures/calculations. In a CARICOM context where customs revenue is important, Member States would then be transferring their control over an important fiscal tool without any significant visible benefits.

There is, of course, the further hiccough of the duty-exemptions list and the application of fiscal incentives which encourage differentiation in treatment by the individual countries since it is the local authorities who determine the treatment. This treatment would certainly have to be harmonized if such a list continued to be seen as essential, in the context of a CET which reflected the production policy of the Region.

This would seem to be one measure which should not be introduced in the early stages especially since it is dependent on the implementation of other provisions. In any event, it would bear further study.



## 5. *Common External Trade Policy*

This could include:

- (a) a common protective policy when this is felt to be necessary, taking into account the current international move away from quantitative restrictions and the Region's policy that the CET would be the principal instrument for protection;
- (b) the updating of Community awareness of the existing bilateral arrangements and agreements of all Member States;
- (c) the adumbrating of a regional trade policy which could be described as a policy existing in the Region which identifies those policies which are common to all Member States and those which are peculiar to a particular country. These latter, however, cannot be conflicting and, therefore, in arriving at the regional policy some negotiation among Member States might be involved. While a common trade policy is ideal, it is necessary only in circumstances of free circulation. Bilateral agreements are therefore possible provided they do not conflict with regional policy. Consultation on and coordination of bilateral trading and other arrangements must be carried out within a common agreed framework. It would be necessary for draft bilateral agreements to be tabled for the information/agreement of Member States.

Since bilateral agreements must conform with regional policy, this is one area where the concept of Community Law (as an integral part of national law) must apply - See Chapter IV. Provision must be made for legally ensuring that regional policy takes precedence over national policy. National practice must be within the

guidelines agreed by the Community. This approach would give additional support to Member States in the position they have to take in their negotiations with Third countries.

- (d) establishment of joint representation for interfacing with Third Countries, for example, negotiations.

## 6. *Marketing Policies*

Goods and services will not necessarily sell themselves. Enterprises, Member States and the Region need to engage in deliberate marketing policies and export promotion generally. This must apply to both intra- and extra-regional markets.

Selling involves a two way process, the seller has to be able to persuade the buyer that his product is what he wants and is competitive. The seller also has to be aware of what buyers are demanding and be able to cater to that demand.

Marketing, like production has also to be organized whether it is within the enterprise itself or as a specialist separate entity. This latter could provide a valuable service for producers who cannot effectively or do not wish to get into the business of marketing. There are also advantages to be had from joint marketing especially in circumstances where the amounts for export are relatively small or specialized.

The Region and Member States might provide the institutional support. The exporters themselves have to get into the marketing act.

## II. PRODUCTION

The integration of the factor market at the regional level, for greater levels of production integration and for the effective organization of production systems in general require free movement of factors of production. The following measures are intended to facilitate the movement of labour and capital.

### 7. *Free Movement of Persons*

Free movement must in the final analysis apply to all categories of persons - entrepreneurs, labour and individuals. Persons electing to take advantage of free movement must not be put at a disadvantage. Measures to facilitate free movement must include:

- (a) elimination of the need for work permits and other impediments to intra-regional movement including, as appropriate, phasing in;
- (b) the replacement of the use of national passports with the use of some agreed form of identification recognizing the holder as a CARICOM national;
- (c) facilitation equal to that extended to nationals at immigration points;
- (d) mechanism for equivalency and accreditation to ensure the acceptance of professional and technical certification on a region-wide basis. this could begin with the compilation of a Skills Register listing regional needs and availability and identifying those persons initially eligible for Single Market Treatment;



- (e) harmonization of apprenticeship schemes;
- (f) coordination of social policies, for example, work conditions;
- (g) harmonization and transferability of social security measures and benefits and of rules governing work safety;
- (h) provision for the transfer of remittances, pensions, etc.;

#### 8. *Free Movement of Capital*

The measures recommended here do not assume the existence of a Monetary Union though effective development of some of them would be greatly enhanced by some greater degree of economic and monetary integration;

- (a) elimination of foreign exchange restrictions for both current and capital accounts;
- (b) convertibility and stability of regional currencies.

At this Stage one is merely seeking to achieve the facilitation of financial transactions across the Region.

Notwithstanding that the convertibility of currencies in the Region would normally imply total convertibility, it should be possible to achieve a level of (if not full) convertibility of regional currencies based on adjustable fixed exchange rates between regional currencies operating within a band. The system would be more manageable if all currencies included

were backed by adequate levels of foreign exchange reserves and stable exchange rates.

Before the changes in the exchange rate of the Trinidad dollar burnt some holders of CARICOM Travellers Cheques, this instrument had been well on the way to fulfilling most of the needs which the call for a common currency is being asked to address. The demise of the CARICOM Multilateral Clearing Facility further hindered the promotion of the use of this instrument.

At the Stage of a Single Market and Economy, there is not yet likely to be a sufficient level of convergence of economic, monetary and fiscal policies and measures to underpin such a single currency. For example, differences in inflation rates, in wage rates, in growth rates, in fiscal deficits, in balance of payment strategy and inadequate levels of foreign reserves would all adversely affect the stability of the exchange rates. It might therefore be difficult if not impossible to maintain the stability of, and therefore confidence in the single currency especially in the absence of common monetary policy, a Monetary Union and a central monetary authority.

A common currency to be used in parallel with national currencies has been suggested. While not having to carry the burden of standing on its own as the single currency would, it is intended to be structured in such a way as to provide the stability and confidence which the national currency might lack. It is to be legal tender in every Member State which can afford to be part of the currency system or to purchase the currency. This would be its advantage over other currencies, for example the Us dollar, which is now used alongside national currencies in some countries in that it could be held openly. It is not yet clear that this would be sufficient reason to encourage the holding of the common currency either by nationals of Member States which have a stable currency or by other

regional nationals who have been using the US dollar for that purpose.

All these issues - convertibility (even if partial); a CARICOM instrument like the CARICOM Travellers Cheques; a Single currency and a common currency - need to be further examined in order to determine the most feasible for achieving the objective of facilitating monetary transactions.

- (c) a regional capital market which would build on the embryonic "tri-State" stock exchange which is being developed.
- (d) coordinated fiscal policy necessary to support the movement of capital, for example:
  - (i) harmonized or approximated cooperation tax regime;
  - (ii) setting of targets for budget deficits to ensure that the strain on the exchange rate is minimized. National fiscal imbalances could lead to external imbalances, price increases, interest rate increases, wage increases and deterioration in competitiveness;
  - (iii) harmonized fiscal and other incentives to industry, agriculture and services as identified;
- (e) updated double taxation agreements;



- (f) the CARICOM Enterprise Regime and the CARICOM Industrial Programming Scheme could be important transitional features to encourage the movement of factors of production and facilitate regional production.

## 9. *Rights of Establishment*

With the removal of barriers to trade these rights need to be preserved for the establishment and operation of enterprises of each Member State on a basis no less favourable than that accorded the national enterprises of the host Member State. Similarly a competition policy needs to be in place. It is important that potential gains from free trade be not jeopardized by the implementation of policies which could restrict entry into the market by other firms or put other firms at a disadvantage. In addition free movement of labour and capital would mean nothing if new enterprises cannot be established. Articles 30 and 35 of the Common Market Annex make some provision.

One, however, should not be overly concerned about the emergence of firms which might tend to be larger than the average CARICOM firms. The CARICOM Market is relatively small and the state of technology usually dictates the minimum size for a viable firm. Therefore, what might seem to be large might in fact not be at all so by technology standards. It would not be at all so by technology standards. It would minimum size for a viable firm. Therefore, what might seem to be large might in fact not be at all so by technology standards. It would not then be impossible to quite legitimately end up with a monopolistic or oligopolistic situation.

### III. THE ECONOMY

The measures hereunder are meant to relate more to, though not exclusively to the Single Economy. Many of them are also supportive of the Single Market measures. For example, the monetary and fiscal measures would give additional support to the free movement of capital and at the same time to the economic policies being developed. The focus is on measures necessary for underpinning the development of the Region through the creation of an environment for increasing production.

#### 10. *Other Monetary and Fiscal Policies*

Financial measures applied in one Member State affect other Member States, for example subsidies in one Member State affect resource allocation and growth in other Member States. So too do exchange rate policies:

- (a) coordination of exchange rate policies. Any move towards a common exchange rate discipline which is so necessary for instilling some predictability in intra-regional relations, should start with an attempt first to understand, then to coordinate policies;
- (b) coordination of other monetary policy as necessary, for example:
  - interest rate policy;
  - commercial banking market.





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AND  
ECONOMY**


***CARIBBEAN COMMUNITY SECRETARIAT***



- (d) reintroduction of a regional clearing arrangement if only to conserve on the use of foreign exchange. This continues to be an important advantage whether there is convertibility, a common currency or a single currency.

#### 11. *Economic Measures*

- (a) Scheme for consultation on and coordination of economic policies - internal and external;
- (b) harmonization of Foreign investment policy.
- (c) harmonized laws, relating to, for example, companies, intellectual property etc. (Article 42 of Treaty).
- (d) schemes for the acquisition, development and transfer of appropriate technology.

- 
- (a) Scheme for provision of funds and/or technical assistance to sectors and regions disadvantaged both structurally and as a result of the integration process. CARICOM LDCs, even while demonstrating faster and in some cases stronger growth rates than their MDC counterparts are regarded as being at a disadvantage if only because of their small size and relatively limited capital, labour, skilled

# TOWARDS A CARICOM SINGLE MARKET AND ECONOMY

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#### 14. *Information Campaign*

Implementation of an information programme is necessary to ensure that all sectors in the community are kept informed and are involved in all stages of the integration process. Integration is more than an inter-governmental concern. Its success is dependent on more than Community institutions. It is dependent on the peoples of the Community. They must know what is involved and agree with the measures being recommended. The private sector, the labour unions, the man in the street all must be part of the advisory process which informs the decision-making of the Governments. They must also be made aware of decisions taken and the follow-up action which is involved.

It is intended that the public information programme be started now, before decisions on the Single Market and Economy are taken and continued throughout the process. It however needs to be more intense than that which has been taking place in the normal course of events. It must involve all communications media at both the national and regional levels. It should be a coordinated effort beginning initially from the Central Body - at present the Caribbean Community Secretariat. As the process gets started it should be the responsibility of Member States also to ensure that their people are informed and this includes the young people of the Region. The programmes must be people-oriented programmes.

#### **INSTITUTIONAL MEASURES**

The arguments for these measures is as presented in Chapter IV. The most important demand being made is for the decision-making and implementation processes to provide for speed and effectiveness through:



## FOREWORD

The modern phase of the integration movement among the English-speaking Caribbean countries had its genesis, in large measure, twenty-five years ago with the signing of the *Dickenson Bay Agreement* by Antigua and Barbuda, Barbados and Guyana in December 1965. By 1968, under this Agreement which established the Caribbean Free Trade Association (CARIFTA), twelve English-speaking Caribbean countries had committed themselves to embark upon the process towards the integration of their several markets into one. The momentum of this initiative led later, in 1973 under the *Treaty of Chaguaramas*, to the launching of the ambitious drive to create the Caribbean Community and Common Market.

Today, nearly twenty-six years since Dickenson Bay, and over eighteen years since Chaguaramas, we frequently find ourselves engaged in searching evaluation of that to which we had set our hand in these two land-mark instruments, and of how we have fared along the road that has brought us to this point. In this appraisal, we are profoundly aware of two basic truths: firstly, that the goals of Dickenson Bay and Chaguaramas are still largely unfulfilled; and secondly, that whatever the reasons for the non-attainment of these goals up to the present time, the need for integration, economic and otherwise, among Caribbean countries, remains a compelling imperative.

This would have been so in any circumstance, on account of the objective implications of our small scale as individual societies, and having regard to the predisposing circumstances of our shared historical experiences, our common cultural, social, geographical closeness of many of our national communities. But the evolving state of the contemporary world makes it even more so, as with uncertainty and apprehension we watch the old international order being prised loose from its familiar moorings, and anxiously prepare to construct for ourselves a viable regional platform from which our peoples can interact with the new dispensation that is emerging in the Latin American and Caribbean region, in the Hemisphere, and in the world as a whole. The labels and the

is to be met.\*

It has been assumed that the introduction of measures already in the regional pipeline - especially in the area of functional cooperation, for example, relating to the environment and the Assembly of Parliamentarians - and not mentioned here, will continue.

### SUMMARY

The measures recommended for the CARICOM Single Market and Economy differ from those identified for what has been called a genuine Single Market and Economy as follows:

- (a) except for mandatory standards, standards are not necessarily all being recommended for harmonization;
- (b) phasing is being recommended for the introduction of free movement of services;
- (c) free circulation is not being recommended at this stage;
- (d) the trade policy does not necessarily have to be common;
- (e) a single/common currency is not being recommended for this stage;

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\* The magnitude of what can be involved in a Single Market can be gleaned from a quick Summary listing of the EEC approach as at Appendix II. For that Programme 279 measures were listed for examination, decision-making and implementation.

the full range of issues that are pertinent to the creation of a CARICOM Single Market and Economy, and is intended to be a basis for discussion within the Community, as well as background to Ministerial deliberations on the subject, including, in particular, the Special Ministerial Meeting on the CARICOM Single Market and Economy scheduled for October 22-23, 1991.

It is hoped that out of these public discussions and Ministerial deliberations on the ideal range of requirements for a Single Market set out in the document, we can arrive at a clear sense of what the political traffic will bear. This in turn will help us come to clear and definite policy decisions on what we must do as a Community to advance the construction of a common economic space of our own in CARICOM. The creation of that common economic space is not an academic or idle theoretical pursuit. It represents an urgent practical tool which our people need in order to better draw on their own regional environment and on the environment of the wider world to improve their economic and social well being.

***Roderick Rainford***  
***SECRETARY-GENERAL***  
***Caribbean Community Secretariat***



- (b) regularize intra-regional trade in goods and services so it becomes what it was intended to be - free trade. The Region is one outlet - in differing degrees of importance - for the exports of Member States and therefore should be as receptive to those exports as it could be;
- (c) promote the organization and development of efficient and effective production systems through facilitation of the most advantageous location of factors of production;
- (d) provide a supportive and facilitating infra-structure for the promotion of competitive production, through for example:
  - (i) a Common External Tariff and trade policies to encourage regional production;
  - (ii) the establishment of standards which facilitate external trade;
  - (iii) policies regulating rights of establishment to ensure that it is possible for production to take place anywhere in the Region on conditions which are no less favourable than those obtaining for national production.
  - (iv) monetary policies which are intended, *inter alia*, to facilitate the free movement of the capital/investible resources so necessary to finance development;
  - (v) coordinated/harmonized fiscal policies without which the burden would fall totally on the monetary instruments thereby making them less effective;

## ***PREFACE***

The Caribbean Community Secretariat in seeking to conceptualise the Single Market and Economy agreed upon by the Tenth Conference of Heads of Government of the Caribbean Community, held in Grand Anse, Grenada in July 1989, commissioned a study to examine the concept, objectives and structure of a Single Market and Economy as they would apply to the Caribbean Community.

This study was the subject of a discussion at a High Level Meeting of Regional Officials and Experts convened in April 1991 and was accordingly revised to reflect the views and recommendations of the participants.

This document is aimed at technical personnel of the region and those with an interest in following the more detailed arguments underpinning the proposals for the CARICOM Single Market and Economy.

***Desiree Field-Ridley***

It should be emphasized that without these policy changes the Single Market and Economy would function no better than the present arrangements - on paper. Without them 1994 would certainly not see the Single Market and Economy as envisaged.



## CHAPTER IV

### INSTITUTIONAL ARRANGEMENTS

The deepening of the integration process carries with it the understanding, by Member States of the necessity of having to change some part of their traditional individual spheres of control to collective spheres of control. As more areas of economic activity are integrated, harmonized approximated or coordinated, so does the necessity arise for central executing, administering and monitoring. As Member States function more at the community level, there is increased decision-making at the Community level and therefore increased exercising of authority at the Community level.

The experience of the Caribbean Community and Common Market has highlighted the need for institutional arrangements which are geared towards strengthening both the management and decision-making aspects of Community arrangements. The view has been widely expressed that the implementation of decisions taken and obligations agreed upon has been so poor as to put into question the credibility of the Community. There are reasons for this poor performance including:

- (a) lack at capacity (usually shortage of manpower) at the national level to take the follow-up action necessary especially if it requires legislation;
- (b) second thoughts about the decision taken often because of inadequate preparation at the level of the Member State and/or of the Community;

- (c) insufficient follow-up activity at the level of the Member State and/or the Community.

If at this stage of the integration process there are deficiencies, it is not unexpected that it becomes more critical that they be addressed as Community deepens the integration process to a Single Market and Economy. The integration areas would have increased to cover:

- (a) services;
- (b) the movement of persons;
- (c) the movement of capital;
- (d) consideration of fiscal measures;
- (e) coordination even harmonization of monetary policies;
- (f) coordination of economic policies.

Thus the areas of responsibility for the Community would have increased accordingly. At this stage, the difference between the Single Market and Single Economy does not make much difference to the institutional requirements since considerable strengthening is already necessary now. In any event the difference between the Single Economy and Single Market would lie more in new details of the technical areas - economic, monetary and fiscal - already identified for the Single Market. Any new institutional arrangements necessary for the Single Economy and not likely to be of the administrative nature being considered here but would relate more to technical institutions.

The proper functioning of the union at the deeper stages of integration requires a central bureaucracy which is responsible for and capable of carrying out tasks essential for the development of the integration process itself. These tasks would include the taking of initiatives to promote and facilitate both the making and the execution of decisions which Member States consider to be to their mutual benefit. The idea of mutually beneficial inter-dependence means that the integration process would be carried only to the level and extent that circumstances suggest. Member States might then consider their contribution - commitment, sacrifice and obligations - in terms of the benefits they expected to derive from it.

The Single Market and Economy are intended to promote increasing levels of development through increasing levels of production and trade. These are expected to facilitate higher levels of employment and standards of living. The institutional arrangements consistent with the achievements of these objective and necessary for the effective functioning of the Single Market and economy would need to have the following characteristics relating to:

1. *Management*

A central bureaucracy which apart from being responsible for the administrative matters such as servicing meetings, is also responsible for promoting and facilitating decision-making and implementation, and ensuring that the Treaty provisions are complied with for carrying out the functions essential for the development of the integration process.

Article 16 of the Treaty spells out the functions of the CARICOM Secretariat which Article 15 defines as the principal administrative organ of the Community. Apart from providing services for Meetings and Member States as requested and being engaged with the matter



of carrying out studies, the Secretariat is authorized to take appropriate follow-up action on decisions and any other activities which may be assigned to it.

With the process of moving towards a Single Market, the role assigned to the Secretariat becomes even more important since there would be the need, especially during the transitional period, for the Secretariat or some other central bureaucracy to have the authority and the resources necessary to enable it to take action in some areas of Community business. If not, all matters would have to be referred to the Council or to the Conference for a decision.

It would be necessary to seek to widen the interpretation of the provision "to take appropriate follow-up action on decisions made at Meetings" to ensure that decisions are implemented at whatever level - Community or Member State. Or alternatively, to seek to give some 'teeth' to the functions of the Secretariat by including specific provisions to support such an intention".

Within the context of ensuring a viable Community and an effective Treaty, there also seems to be the need for a provision which requires the Secretariat to initiate proposals specifically for achieving the objectives of the Community/Treaty.

The 1990 Mills Report on Review of Regional Programmes and Organizations of the Caribbean Community, which was mandated by the Eighth Meeting of the Conference of Heads of Government, observed, albeit in a different context, (staffing of the Secretariat) that:

"It is evident that a greater enhanced role for the Institutions, and particularly for the Secretariat, is needed if the Community is to meet the new challenges that are already emerging within, and beyond, its borders."

It continues that the Secretariat must be empowered, *inter alia*, to initiate appropriate Community measures in addition to the Secretary-General and the Secretariat being granted specific power to ensure that the provisions of the Treaty, as well as the measures proposed by the Institutions pursuant thereto are effectively applied.

It might, of course, be possible to strengthen or add to the additional functions by activating the last function in Article 16 which requires the Secretariat "to undertake any other duties which may be assigned to it by the Conference...".

## 2. THE DECISION-MAKING PROCESS

This should be governed by the principle of:

- (a) collective decision-making by Member States.

There are different levels of decision-making. As the process to deepen integration progresses, the area requiring decisions become more numerous. Efficiency then demands that the issues be streamlined and particularly those of administrative or operational nature be dealt with at a level which leaves the Council and the Conference free to grapple with those decisions dealing with policy and with new areas of endeavour. This could mean some decision-making functions at the level of the central body or bodies. Guidelines

would, of course, be set, clearly indicating the areas to be so treated. This will be influenced by the composition and the rules governing the functioning of that body.

The discussion of the EEC institutions at Appendix I could be helpful in suggesting some of the issues to be taken into consideration. The Treaty setting up the EEC gave the EEC Commission the authority to have its own power of decision-making (in a manner provided for in the Treaty). It also set out the rules governing functioning and composition of the Commission. In the preparation for the completion of the European Single Market, the EEC increased the powers of the Commission to include executive powers almost as a general rule. The Commission can issue decisions and regulations implementing Treaty provisions or Council decisions which are legally binding on the Member States or the individuals. It administers Community funds.

It is possible to safeguard the interests of Member States even while the decision-making does not emanate directly from the Member States themselves but rather from a body, since the members of that body are selected by them, and are representative of their individual and collective interests.

Alternatively this expansion in the decision-making process could be catered for by the Council of Ministers meeting in continuous session through the designation of a Ministerial sub-committee with the authority to take decisions. This Ministerial Sub-Committee could be differently constituted for the different issues under consideration and would be supported by technical officials. Both of these processes would satisfy the second principle guiding the decision-making process. That is:



- (b) participation of Member States in the decision-making process at all levels.

The precise matters to be so treated would be a matter for further examination and should be submitted for consideration of Conference based on a study of the issues involved.

### 3. *Voting for Decision-making*

To be efficient and effective, decision-making needs to be as smooth as possible without depriving Member States of their rights to object on issues which they feel would be to their disadvantage. Clearly some issues are more important and for reaching than others. For these, decisions should be unanimous. For others, which some Member States would not wish to positively support but which they could "live with" or for decisions which do not involve or impact on all Member States to the same extent, then a majority vote should be sufficient.

Experience has shown that the absence of speedy decision-making has, to some extent, hampered the development of the integration process. That the unanimity rule is not relevant for every issue, as the Treaty recognizes in its acceptance of the majority vote for some decisions. This acceptance could usefully be extended to other areas of decision-making.

Traditionally, CARICOM decisions are arrived at by consensus rather than by voting. There have, however, been some critical issues which have led some decision makers to observe that the requirement for unanimity could have the distinct disadvantage of hindering the deepening of the integration process. The Study on Decision-making, commissioned

by the Secretary-General at the request of the Fifth Meeting of the Conference of Heads of Government of CARICOM, in 1984 concluded, *inter alia*, that:

- (i) the requirement of unanimity for arriving at the determinations of the inter-governmental organizations is the logical extension of the principle of sovereign equality of States;
- (ii) the requirement of unanimity was applied across the board without any attempt to discriminate among issues or to establish a meaningful correlation between applicable voting procedures and the quality of obligations issuing from various determinations. Except for determinations relating to the operational issues of the Common Market, the rule was applied both to legally binding decisions and to merely exhortory resolutions;
- (iii) the founding fathers of CARICOM proceeded on the assumption that the unanimity rule would operate as a catalyst for taking important decisions by consensus.

Even while acknowledging:

- (i) that the voting procedure cannot be said to be the main cause for any inordinate delay in the decision-making;
- (ii) that even the decision to agree to place greater reliance on majority voting would itself seek to ensure that the interests of the Member States are protected and that there could, therefore, be some difficulty in identifying the additional areas eligible for majority voting and;

- (iii) that the recommendation for introducing some amount of automaticity in the implementation process might result in increased caution in decision-making and therefore slow-up the process.

Greater reliance on majority voting is being recommended.

No decision was taken on that Study on Decision-making which was presented for the consideration of Conference at its Sixth Meeting in 1985. In the context of the new thrust towards deeper integration and the need for an increase in the momentum with which decisions are generally made, the issue should once again be examined and presented for decision.

One of the major decisions taken by the EEC in its move towards the Single Market has been to modify the voting provision to provide for greater flexibility and effectiveness. The Single European Act (SEA) provides for qualified majority voting in internal matters. This mechanism is being used for most of the 1992 decisions.

#### 4. *Implementation*

Critical for ensuring credibility in the integration process, is the way the decisions taken are implemented, both the legal process and provision for the settlement of disputes and for the imposition of sanctions.

A serious shortcoming in the integration arrangements has been the length of time taken to implement decisions and Treaty provisions, the fact that this delay can be engaged in



with impunity and the fact that disputes seldom go through the channels (for example, Article 19 of the Treaty and Article 11 of the Annex) that they are supposed to. This has been the concern especially of the Member States offended and of the Secretariat, for a long time.

There are various reasons given for this state of affairs, for example, shortage of staff particularly in the various legal divisions, the exigencies of the circumstances allowing insufficient time for the defaulting Member State to notify the Council/Conference or a disinclination to do so.

Article 31 of the Treaty provides the saving clause which states:

"Where necessary, Member States undertake to take steps as expeditiously as possible to give full effect in law to all decisions of the Organs and Institutions of the Community which are binding on them."

So, many decisions are taken and agreements signed without the requisite enabling domestic legislation being put in place until a long time after. The priority rating for Community matters seems to be not very high. Some greater degree of automaticity - umbrella regional legislation at the national level - which then makes it possible for draft pieces of legislation to be more easily adopted by Member States and some central legal body seem necessary.

The study on Decision-making had also concluded that the perceived ineffectiveness of the decision-making process of CARICOM was also attributed to the absence of credible mechanisms of the relevant Organs and Institutions on a continuing basis, for monitoring

compliance therewith; for definitive and satisfactory disputes settlement and for sanctioning non-compliance.

Since speed and impartiality are necessary, the state of the legal system and its ability to cope are critical. Experience has shown that left to the normal national process, there is always a backlog of legal matters awaiting the attention of the Office of the Attorney-General whether it is for instructions, for drafting, for vetting or for putting through the legislative process. With all the new pieces of legislation - to be added to the backlog already existing - to give effect to the new far-reaching measures and decisions for the Single Market and Economy, some solution to facilitate Member States in the processing of the related legislation for passage through their legislative system has to be found.

Understandably, there has always been a reluctance on the part of Member States to abdicate their responsibility for overseeing every piece of legislation which is to become part of their national system.

Provision, however, needs to be made for expediting this process and ensuring the implementation of decisions taken by, for example:

- (a) strengthening the legal and other offices in the Member States to permit them to cope with Community business on a priority basis, and/or

- (b) redesigning the Community's legislative process in such a way that some of the burden of "processing" for implementation is taken off the shoulders of Member States, thus, leaving them with only having to ensure that the law is transposed into the national legislation. In such a case one is dealing with the concept of Community law which must be part of the national laws of each territory. Community provisions must be an integral part of the national fabric.

Implementation can then assume some degree of automaticity once the decision has been taken. This would mean that certain decisions would immediately become legal and binding without having to go through the current legislative process in the Member States;

- (c) the establishment of a central body to be the custodian of the Community Law and to be the arbiter in disputes involving the Community, Member States and individuals - both legal and natural.

This measure would have the advantage of being an integrating mechanism which would ensure homogeneity in the interpretation and implementation of the law and also possibly being more appealing to Member States for dealing with disputes since this would be a logical institution for doing so. This issue of sanctions would then become less critical and could be dealt with more easily with such an institution.

As the degree of automaticity in the implementation of decisions becomes more apparent, it is expected that the decision would tend to be taken with more preparation, care and deliberateness. As happens in the EEC system, it is possible for different kinds of decisions to be treated differently in its implementation provisions. However, the intention



is to, as far as it is practicable, relieve the national legislative process of the responsibility for the onerous task of legislating for the implementation of decisions on which their Governments have already put their seal of approval. It is expected that such move would require constitutional or legislative changes at the national levels. The precise nature of the changes would be informed by technical studies.

This aspect of the Community business requires urgent examination especially in the context in which there is sure to be an increasing need to give effect to decisions taken on the CARICOM Single Market and Economy.

The discussion of the EEC provisions at Appendix I could suggest possible solutions.

## 5. *Preparation for Decision-Making and Implementation*

Preparation for decision making is done at two places:

- (a) the central body which makes the proposals; and
- (b) the Member State which has to discuss and decide on the proposal or make their own proposals.

The quality of the decision and the speed at which it is made and implemented are therefore largely dependent on the capacity and capability of each to perform competently. At the level of the Member State, this would be greatly facilitated by the designation of a specific Agency or Ministry to deal with integration matters. This Agency/Ministry would be responsible for

coordinating the preparation for both decision making and for implementation.

The designation of a CARICOM Agency/Ministry will require, in most cases, a reorganization at the national level. It would certainly demonstrate the Member States' commitment to the integration process.

At the regional level, the need for increased resources - financial and human - to cover the increased responsibilities and expenses resulting from the process of establishing the Single Market and Economy must be provided for.

## CHAPTER V

### WHERE IS THE COMMUNITY/COMMON MARKET?

In 1989 the Conference of Heads of Government in its *Grand Anse Declaration* made a signal contribution to the integration process with the bringing together of a number of unimplemented decisions and Treaty Provisions which were felt to be essential to the functioning of the Caribbean Common Market. In addition, other measures were identified as necessary for the achievement of a Single Market and Economy. Almost half of the measures under consideration are Treaty provisions (over 17 years old) not, or not properly, implemented. The others are for the most part new mandates based on the recognition **"that people rather than institutions are the creators and producers of development"**.

The 1989 Grand Anse Declaration sought to set out a timetable for implementing outstanding Conference decisions and Treaty provisions. These decisions and provisions are an integral part of the proposed CARICOM Single Market and Economy. As such, their implementation must be viewed as part of the implementation process for the introduction of the package of measures necessary for the Single Market and Economy.

However, to date some issues are still to be examined and most deadlines have had to be revised.

For example:

- (i) the effective date for the introduction of the revised Common Market Instruments - the CET, the Rules of Origin and the harmonized scheme of fiscal incentives was rescheduled.



- (ii) Indications are that all remaining barriers to trade will not have been removed by July 1991;
- (iii)
  - (a) A Scheme for the movement of capital to be introduced by 1993 has started with the cross-listing and trading of securities on existing stock exchange(s);
  - (b) technical work on the establishment of a regional Equity/Venture Capital Fund has begun with the completion of a feasibility study, proposals which have been submitted for the consideration of Governments;
  - (c) Heads of Government agreed that the target date for the reactivation of the CMCF was no longer feasible and that they would await a further report from Governors of the Central Banks;
  - (d) all Member States which have ratified the CIPS and CER Agreements have not yet enacted the necessary domestic legislation;
- (iv) arrangements for the free movement of skilled and professional personnel and contract workers as well as the elimination of the requirement for passports and work permits for CARICOM nationals have reached no further than proposals from officials under Programme "AFFIRM" Arrangements for Freer Intra-Regional Movement;
- (v)
  - (a) the activation of Article 39 on consultation on economic policies has not really got off the ground;

- (b) greater collective efforts for joint representation in international economic negotiations continues while the sharing of facilities and offices to this end has not yet materialised;
- (vi) there has been continuing action to develop a regional system of air and sea transportation including the pooling of resources by existing air and sea carriers;
- (vii) a Ministerial group has set out the modalities for the establishment of an Assembly of Caribbean Parliamentarians. This has been drafted as a deliberative and consultative body for the discussion of policies, programmes and other matters falling within the scope of the Treaty.

The 1990 Kingston Declaration focussed more on the monetary aspects of the Caribbean Community. July 1990 had been fixed at Grand Anse for the implementing of further arrangements for intensifying consultations and cooperation on monetary financial and exchange rate policies. The 1990 Conference of Heads of Government mandated the institutionalisation of biannual meetings of Finance Ministers and Officials and instructed Central Bank governors to work towards the establishment of a Monetary Union. Insofar as the latter is being given consideration separate from that for the Single Market and Economy, it will not be dealt with in any depth in this discussion.

It is obvious that there has been some slippage. But even apart from decisions not implemented and Treaty provisions - as identified by the Grand Anse Declaration - not activated, there are often Treaty provisions which need to be reviewed, revised, strengthened or deleted.

## TREATY PROVISIONS

The Treaty establishing the Caribbean Community made provision for taking the Region from a free trade area to almost a Common Market. These provisions relate to trade liberalization, a common protective policy, the establishment and operation of economic enterprises, provision of services, movement of capital and persons, coordination of economic and monetary policies and a special regime for the LDCs.

As it is, the Caribbean Community, while being more than trading and economic arrangements with its provisions for functional cooperation and foreign policy coordination, is also less than a Common Market. A Common Market is a factor as well as a product market. It must provide for the free movement of goods (and services) behind a CET on imports from third countries. In addition, it must also provide for the free movement of labour and capital. In the smooth functioning of the Common Market, it is necessary for other support measures, institutional, legal and structural, to be in place to ensure that these provisions are implementable. The playing field has to be level so that all participants have an equal opportunity to benefit from the open and larger market.

For convenience, the Treaty will be examined in terms of the deficiencies of its general and institutional provisions, its economic provision and then its trade provisions, with a view to amendment and/or implementation. Appendix III sets out, in summary form, the action being recommended for each of the Articles identified.



## FOR IMPLEMENTATION

### *General Provisions*

The objectives of the Community and Common Market have already been examined and amendments have been recommended. The three other general provisions which seem to be critical to the effectiveness of not only the proposed Single Market and Economy but also the existing Common Market are those relating to Voting, to the Functions of the Secretariat and to Implementation and to Disputes Procedure. These are also being recommended for amendment in accordance with the discussion in Chapter IV on Institutional Arrangements. \* 4/8

### *Economic Provisions*

There are two other provisions which seriously affect the quality of the Common Market. The Treaty has concentrated on the movement of goods, that is on the trading arrangements. However for the Common Market to be truly common, there must also be movement of capital and persons. The Articles in the Treaty limit this movement and should be amended.

#### **1. Article 37 - Movement of Capital**

This Article should be amended to provide for the free movement of capital (if even with a phased introduction or transitional arrangements) rather than the "regulated" movement. Heads of Government have already agreed on the beginning phase (cross-listing and cross-trading) for the movement of capital.

## **2. Article 38 - Saving in Respect of Movement of Persons**

This Article should be replaced with another one providing for the free movement of persons (again with provisions, if necessary, for phased introduction or transitional arrangement). Heads of Government have already taken a decision for the free movement of certain categories of persons, the elimination of the requirement for work permits on a phased basis, and the elimination of the requirement for passports for intra-regional travel.

There are other Articles in the Common Market Annex to the Treaty which have simply not been applied or adhered to. The following are being recommended for implementation:

### ***General Provisions***

#### **1. Article 6 - Composition**

"Council shall consist of one Minister of Government designated by the Member State."

Arrangements have tended to be informal within the CARICOM system. However, as that system becomes more complex and intense, it might be useful to tidy up procedures if only to ensure continuity and priority treatment for Community mandates. It is therefore recommended that the council Minister or his alternate be actually designated.

## ***Economic Provisions***

### **2. Article 39 - Consultation on Economic Policies**

1. "... Member States shall seek as far as is practicable to -
  - (i) coordinate their economic policies and for this purpose facilitate collaboration between appropriate ministries, administrative departments and agencies...;
2. The Council may make recommendations to Member States on matters relating to those policies and on how best to achieve such coordination and collaboration".

Consultation on economic policies needs to be put on the same footing as that on trade policies and financial policies even though the latter does not always work as effectively as some Member States would wish. As discussed in Chapter III the need for consultation becomes even more necessary in the move to a Single Economy since it provides the underpinning for the coordination/harmonization of the economic and other policies necessary for supporting the production and development strategies of the Region. Paragraphs 1(i) and (2) of Article 39 have been especially slow, even to the extent of being a non-starter in implementation.

### **3. Article 45 - Coordination of National Development Planning**

Paragraph 2 stipulates -



- "2. In order to promote maximum complementarity between industries and economic sectors of Member States, each Member State agreed to consult with other Member States in drawing up its national medium-term operational development plans. Member States shall establish a Committee of Officials in charge of national planning agencies for the purposes of promoting collaboration in development planning."

This Article follows closely on Article 39 - Consultation on Economic Policies which also provided for the coordination of economic policies. The emphasis on production expansion and production integration increases the importance of the need for promoting complementarity and for continuing awareness of each other's development plans. Attempts to activate this Treaty provision even to the extent of convening meetings have proved to be unsuccessful. A directive coming from heads of Government might bestow a greater sense of immediacy on member States.

#### 4. Article 40 - Harmonization of Fiscal Incentives

##### Paragraph 3 -

- "3. Member States agree to study the possibility of approximating income tax systems and rates with respect to companies and individuals."

needs to be examined once again, with a view to amendment. In 1987 tax officials had recommended a two-year grace period for the introduction of harmonized income taxes which were considered necessary for the effective implementation of the CER. The

recommendation was not at that time accepted. This Article recommends the study of the possibility of the approximation of income tax systems and rates. It should at least be possible to introduce approximation. This will be very necessary to facilitate the free movement of persons and capital. As the Community is further integrated into a Single Economy, approximation might not be sufficient and harmonization would be necessary.

## **5. Article 42 - Harmonization of Laws**

Similarly, with CARICOM Enterprises, regional industries as in the Caribbean Industrial Programming Scheme (CIPS) free movement of goods, services, persons, capital in a Single Market and Economy, the harmonization of laws becomes more necessary.

This Article lists 10 areas where provisions imposed by law or administrative practices may affect the operation of the Common Market viz -

- (i) companies;
- (ii) trade marks;
- (iii) patents;
- (iv) designs and copyrights;
- (v) industrial standards;
- (vi) marks of origin;
- (vii) labelling of food and drugs;
- (viii) plant and animal quarantine restrictions;
- (ix) restrictive business practices; and
- (x) dumping and subsidization of exports.

The Region should once again start on the process of harmonizing these provisions. In the CARICOM context of today, those of immediate importance would seem to relate to companies at industrial standards. Work has been done in the Region on trade marks, patents, design and copyrights and industrial standards. Plant and animal quarantine restrictions and labelling of food and drugs would therefore comprise the next areas for attention.

**6. Article 41 - Double Taxation**

Paragraph 1 stipulates that -

"Member States shall approach their negotiations for agreements for the avoidance of double taxation with countries outside the Common Market on the basis of a set of mutually agreed principles."

While the OECS countries are the nearest to carrying out this provision, not enough attention has been paid to its implementation on a region-wide basis. Again, with closer integration, a harmonized approach would be more advantageous.

**7. Article 43 - Monetary Payments and Exchange Rate Policies**

With the Heads of Government mandate (1990) to work towards the establishment of a Monetary Union, this Article will be activated - especially Paragraph 2(b) under which Member States agreed to:



- 2(b) examine ways and means of harmonizing their monetary and exchange rate payment policies in the interest of the smooth functioning of the Common Market".

But even without a Monetary Union, the free movement of capital requires that Member States permit freedom of payments especially on capital accounts. An immediate act of faith could be the reimplementation of Paragraph 3(a) which reads as follows:

- "3. Member States further agree
  - (a) to the policy whereby through arrangements by their Central Banks or Monetary Authorities the notes and coins of other Member States shall be exchanged within their own States at official par value without exchange commission".

## 8. **Article 44 - Ownership and Control of Regional Resources**

With the revision of some of our major instruments, for example, Harmonization of Fiscal Incentives, Rules of Common Market Origin; the introduction of new ones, such as, the CER, and the active implementation of others, for example, extra-regional Double Taxation Agreements and the freer movement of regional capital, it is necessary to once again activate our approach towards a common policy on foreign investment. It is the implementation of this aspect of the provision, more than that of ownership and control, on which the emphasis is being placed.

The undertaking that was given in Paragraph 2 of this Article was that -

- "2. Member States shall keep under review the question of ownership and control of their resources with a view to working towards the adoption as far as possible of a common policy on foreign investment."

Now is perhaps the time to shift the orientation of the Article as implied above.

#### TRADE AND TRADE-RELATED PROVISIONS

A number of measures restrictive to free trade exists under the Annex to the Treaty. There is need either for amendment or deletion. Action is already being taken on some of them. following is a commentary on the relevant articles requiring revision.

#### FOR DELETION

##### 1. Article 13 - Exclusions from this Annex and Schedule 1

This Article is long overdue for deletion of appropriate amendment. In July 1990 the Member States concerned were supposed to be in the process of reviewing their restrictions under this Article with a view to determining whether continued market protection is still warranted. In any event those with specific expiry dates should be deleted since those dates have long passed.

2. **Article 15 - Import Duties**

**Schedule III** - Reserve List applying to the LDCs should be deleted except for paragraph 5 which is still applicable. The expiry date for application for the rest of the Schedule was 1983.

3. **Article 17 - Revenue Duties and Internal Taxation**

**Schedule IV** - Transitional Arrangements for the Removal of the Protective Element in Review Duties by the LDCs, should now, 18 years after the establishment of the Common Market, be deleted.

4. **Article 18 - Prohibition of Export Duties**

**Schedule V** - List of Products on which Member States may maintain Export Duties, and Paragraphs 4 and 5 of Article 18

"4. Notwithstanding Paragraph 1 of this Article, a Member State may for a period not exceeding 5 years from the date of entry into force of this Annex, apply to any commodity listed in Schedule V, export duties not exceeding those applied immediately before that date.

"5. Any Member State that, pursuant to Paragraph 4 of this Article applies export duties to any commodity listed in Schedule V shall notify the Council of such duties . . ."

should be deleted since the period of validity expired in 1978.



**5. Article 28 - Import Restrictions Arising from Balance of Payments Difficulties**

The existence of this Article leaves the way open for member States to use the option of applying imports restrictions even in a situation where intra-regional trade has never tended to be much more than 10 per cent of total trade and therefore has not been a significant contributor to a country's balance of payments difficulties. The deletion of this Article has in a sense already been catered for with the agreement by Member States to return to free trade by July 1991. The position would be made even easier with a return to the CMCF which conserves on the use of foreign exchange and with the expansion of the Region's production base to provide more of the essentials that are now being imported into the Region.

It is acknowledged that the strength of the case for deletion hinges on:

- (i) the low ratio of intra-regional trade to total trade;
- (ii) the possible return to a mechanism which conserves on the use of foreign exchange;
- (iii) the expectation that the expansion of the region's production base would reduce its level of vulnerability to import restrictions.

**6. Article 29 - Difficulties in Particular Industries**

This Article was intended to provide redress by allowing the imposition of restrictions for industries experiencing difficulties as a result of the establishment of the Common Market.

The Common Market has been in existence in its present form for the last 18 years and one is tempted to recommend the deletion of this Article, although there is some hesitation in the light of the move to a Single Market. With the more rigid implementation of free trade, difficulties could arise. Perhaps it should be retained for a specified transitional period.

**7. Article 30 - Restrictive Business Practices**

Paragraph 4 has not been implemented and must be.

"4. Member States undertake to introduce as soon as practicable uniform legislation for the control of restrictive practices by business enterprises, giving particular attention to the practices referred to in Paragraph 1 of this Article."

**8. Article 31 - Establishment of CET**

Needs to be amended to reflect the new arrangements agreed upon in 1990

**9. Article 32 - Operation of the CET**

Needs to be amended to reflect the current Agreement.

**10. Article 36 - Right to Provide Services**

should be amended to -

- (i) delete "*as far as practicable*" in Paragraph 1;
- (ii) include the extending of treatment equal to that of nationals. In other words treatment, as far as practicable, similar to that accorded to intra-regional trade in goods;
- (iii) provide a definition for tradeable services which puts them on at least an equal footing with goods.

**11. Article 48 - Marketing of Agricultural Products**

This Article which seeks to rationalize trade in certain selective agricultural products must be amended as soon as it is possible to reflect a more positive approach to trade in agricultural products and decisions already taken with respect to the marketing in the Agriculture Plan adopted by Member States.

**FOR IMPLEMENTATION (AFTER REVIEW)**

There are other Articles in the Treaty which have either not been implemented or should be actively kept under review so that appropriate amendments could be made as soon as possible,



thereby giving a more positive application to its implementation. Following is a listing of those Articles.

**12. Article 25 - Government Aids**

Paragraph 1(a) and schedule VI [especially (b)] about which there have been some complaints -

- "1. Except as provided in this Annex, a Member State shall not maintain or introduce -
  - (a) the forms of aid to export of goods to any other part of the Common Market of the kinds which are described in Schedule VI to the Annex";

**Schedule VI**

- "(b) the provision by Governments of direct subsidies to exporters"

should be reviewed by Member states with a view to adhering to the provision.

**Paragraph 3**

- "3. This Article shall not apply in respect of Trade with the Common Market in any agricultural products until such time as Member States agree upon a Common Market policy with respect to the production and marketing, including the subsidization of agricultural goods."

should be kept under review with a view to facilitating its removal through the implementation of a Common Market Policy on agriculture production, marketing and subsidies.

The Study, completed in 1990, on the "*Identification of Non-Tariff Barriers to Intra-CARICOM Trade in Primary Agricultural Commodities*" concluded that Governments had not been presented with evidence to convince them that their individual countries will derive net benefits from implementing a totally free trade policy. The Study also recognized the need to develop and implement appropriate financial, technical and institutional support for a regional agricultural plan.

The Study is still under review and on the completion of the review it should be possible to take positive action on both Articles 25 and 26.

Ironically these two Articles are not dependent on agreement on free trade but only on a policy for production, marketing and subsidies. There is already in place in the Caribbean Community Programme for Agricultural Development (CCPAD) which was agreed on in 1989. It however does not deal with a regional policy or subsidies.

## 12. Article 26 - Public Undertakings

### Paragraph 5

- "5. This Article shall not apply in respect of trade within the Common Market in Agricultural products until such time as Member States agree upon a Common Market policy with respect to the production and marketing, including the subsidization, of agricultural products."

This Paragraph needs to be reviewed with a view to ensuring that as for Article 25, positive action is taken on the provision thereby making it possible for those to be for trade in agricultural goods and therefore for the paragraph to be deleted.

#### 14. Article 22 - Treatment of Imports from Third Countries

##### Paragraph 1

- "1. During the transitional period, that is, until 1 August 1981, Member States individual or otherwise undertake to pursue such policies regarding quantitative restrictions on imports from Third Countries as would facilitate the implementation of a common protective policy for the Common Market as soon as practicable after the transitional period - The Council may make recommendations to Member States for this purpose."

To a large extent, the original intention of this provision has been overtaken by events. As far back as 1984 the Demas Study on "*Measures for Structural Adjustment in Member States of the Caribbean Community*" observed and, Heads of Government (in the Nassau Understanding) agreed that while Quantitative Restrictions (QRs) would still be necessary for certain carefully selected goods (sensitive agricultural and industrial products) the principal instrument of protection in the Caribbean Common Market must be the Common External Tariff (CET). Heads of Government at that time stressed the urgency of undertaking the necessary technical work to substitute the common tariff rates for national Qrs. Over the last decade the World Bank/IMF has been insisting that levels of protection must be reduced and certainly, quantitative restrictions must be eliminated. Many of CARICOM Member States have either had Programmes with the IMF or have been trying



hard not to have and therefore have been tending to stay as close to World Bank/IMF trade policy as is possible. The result has been a move away from Qrs - even if not complete elimination. The tariff protection levels are being dealt with under the CET which itself takes account of the reduced use of Qrs for protection.

A common protective policy would therefore need to be, not so much a dependence on regional Qrs upon which agreement across the board has proved impossible, but rather one which is a part of a regional trade policy. One very useful exercise would be to seek to identify would be to seek to identify those products which would require Qrs - for whatever reason. This would have a much better chance of success as a regional rather than a national policy. It would certainly give support to the Member State(s) concerned especially in their negotiations with international organizations.

Paragraph I of Article 33 should therefore be reworded to de-emphasize the suggested roles of QRs and the protective policy and emphasize the role of a regional trade policy, even if it means making the revised paragraph a part of Article 34 - External Trade Policy.

## **15 Article 34 - External Trade Policy**

Formal Arrangements should be put in place for the systematic implementation of Paragraph 2 -

- "2. "Member States undertake to transmit to the Secretariat particulars of any trade or aid agreements entered into after the entry into force of this Annex."

## **CHAPTER VI**

### **SCHEDULING OF ACTIVITIES**

This Paper has, for the most part, only sought to identify those measures which should be implemented with some preliminary discussion to indicate what the issues might be. Some work is already under way for some of them, for others some work had been completed some time ago and this should be dusted off and revisited while for others, study has to be initiated. An attempt has been made during the discussions to identify what is necessary to be done to enable decisions to be taken on the appropriateness of other of the measures.

Areas requiring further indepth examination are indicated below. Those marked with an asterisk signify that some work has already been done -

#### **TRADE AND TRADE RELATED**

- \*1. Free trade.
- \*2. Production and trade in services with a view to the implementation of a free trade regime.
- 3. Free circulation - its appropriateness
  - customs revenue collection and sharing
  - relevancy of appropriate rules of origin.

- \*4. A simple appropriate and genuine Common External Tariff.
- \*5. Simplified customs procedures and documentation and uniform customs laws.
- 6. Rules to ensure fair competition.
- \*7. A common trade policy including joint representation for negotiation and the concept of a common protective policy.
- \*8. Reintroduction of a regional clearing arrangement.
- 9. Elimination of foreign exchange restrictions.
- \*10. Easier access to transportation.

#### **FISCAL**

- 11. Fiscal regime - the degree of consistency and coordination necessary
  - indirect tax regime (approximation/harmonization/VAT)
  - direct tax regime



## **MONETARY**

- \*12. Free movement of capital - a regional capital market
- 13. Degree/areas of monetary policy coordination without a Monetary Union including convertibility of regional currencies.
- 14. Greater integration of commercial banking and other financial markets.

## **Economic**

- 15. Areas for macro-economic policy coordination including budgetary policies.
- \*16. Harmonized/coordinated foreign investment policy.
- \*17. Harmonized laws, for example, company (Article 42 of Treaty), right of establishment including services and business practices.
- \*18. Scheme for development and transfer of appropriate technology.
- 19. Establishment and harmonization of standards.

## **INSTITUTIONAL**

- \*20. Decision-making process amended to provide for speed and effectiveness.
- 21. **Secretariat** with powers sufficiently increased/delegated to allow for the **e f f e c t i v e** execution of increasing functions.
- 22. Provisions for effective implementation procedures and the settlement of disputes including the feasibility of a Court of Justice.

## **OTHER**

- \*23. Free movement of people.
- 24. Scheme for provision of funds and/or technical assistance to sectors and region structurally disadvantaged by the integration process.
- 25. An information strategy..
- 26. **Cost and Benefits of a CARICOM Single Market and Economy.**

## TIMETABLE

The Region has given itself two and one-half years (July 1991-December 1993) to move from a quasi Customs Union Common Market to a Single Market and Economy, that is, to a full-fledged Common Market and Economic Union. Within that period, agreement has to be reached on the content of the programme; the requisite studies have to be commissioned and carried out with the results and recommendations debated and agreed upon; legal provisions drafted, agreed upon and passed through the legislative process; measures implemented.

Since the studies themselves are intended to inform the action that should be taken in certain areas and the conditions necessary for moving from one stage to the next cannot always be accurately forecast nor their timing pre-determined, it is difficult to set out a definitive activity schedule.

Even with a CARICOM Ministry in place (a Ministry responsible exclusively for CARICOM matters), 1994 could still be an ambitious goal. The completion of the exercise would require the total support of Member States in terms of:

- (a) their participation in the relevant meetings convened to enable agreement to be reached on the different measures being proposed;
- (b) their expeditious implementation of decisions taken;
- (c) their financial contributions to the cost involved in achieving the Single Market and Economy objective.



It could be useful in these circumstances, for a representative from the Secretariat Unit overseeing the Single Market project to spend some time discussing with the European Commission their experience with the conceptualising and establishing of the European Single Market.

A preliminary timetable is recommended based on the assumption that the 1994 deadline would be met and that it will be reviewed along the way. That means a crowded timetable even without making provision for earlier slippages in implementation or the fact that the implementation of any one measure often entails the implementation of several other measures in order to obtain the desired objective.

It is proposed that the scheduled activities to be embarked upon be along the following lines:-

*Phase I - August 1991 to February 1992*

- the commissioning and execution of the studies identified as necessary for informing the introduction of the new measures;
- the establishment of an Information Programme;
- the re-examination of existing studies and proposals eg. those relating to decision-making, to the free movement of people and to monetary and economic policies;
- the implementation of outstanding trade liberalisation measures.

### *Phase II - March 1992 to August 1992*

- the review of progress with a view to firming up the time-table for implementation of measures;
- completion of outstanding studies and the consideration of proposals;
- the review and redrafting of the Treaty of Chaguaramas;
- beginning of the implementation of measures to facilitate the free movement of persons.

### *Phase III - September 1992 to December 1992*

- implementation of some new proposals eg. relating to services, the regional capital market, payments arrangements, the tax regime and economic policies;
- the consideration of other outstanding proposals;
- continuation of the implementation begun in Phase II;
- review of progress;

***Phase IV - January 1993 to August 1993***

- amendment of the Treaty;
- negotiation of trade arrangements with other Caribbean and Latin American countries;
- consideration of proposals for the Rules of Origin;
- agreement on the CET;
- ongoing implementation of further measures for the free movement of persons;
- agreement on measures for assisting the disadvantaged regions;
- identification of fiscal policies necessary to be coordinated including the issue of targets for budget deficits;
- agreement on exchange rate policy and on currency convertibility and the abolition of foreign exchange restrictions in general.

***Phase V - September 1993 to January 1994***

- completion of the consideration of outstanding issues eg. first phase of free movement of persons;



- introduction of Rules of Origin, customs documentation and legislation, external trade policy and the CET;
- conclusion of trade arrangements to be negotiated in Lomé IV.

The introduction of some measures will continue after the final introduction of a Single Market and Economy in 1994.

For example work will continue on the freer movement of services and of persons and on establishing a regional capital market.

The review at the end of Phase II will enable some better specificity in the execution of the task. It should also indicate whether the deadlines are in fact achievable. It is proposed that the implementation of related measures be kept together. For example, the free trade measures, the CET, the external trade policy together with the facilitating monetary measures - abolition of foreign exchange restrictions, a clearing facility, could be considered together as a package.

One can view the development of the process towards the Single Market and Economy as a progression of improvements on the existing situation. A fully functioning Customs Union - as would be the result of the grouping of measures suggested above - could be considered as the first milestone.

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## SINGLE EUROPE 1992

The 1957 the Treaty establishing the European Economic Community set as its task the promotion of harmonious development of economic activities, continuous and balanced expansion, increased stability, accelerated raising of the standard of living and closer relations between Member States.

For these purposes the Treaty sets out a time table of activities which included:

- (a) the elimination of customs duties and quantitative restrictions as well as other measures with equivalent effect between Member States;
- (b) the establishment of a common customs tariff and a common commercial policy towards third countries;
- (c) the abolition of obstacles to freedom of movement for persons, services and capital;
- (d) the establishment of a common policy for agriculture;
- (e) the adoption of a common policy for transport;
- (f) the establishment of a system ensuring that competition in this common market is not distorted;



- (g) the application of procedures by which the economic policies of Member States can be coordinated and disequilibria in their balance of payments can be remedied;
- (h) the approximation of the Laws of Member States to the extent required for proper functioning of the common market;
- (i) the creation of common funds to promote social and regional development, e.g., a European Social Fund in order to improve the possibilities of employment for workers and to contribute to the raising of their standard of living;
- (j) the establishment of a European Investment Bank to facilitate the economic expansion of the Community by opening up fresh resources;
- (k) the association of overseas countries and territories with a view to increasing trade and promoting economic and social development.

The following institutions were entrusted with ensuring the achievement of the objectives:

- (a) an Assembly;
- (b) a Council;
- (c) a Commission; and
- (d) a Court of Justice.

The Council and Commission are assisted by an Economic and Social Committee acting in a consultative capacity. Before a Commission Proposal is adopted by the Council, it is sent for the opinion, not only of the European Parliament but also, in most cases, of the Community's

Economic and Social Committee. The Committee consists of representatives of the various categories of economic and social activity, in particular, representatives of producers, farmers, carriers, workers, dealers, small craft industries, professional occupations and representatives of general interest. The members of the Committee are appointed by Council in their personal capacity and are not bound by mandatory institutions.

The Committee includes specialized sections for the principal spheres of activity covered by the Treaty, for example, Agriculture and Transport.

## **MONETARY POLICY**

Thus, the Treaty of Rome had provided for a Customs Union with a common external tariff and had also laid down the principle of freedom of movement for goods, persons, services and capital. The European Communities had established a Common Market and a frame-work for progressively approximating their economic policies.

International events in 1968-69, especially monetary, exposed the need for a common monetary policy. The Community found it difficult to effectively defend its common interest especially in international monetary matters. In addition, attempts to harmonize economic policy at Community level frequently resulted only in general recommendations, without concrete and binding terms of reference. In 1969 Heads of State/Government agreed that a plan should be drawn up with a view to the creation, in stages, of an economic and monetary union within the Community. In 1970 a plan was presented and in 1971 Member States expressed their political will to establish an economic and monetary union.

After another year without meeting the issues head on, the Community in 1972 resumed some active interest in moving towards economic and monetary union and the 'snake' was created. In 1973 the European Monetary Cooperation Fund (EMCF) was set up.

In 1979 the process of monetary integration was relaunched with the creation of the European Monetary Scheme (EMS) and the European Currency Unit (ECU) with the objectives of fostering both internal and external monetary stability. The EMS has served as the focal point for improved monetary policy coordination even though:

- (a) all Member States have not joined and one Member State participates with wider fluctuation margins; and
- (b) large and persistent budget deficits have put a disproportionate burden on monetary policy.

Exchange rate constraints have meant greater exchange rate and price stability and improvement in overall economic performance.

The EMS was established in an effort to minimize the erratic currency fluctuations that had impeded trade and discouraged European firms from undertaking major investment projects. It is based on a system of fixed but adjustable exchange rates, resting on a variety of intervention and credit mechanisms.

The logistical extension of the EMS was expected to be a European Monetary Union encompassing a European Central Bank, a Common Reserve System and a common currency. The achievement of this objective would however require, not only domestic monetary stability and discipline, but



also a convergence of the economic, monetary and fiscal policies of Member States.

## **THE SINGLE MARKET**

But almost 30 years of relative inactivity in the implementation of Treaty provisions, physical, technical, fiscal, administrative and regulatory barriers were still very much visible. By 1985, Europe, certainly the European Commission, felt that the Community had run out of steam.

The Commission's strategy comprised:

- (a) examining all areas where the European approach had to be consolidated;
- (b) examining the links between these different areas; and
- (c) selecting an area which would provide the catalyst for the development of a European policy in other areas.

The Commission's White Paper on Completing the Internal Market set out the timetable for achieving a single market by 1992.

In March 1985 Jacques Delors, President of the European Commission, observed that unifying the European market pre-supposed agreement by Member States on the abolition of barriers of all kinds, harmonization of rules, approximation of legislation and tax structures, strengthening of monetary cooperation and the necessary ancillary measures to encourage European firms to work together.

The Single Europe Act (SEA) came into force 1 July 1987. This Act was influenced by two fundamental considerations. One was the recognition of need to tap the full strength of the potentially vast single market which the twelve Member States of the Community constituted in order to gain a competitive edge over the Community's two main rivals - the USA and Japan. The other was the Community's commitment to work towards a European Union.

The Single Europe Act thus extends beyond the Single Market. The 1992 programme of the European Community comprises five basic components:

- The Internal Market;
- Monetary Policy;
- External Economic Policies;
- Foreign and Security Policy;
- A defence capability.

Measures to complete the internal market are intended to dismantle, eliminate or reduce the barriers which inhibit the free movement of goods, services, people and capital between Member States, for example:

- (a) customs ports and border controls will be removed to eliminate the physical barriers;
- (b) technical barriers will be removed by the "mutual recognition" of product/trading standards and professional qualifications;
- (c) fiscal barriers will be minimized by reforming the indirect tax regime.

The measures are also intended to strengthen the economic and social cohesion of the Community, by for example, reducing regional disparities.

## STRUCTURAL FUND

An important companion measure to the internal market programme was a doubling of the EC structural Funds - primarily to compensate the Community's less prosperous regions for the effects of the intensified competition that would result from the single market.

In 1988, Heads of State/Government agreed to double the resources of the funds in real terms by 1993 - in 1987 they were about ECU 7000 million or 19% of the Community budget. The individual Funds were combined and concentrated their efforts on five shared objectives:

1. promoting the development and structural adjustment of regions whose development is lagging behind;
2. converting regions seriously affected by industrial decline;
3. combating long-term unemployment;
4. facilitating the occupational integration of young people;
5. (a) speeding up the adjustment in agriculture;  
  
(b) promoting the development of rural areas.



The reform of the funds has been enshrined in operational regulations. Subventions take place within a Community Support Framework (CSF) agreed between the Commission and Member States. Member States submit plans for each of the five objectives. The Commission can also propose programmes on its own initiative.

These funds - in the form of both loans and grants - are thus for the financing of infra-structure and projects, professional training, productive investment and productivity improvements in both public and private sectors.

#### **THE SOCIAL CHARTER**

There is also the social dimension to the single market. The Community Charter on Social Rights has as its objective, the enforcement of certain principles with respect to the free circulation of workers, conditions of employment and remuneration, working hours, worker participation, equality of the sexes, and the protection of children and the handicapped.

It is expected that the opening of frontiers would result in increased competition. But it is also expected to increase the ability of Member States to achieve economic gains through greater efficiency and specialization in production and therefore increases in productivity. Increases in investment, output, incomes and employment, without inflation, are expected benefits of the unified market. There would also be increases in consumer choice.

## INSTITUTIONAL ARRANGEMENTS

The institutional arrangements taking the EEC into 1992 are essentially those established under the Treaty of Rome with some amendments under the SEA as necessary to underpin the achievement of a truly unified market.

### THE ASSEMBLY

The European Parliament (into which the Assembly evolved) has a consultative and supervisory role in the Community. It is unlike the national assemblies in that it has only a limited role in the formal legislative process. Its main task is to monitor the work of the Commission and the Council. While it is the Commission which takes the initiatives and the Council which passes most Community legislation, Parliament must be consulted on most Commission proposals before the Council makes its final decision. It plays a part in establishing the draft Community budget, has a final say on adoption or rejection of the draft and monitors the budget's implementation. Parliament can force the Commission to resign by a vote of censure.

The SEA has amended the provisions relating to Parliament to allow for an increase in the influence of the European Parliament on the decision-making process. There are now two distinct procedures for the adoption of a directive - the consultation procedure and the newly introduced cooperation procedure. With the latter, Council cannot just adopt or not adopt a proposal coming back from Parliament as it wishes. It must seek to arrive at a common position - for which a qualified majority vote is possible - and this is then transmitted to Parliament. Parliament thus has another opportunity at trying to persuade Council to its point of view. Council, however, has the final say.

Members of Parliament are elected by direct suffrage through the Community and belong to groups constituted on a European basis. There are no national parties in the European Parliament. There are 518 Members.

## THE COUNCIL

Another institutional change is the more frequent use of majority voting in the Council. Whether the Council can adopt a proposal by a qualified majority or has to reach a unanimous decision, depends in the first instance upon the article of the Treaty which is the basis for the measure. There are, however, certain situations where unanimity must be reached by Council viz:

- (i) to introduce amendments of its own initiative to a proposal;
- (ii) to adopt amendments proposed by the Parliament but not taken up by the Commission;
- (iii) to adopt a measure when the Parliament has rejected the Council common position under the cooperation procedure.

Legislation to complete the internal market usually takes the form of directives or regulations. Whether a directive or a regulation is subject to the cooperation procedure, the consultation procedure or neither depends on its legal basis.

It is intended that in future, unanimity would be required only for decision-making on the main outlines of a policy. When putting that agreement into practical effect, the Council would be able



to take that decision by qualified majority. In addition, qualified majority voting will apply to areas such as completing the internal market (except tax harmonization, the free movement of persons and workers rights), promoting economic and social cohesion, furthering research and technological development and protecting the environment. Proposals for tax approximation applying only to the establishment and functioning of the internal market (and not to fiscal provisions, free movement of persons) or the rights and interests of employed persons coming from the Commission, in cooperation with the European Parliament and after consulting the Economic and Social Committee, can be decided by a qualified majority.

Thus, the right to veto remains in many vital areas. The majority voting system applies to the internal market (and related areas) only and then to not all aspects.

Under the Treaty setting up the European Economic Community (EEC), the Council is required to ensure coordination of the general economic policies of Members and has the power to take decisions in implementing the objectives of the Community Treaties. Proposals adopted become law.

In the Council, Member States are represented by either their Foreign Minister or, for specialist and technical matters, the Minister responsible for the particular subject being dealt with at the particular meeting. Heads of States/Governments meet three times a year as the European Council. In prescribed order, each Member State takes the chair as President for a term of six months. The Council is assisted by a general Secretariat.

The Treaty provides for Council to act following a proposal from the Commission. Council is not entitled to act of its own volition. All the proposals it deals with, emanate from the Commission. Council is supported by a Committee of Permanent Representatives (COREPER) - one from each

Member State supported by other senior officials - in preparing for Council meetings. If COREPER reaches unanimous agreement on any matter, that decision is adopted by Council without further deliberation. Meetings of the Council are summoned by the President on his own initiative or at the request of a member or of the Commission.

For financial matters, Council, in consultation with Parliament, appoints the Court of Auditors - 12 Members, one from each Member State. The operation of the budget is supervised by the Court of Auditors. The Court of Auditors examines whether the Community's revenue has been received and its expenditure increased in a lawful and regular manner and whether the financial management has been sound.

## **THE COMMISSION**

The Commission is unlike any national Civil Service. Its powers are greater than any national bureaucracy supporting its cabinet. It has both an executive and an administrative role.

The Commission sees to the proper functioning and development of the Common Market and:

- (a) ensures that the provisions of the Treaty and the measures pursuant to it taken by the institutions are carried out;
- (b) promotes recommendations or gives opinions on matters dealt with in the Treaty;
- (c) is the initiator of Community policy and exponent of the Community interest in the Council;

- (d) has its own power of decision and takes part in the shaping of measures taken by the Council or by Parliament;
- (e) exercises the powers conferred on it by the Council to ensure effect is given to the rules laid down by Council. For example, with respect to the enforcement of competition rules, the Commission has the power to:
  - (i) collect the information required to determine whether there is an infringement;
  - (ii) impose administrative fines (to be paid to the Commission but not to the victim) for infringement;
  - (iii) grant exemptions;
  - (iv) take interim measures to bring damaging behaviour to an immediate halt.

The Commission can decide on requests from Member States to apply safeguard clauses and can, in exceptional cases, authorize temporary waivers (derogations) from the rules of the Territory. In other cases it operates on a mandate from Council, for example, to negotiate trade agreements with third countries. States which do not respect their obligations can also be taken to the European Court of Justice by the Commission.



The Commission can be removed only by Parliament and an individual Commissioner can be dismissed only by the Court of Justice. The Commission consists of 17 members and must include at least one (and not more than two) nationals of each of the Member States. The Commissioners are chosen on the grounds of their general competence and independence that can be fully guaranteed and are appointed for four years in the first instance. The Members of the Commission must act completely independently in the performance of their duties and in the general interest of the Communities. There is a President and six Vice-Presidents appointed by the Member States. Each Commissioner is given a portfolio of responsibilities but decisions are taken by majority vote.

Each Commissioner has his own cabinet of five officials who act as an intermediary between the Commissioner and the outside world. The Commission has an administrative staff.

The draft Community budget is proposed by the Commission for consideration by Council and then by Parliament. Any amendments proposed by Parliament are considered jointly by the Council and a delegation from Parliament in a conciliation procedure. (The Council must give its reasons whenever it refuses to accept Parliament's proposals.) The final adoption of the budget rests with Parliament.

## **COURT OF JUSTICE**

The Court of Justice ensures that the Law is observed in the interpretation and implementation of the Treaty. It comprises 13 judges assisted by six Advocates-General who are appointed for a term of six years.

The EEC Treaty created its own legal system which became an integral part of the legal system of the Member States and which their courts are bound to apply. The provisions which derive from the Community and the terms and spirit of the Treaty are integrated into the Laws of each Member State making it impossible for the States to accord precedence to unilateral measures contrary to those enshrined in the legal system accepted by them. The transfer by the States from their domestic legal system to the Community legal system, of the rights and obligations arising under the Treaty carries with it a permanent limitation of their sovereign rights. The Court reasons that Community Law within the sphere of competence of the Community is superior to Member States Law. Where matters relating to either the Treaty or the Community are brought before national courts, the latter must refer the issue for a preliminary hearing of the European Court of Justice. The ruling made is remitted back to the national court and it is the latter which hands down the final decision. This procedure ensures a binding effect and enforcement value on Member States.

Action can also be started directly before the Court by a Member State, a Community Institution, for example, the Council or the Commission or a natural or legal person. The Court can annul any measures taken by the Commission, the Council of Ministers or national governments which are incompatible with the Treaty. Where the Court is invited to give its opinion on agreements which the Community envisages concluding with third countries, that opinion is then binding. Through its judgements and interpretations, the Court of justice constitutes to the emergence of European law applicable to all - Community institutions, Member States, national courts and individuals.

Community law forms a special autonomous legal system independent of the legal system of Member States and endowed with its own institution on which its own sovereign rights have been enforced. In order to take effect, Community law does not need to be incorporated with national

law. Even in the Member States, it is applicable in its capacity as Community law. Where the rule is sufficiently clear and precise, it is not subject to any substantive condition and does not require for its effectiveness any further Community or national measures, which are within the discretion of the Community Institutions or of the Member States.

Community law creates rights and obligations not only for the Community Institutions and the Member States, but also for the latter's citizens. Individuals are therefore governed by two legal systems - national law and community law. In addition to his status as a citizen of a Member State, the individual thus acquires the status of a citizen of the European Community.

The Community passes laws by way of regulations, directives and decisions. A recommendation has no binding effect - it is not a law. A regulation is a law which has general application throughout the Community and is binding in its entirety and directly applicable in all Member States. After official publication, this measure is self-executing in the legal order and needs no national executing order for it to come into effect. Both the Council and the Commission can adopt regulations.

A directive is addressed to one or more Member States. It is an EEC law binding on the Member States as to the result to be achieved but the choice of method is their own. Each directive sets out provisions which the Member State is bound to incorporate into its legal order. National implementing legislation is necessary in most cases. Directives are officially published and take effect upon notification to the State(s) to which it is addressed. The date for implementation of the provisions of the directive into national law is always stated.



A decision is binding in its entirety on those to whom it is addressed. No national implementing legislation is required for them to take effect. The Council or the Commission may address a decision to a Member State.

Under Article 177 of the Treaty, the Court of Justice has the jurisdiction to give preliminary rulings concerning:

- (a) the interpretation of the Treaty;
- (b) the validity and interpretation of measures taken by the institutions of the Community;
- (c) the interpretation of the statutes of bodies set up by a formal measure of the Council, where those statutes so provide.

The SEA now makes provision for a Court of First Instance (CFI). This was established in 1988 with its 12 members appointed in 1989 - the President and 6 members for six years and the other 6 members for three years. CFI is designed to ease the Court of Justice's case load especially those requiring close examination of complex facts. Initially these will relate to disputes between the European Communities and their employees, and in completion of cases. Appeal from CFI decisions on points of law must be made to the Court of Justice within two months after notification of a decision.

## **ECONOMIC AND MONETARY UNION**

The realization of the Economic and Monetary Union (EMU) - a state beyond the Single Market - requires a second revision of the Treaty of Rome. The first stage towards its achievement began in July 1990 with the total liberalization of capital movements (with some derogations until 1992). This stage is considered as providing the opportunity for ensuring convergence of the economic indicators of the Member States, for improving cohesion and encouraging the use of the European Currency Unit (ECU).

With the entry of the United Kingdom into the Exchange Rate Mechanism (ERM) in October 1990, the European Council fixed January 1, 1994, as the start of Phase 2. The United Kingdom was not at that time able to agree to that date.

In the meanwhile, a draft Statute and draft Treaty with provision for the transfer of national powers in the areas of fiscal, monetary and exchange rate policy, have been presented for consideration.

Consideration still has to be given to the establishment of an independent central bank system and the introduction of fixed exchange rates or a common currency.

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## THE EEC PROGRAMME FOR ITS SINGLE MARKET

(Summary)

The programme of measures required for completing the internal market includes those relating, *inter alia*, to:

- removal of physical, technical and fiscal barriers to trade
- elimination of statistical formalities at internal borders
- single customs administrative document to replace the individual national documentation
- harmonized system for designation and classification of goods
- common or mutually recognized standards and rules in the fields of mechanical engineering, electrical engineering, metrology, etc., (safety of machines, etc.), in the motor vehicle sector, or tractors and agricultural machinery; for veterinary medicinal products, fertilizers and for other pharmaceutical products; relating to individual protective devices; or food stuff
- measures relating to animal health, public health and plant health
- liberalization of public works and supply contracts and also public service contracts



- conditions of fair competition
- abolition of checks at internal borders and imposition of tighter controls at external borders.
- harmonization of VAT rates and structure
- harmonization, approximation or gradual abolition or reduction of excise duties
- establishment of a clearing-house mechanism

2. Free movement of workers and members of the professions:

- amendment to existing directives for several, professional categories;
- mutual recognition of diplomas, certificates, etc.;
- facilitation of access to the professions

3. Free movement of capital and services:

- directives for mortgage credit, equity capital, reorganization and winding up, treatment of branches of foreign banks; for coordination of laws, regulations and administrative provisions for credit institutions; on non-life insurance, insurance contracts, legal protection, credit insurance, winding up and annual accounts, motor vehicle insurance and freedom to promote life assurance services, harmonization of

solvency ratios

- harmonization of indirect taxes on securities transactions
- directives on investment advisers and insider trading
- code of conduct for new means of payment
- strengthening of European Monetary System
- harmonization of basic rules relating to banking legislation and supervisory standards
- establishment of a common financial area.

#### 4. Industrial Co-operation

Proposals relating to: company law, company taxation, takeover bids and winding up of companies, copyright, legal protection for bio-technological inventions and computer programmes

- common system for taxation of mergers, divisions, distribution of assets, parent companies and subsidiaries
- arbitration procedure to eliminate double taxation
- harmonization of rules relating to the environment

- common approach to Research and Development
  - formation and expansion of and support to small business.
5. Greater economic and social cohesion.
  6. A European research and technology policy.
  7. A new Agricultural policy.
  8. Efficient budgetary discipline.
  9. Air transport and a basic transport and telecommunications infrastructure.
  10. Financial Engineering.

Providing guidelines for

- adaptation and reinforcement of existing lending instruments, for example, EIB
- development of equity capital mechanism (including venture capital)
- services related to the transnational activities of small businesses
- repayable aid schemes

- loan guarantees.

11. A general survey of the consequences of the internal market for the Community's commercial policy.
12. A more detailed assessment of the impact of all new proposals for Community legislation on competitiveness and employment.

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TREATY PROVISIONS REQUIRING DELETION  
AMENDMENT, OR IMPLEMENTATION

ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
Caribbean Community			
Preamble		To reflect commitment to the integration process	
Preamble to Annex			
<b>Article 4</b>			
Objectives of the Community		To reflect the objectives cited in Chapter II including provisions for increased competitiveness	
<b>Article 3 (Annex)</b>			
Objectives of the Common Market			
<b>Article 9</b>			
Voting in the Conference		To provide for other than unanimous voting	
<b>Article 5</b>			
General undertaking as to Implementation		To reflect new institutional arrangements for implementation.	
<b>Article 4 (Annex)</b>			
General undertaking as to Implementation			

ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
<p><b>Article 15</b> The Community Secretariat</p> <p><b>Article 9 (Annex)</b> The Common Market Secretariat</p> <p><b>Article 16</b> Functions of the Secretariat</p> <p><b>Article 10 (Annex)</b> Functions of the Secretariat</p> <p><b>Article 11</b> Composition of Institutions</p> <p><b>Article 6 (Annex)</b> Composition</p>		<p>To provide for a central body with the capacity to support the implementation process as discussed in Chapter III.</p>	<p>Formal designation</p>

ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
<b><u>The Caribbean Common Market</u></b>			
<b>Article 11</b> Disputes Procedure		To reflect decisions on implementation and on the impositions of sanctions (discussed in Chapter III)	
<b>Article 12</b> Reference to Tribunal			
<b>Article 13</b> Exclusions from this Annex Schedule I	As appropriate	As appropriate	
<b>Article 14</b> Common Market Origin Schedule II		As appropriate	
<b>Article 15</b> Import Duties Schedule III	Schedule III - Reserve List applying to LDCs - except Paragraph 5		



ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
<b>Article 17</b>  Revenue Duties and Internal Taxation Schedule IV	Schedule IV - Transitional arrangements		
<b>Article 18</b>  Prohibition of Export Duties Schedule V	Paras 4 and 5 Schedule V - List of products		
<b>Article 25</b>  Government Aids Schedule VI	Para 3 to be kept under review for deletion		Para I(a) Schedule VI(b) kept under review
<b>Article 26</b>  Public Undertakings	Para 5 to be kept under review for deletion		
<b>Article 27</b>  Cooperation in Customs Administration		To reflect other Treaty provisions	

ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
<b>Article 28</b>  Import Restrictions Arising from Balance of Payments Difficulties	\\		
<b>Article 29</b>  Difficulties in Particular Industries	After a speci- fied transi- tional five- year period	To reflect Single Market instead of Common Market	
<b>Article 30</b>  Restrictive Business Practices			Para 4
<b>Article 31</b>  Establishment of CET		As appropriate. Delete paras a, b, c	
<b>Article 32</b>  Operation of CET		As appropriate	

ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
<b>Article 33</b>  Treatment of Imports from Third Countries		Para 1 amended to de- emphasise the role of quantitative restrictions	
<b>Article 34</b>  External Trade Policy		To reflect amendments to Article 33 and to include provisions for the formulation of a common position on external trade policy	Para 2
<b>Article 35</b>  Establishment			\ /
<b>Article 36</b>  Right to Provide Services		Delete "as far as prac- ticable". Provide for treatment equal to that of nationals. Define tradeable services no less favourable than goods	

ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
<b>Article 37</b>  Movement of Capital		To provide for free movement (even if on a phased basis) and abolition of foreign exchange controls	
<b>Article 38</b>  Saving in Respect of Movement of Pensions		To provide for free movement (even if on a phased basis)	
<b>Article 39</b>  Consultation on Economic Policies			Especially paras 1 (i) and (ii)
<b>Article 40</b>  Harmonization of Fiscal Incentives		Para 3 to mean Member States shall seek to harmonize their income tax systems and rates	
<b>Article 41</b>  Double Taxation Agreement			\/



ARTICLE	DELETION	AMENDMENT	IMPLEMENTATION
<b>Article 42</b>  Harmonization of Laws			\/
<b>Article 43</b>  Monetary Payments and Exchange Rate Policies		To explicitly provide for free convertibility of the currencies of Member States	Especially paras 2(b), 3(a), (b)
<b>Article 44</b>  Ownership and Control of Regional Resources			Common policy on foreign investment
<b>Article 45</b>  Coordination of National Development Planning			\/
<b>Article 48</b>  Marketing of Agricultural Products Schedules vii, viii		To reflect the move away from controlling the trade in certain selected products.	

Note:

The Treaty would need to be further amended to include provisions for:

1. The establishment of regional standards.
2. Harmonization/approximation of indirect taxes.
3. Harmonization/approximation/coordination of specific aspects of fiscal policy, e.g., budget deficits, use of value added taxes.
- \*4. Access to funds and/or technical assistance for regions or sectors adversely affected by measures introduced for the achievement of the Single Market and Economy.
- \*\*5. Financing of the operations of the Secretariat

NOTE: \* Provision can be made elsewhere.

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## APPENDIX IV

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