

# THE AGRICULTURAL MARKETING PROTOCOL OF CARIFTA AND THE ECONOMIC INTEGRATION OF AGRICULTURE

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## INTRODUCTION

The Agricultural Marketing Protocol of CARIFTA is now being implemented. Although we have not as yet had time to see the Agreement in operation, this should not prevent continuing discussion on the issue of agricultural integration and on policies to promote it.

On the whole it is safe to say that inadequate attention has been given to the problem of integrating the Region's agriculture. More particularly, continuing consideration of the issue is necessary because of the difficulties which are being met in implementing the agricultural agreement.

The expectation that most of the gains are likely to result from integration of the industrial sector is partly responsible for the inadequate attention paid to agriculture. In fact in popular discussion, economic integration is thought of almost wholly in terms of the industrial sector. But while it is generally accepted that the potential gains from agriculture are smaller, it is possible that the advantages of integrating agriculture have to some extent been underestimated. Even if this is not the case, the special difficulties which are usually involved in agricultural integration would seem to justify the need for more studies and discussions on the issue than have so far been undertaken. Very valuable contributions on this subject have been made by Brewster and Thomas<sup>1</sup> and by Beckford and Guscott;<sup>2</sup> but I think these workers themselves would agree that the scope for work on this problem is far from exhausted.

It should be noted also that both of the above-mentioned studies were undertaken before the agricultural arrangements were agreed upon and the Protocol conforms closely to neither of the approaches recommended by these workers. Hence some examination is due of the features of the Agreement.

## THE MAIN PROVISIONS OF THE PROTOCOL

The Protocol attempts to regulate intra-regional trade in just over twenty agricultural products. They are mostly vegetables. Of livestock products, pork and pork products, poultry meat and eggs are included and of fruits, fresh oranges and pineapples. The spices — blackpepper, cloves and cinnamon — are also included.

<sup>1</sup> Brewster, H. and Thomas, C.Y., *The Dynamics of West Indian Economic Integration*, I.S.E.R., U.W.I., Jamaica, 1967.

<sup>2</sup> Beckford, G.L. and Guscott, M.H., *Intra-Caribbean Agricultural Trade*, I.S.E.R., U.W.I., Jamaica, 1967.

For these products imports by member countries from extra-regional sources will only be permitted when supplies are not available from other member countries. For an initial period of three years, however, member countries would not have to obtain permission to import up to 30 per cent in each year of the quantity of a commodity imported from extra-regional sources in 1966.

In the intra-regional trade the Caribbean Regional Secretariat "will allocate markets for each commodity among member countries proportionately :

- (a) as regards importing Member Territories, to their respective import requirements, and
- (b) as regards exporting Member Territories to the availability for export to the Area from them respectively of the commodity in question".

Market allocation will be based on estimates of import requirements and export availability which will be supplied regularly to the Secretariat by member countries.

Prices (f.o.b.) for the listed commodities in intra-regional trade are to be fixed annually for the whole of an ensuing year on the recommendation of a Conference convened for the purpose.

The Protocol also establishes control over the export of listed commodities by member countries to countries outside the Area. Exporting countries have an obligation to satisfy the demands of the Area before those of third countries. It provides, however, for the modification of this obligation in allowing that the interest of members in maintaining and encouraging earnings from markets outside the Area will be taken into account.

## Choice of Products and Level of Integration Encouraged

Broadly speaking the products included in the list exhibit the following features :

- (1) They are products which are produced in the Region and which seem to offer scope for production expansion;
- (2) They are products of which some countries in the Region have export capacity—actual or potential — and others are importers. There is therefore either scope for the initiation of regional trade or the expansion of existing regional trade;

- (3) In the majority of cases they are products of which there are large imports from extra-regional sources.

It could be seen that these features do provide good scope for the expansion of intra-regional trade.

The Agreement does provide some scope for the integration of the Region's agriculture. Preference is given to regional producers in supplying regional import requirements. This would encourage some specialisation on the part of member countries which are already, by their export capacity, showing signs of advantageous positions in particular lines of production. But this scope for specialisation is limited not only by the fact that import substitution on a regional basis will take second place to national import substitution but also because a large part of the Region's agricultural trade is excluded from the Agreement.

In connection with the former it should be noted that member countries can still by subsidies or other forms of assistance encourage any line of agricultural production and, although preference is to be given to member countries in imports, any member country can, by its decision to restrict the levels of such imports, give further assistance to local producers.

In connection with the large proportion of agricultural trade excluded from the Agreement it should be stated that this point loses some strength because the products included are the ones which offer good scope for the expansion of regional trade. Hence too much emphasis cannot be placed on figures of the proportion of trade excluded.

Before leaving this matter of the area of agricultural trade covered by the Agreement and the extent to which it will encourage integration of agriculture, it is necessary to point out that where close substitutes of the products included in the Agreement are excluded, this will result in a further restriction in the scope for import substitution on a regional basis for the included products concerned. This brings to mind the exclusion of certain types of peas and beans, vegetables such as lettuce which are to some extent substitutes for included vegetables, and the canned forms of fresh products included or canned products which are close substitutes for included products. Examples of the canned products referred to above are canned carrots and whole tomatoes, and canned peas and beans other than pigeon peas.

The effectiveness of the Agreement in relation to the included products concerned would require either the inclusion of these substitutes or, where they are not produced in the Area, some form of restriction of their imports from third countries. This would be especially necessary in member countries where tariffs or other forms of restriction are presently low or non-existent as is the case in most of the countries since the products concerned are food products.

It should be noted in passing that in terms of conventional trade theory, the Agreement restricts the scope for trade creation but encourages trade diversion. Since the former usually results in gains and the latter losses, the Agreement does not show up favourably in the light of such theory. However, the limitations of the theory in providing guidance for the trade policy of developing countries because of the assumption of full employment and because of inadequate emphasis on dynamic considerations, are well recognised.

It has been stated that the scope for a high level of regional economic integration in agriculture is to some extent restricted by the nature of the Agreement. No doubt one of the important reasons for the regulation of regional agricultural trade in this way, is the fear on the part of member countries of the political consequences that might follow from a complete or a rapid removal of restrictions in this trade. This is always a problem of agriculture in integration movements, because of the large number of producers in each country and it usually results in the adoption of very gradual methods in the removal of trade restrictions.

However, it is doubtful that in the case of the Commonwealth Caribbean, agricultural integration policies need to be very conservative for political reasons. Food production, which is the area that would be covered in the integration movement, is a small part of total agricultural production in nearly all the countries and a large part of this is not undertaken in specialised commercial food farms. Only a very small number of farmers is therefore likely to be adversely affected by more liberal policies in intra-regional trade. This adverse effect on farmers would of course only take place in some member countries. In others with lower production costs in a number of food products, farmers producing these crops are likely to be favourably affected.

Even where the effect on farmers tends to be adverse the political consequences may be neutralised by the favourable effect that freer trade in food products is likely to have on the cost of living. This is especially likely in these days when steeply rising prices have made people very sensitive about price levels.

### Pricing Policy

The policy of fixing prices for commodities traded under the Agreement is likely to pose a number of problems. First of all, the fixing of prices which would operate for a whole year seems an unsuitable arrangement for many of the listed commodities. Inadequate attention seems to have been paid to the simple fact of the relationship between price and quantities demanded and the role of prices in disposing of quantities available especially in the short period in the case of perishable commodities.

Fluctuating prices are a feature of the trade in vegetables. The reasons are, of course, frequent variations in demand due to the existence of close substitutes and in supply due to the seasonality of production, inadequate production controls and perishability. The maintenance of one price throughout the year for these crops is likely to pose problems. If for instance in a country which has a commitment to export to another member country, the level of production is not up to expectations and the price in the local market rises above the pre-determined export price, are supplies likely to be forthcoming for export? If supplies are larger than could be disposed of at the agreed export price, would not the maintenance of the fixed price be an undesirable state of affairs?

Another problem with this arrangement is that a price suitable for in-season production would be unsuitable for the encouragement of out-of-season production.

These considerations would seem to point to the need for more frequent price fixing in the case of some commodities.

Another problem area in the price fixing is likely to be the determination of the level of prices. In the absence of guiding principles, the actual price fixed for a commodity may be made to depend to some extent on the voting strength of exporters relative to that of importers. Decisions may not therefore be closely related to desirable economic requirements. For instance where there is only one exporter of a commodity, the price may be consumer-oriented although production expansion may be desirable and hence a producer-oriented price justified.

The determination of guiding principles for price fixing and the use of standardised costing methods are some of the ways in which this problem can be made more manageable.

### **The Allocation of Markets**

This is another aspect which is likely to pose problems. Markets are to be allocated by the Secretariat on the basis of estimates of export availability and import requirements provided by member countries. For most of the countries these estimates are likely to be weak and to remain so for some time yet. The administrative machinery and the economic and statistical resources required for the making of these estimates with reasonable competence are presently not available to Ministries of Agriculture or government marketing agencies except perhaps in Jamaica and Trinidad and Tobago. Besides the inadequacy of facilities to carry out crop forecasting surveys and for making good demand and supply projections, estimates are likely to have a wide margin of error because of the prevailing mood of over-optimism in the scope for increasing food production in the Area. Already one hears of export potential on the part of member countries which seems wholly inconsistent with past performance and capability.

The result is that the allocation will be done on the basis of weak data. The problems this will pose for the administrative machinery of the Secretariat and for the smooth functioning of the arrangements are obvious. This matter of the weakness of data raises the interesting question of the extent to which countries would be required to honour their obligations to sell or buy the quantities of commodities agreed upon beforehand, at the fixed prices. Besides the weakness of the data, delays in the notification of surpluses and deficits and of the declaration of Area shortages are likely to put severe strains on the operation of the Agreement. It should be noted also that the large and difficult nature of the administrative requirements of the arrangements both for member countries and for the Secretariat involves a cost which must be taken into account in any assessment of the efficiency of the arrangements.

Another problem in connection with the allocation of markets is the requirement that this should be done on a proportionate basis. Since prices are determined f.o.b. this requirement may at times conflict with the desire of member countries to obtain their import requirements from the nearest exporting country because of lower transportation costs.

### **Marketing in Intra-Regional Trade**

It does not seem to be resolved as yet whether intra-regional trade in the listed commodities would be handled by government marketing agencies alone or whether private dealers will be allowed to participate in this trade. The marketing arrangements seem to favour centralised handling and it seems that the marketing agencies will be given sole responsibility for this trade. If this is done, it is likely to pose some problems.

This type of agency has not yet demonstrated its ability in the Area to carry out agricultural marketing locally and in the export trade, efficiently. There are presently a number of private entrepreneurs in the field, and some of these by their enterprise and business ability have been able to develop export outlets even outside the Region. It would not be a sensible policy to restrict these dealers to the extra-regional export trade or to remove them entirely from agricultural marketing. The latter would mean the loss of valuable experience and enterprise in an area of business activity where persons with these qualifications are in very short supply. It should be remembered that it is the small private dealer who has built up and is carrying on the regional agricultural export trade of the Windward Islands. These operators have added activities in the import trade of these islands with their export activities and any usurpation of their functions by government marketing agencies would be putting a significant number of people out of employment and out of an area of business activity which must be a valuable training ground for larger business operations.

It is not the view, however, that private dealers should operate completely in isolation of the activities of government marketing agencies. Their activities would require to be co-ordinated with those of the government marketing agencies especially in view of the nature of the provisions of the Agricultural Marketing Protocol. Besides there are scale advantages to be had from centralised grading, packing and cold storage. It is suggested therefore that private dealers should be allowed to participate in the regional trade in agricultural products but that they should operate under a licensing system.

### Control of Exports to Third Countries

It would seem from the Agricultural Marketing Protocol that the export of agricultural products to third countries would be under some form of control in order to ensure that regional requirements are satisfied before such exportation is allowed. It is stated, however, that such control would take into account the desirability of maintaining and encouraging earnings from markets outside the Area. It is recognised that the obligation to buy on the part of importing member countries should carry with it the obligation to sell on the part of exporting countries. However, where there is no prior commitment to supply a member country, it is felt that the demands of such a country should not be given preference to those of a third country. It is important for the Area to develop outlets outside of the Region and the establishment and maintenance of such outlets would require that export trade to third countries should not be closely controlled. If importers in third countries do not have reasonable confidence that supplies will be maintained and if exporters in a member country are not able to guarantee supplies because of control on exports, then it would be difficult to establish and maintain outlets in third countries.

It is suggested that the requirement that "such control should take into account the desirability of maintaining and encouraging earnings from markets outside the Area" should therefore be interpreted liberally. This recommendation would operate in the interest of exporters and against the interest of importers and this may seem to give unfair advantages to some countries at the expense of others. But this may be more apparent than real since most member countries are likely to be both exporters and importers of agricultural products and all exporters are likely to have an interest in developing export outlets in third countries.

### MEASURES REQUIRED FOR HIGHER LEVELS OF INTEGRATION

The foregoing analysis of the Protocol has revealed several unsatisfactory features. The most important is the limited scope provided for the integration of agriculture in the Region. The present approach therefore hinders the achievement of the large gains to the Area which seem possible from a

high degree of agricultural integration.<sup>1</sup> It is perhaps worth stressing though, that the larger market which would be created could provide the stability and scope for the encouragement of specialised commercial farming ventures. It will also facilitate grading, packing and processing, all of which are likely to expand agricultural trade directly and indirectly by yielding scale economies.

Marketing is usually cited as one of the main problems facing food production in the Area. It is felt, however, that the small size of markets is a greater problem than the actual market organisation or distribution arrangements. This problem of size would to some extent be alleviated by the larger market provided by a high level of integration.

A high degree of integration would also enable specialisation of member countries according to their particular resource endowments.

Another important advantage is the better use that can be made of research resources and other development efforts by concentrating on lines of production in which the country has or seems likely to have a comparative advantage. Presently these are spread thinly over a large number of products and this is likely to continue under the arrangements provided by the Agricultural Marketing Protocol.

In the light of these considerations it would seem that a bolder approach in integrating the Region's agriculture is required. This seems to be recognised in the Regional Secretariat and among member governments and a study has been proposed on measures which could be adopted to promote the rationalisation of agricultural production in the Area.

It is felt, though, that rationalisation will be a very slow process if the present approach is maintained since it will be depending for its establishment on administrative decisions made on a regional basis and such decisions will mean protracted negotiations in order to balance carefully gains and losses among member countries. Because of this and because also the present arrangements do not provide for automatic movements towards freer trade within the Area in the listed products, it is suggested that serious consideration should be given to measures to bring about a rapid removal of the present restrictions to intra-regional trade in agricultural products. The main restriction remaining now, of course, is the control of importation by a licensing system. It has already been pointed out that the need for a gradual approach to freeing intra-regional trade for political reasons is not a strong one in the Area. This approach will allow rationalisation to take place through competition rather than through administrative decisions. It will of course also require regulation of subsidies and other forms of assistance given at the production level to encourage agricultural production.

<sup>1</sup> Brewster and Thomas, *op. cit.*

Restrictions on importation are of course not the only barriers to intra-regional trade in agricultural products. Lack of information on opportunities for trade are also important and together with the removal of restrictions, an important need would be the establishment of a market intelligence service which would cover the whole Region. Another barrier is of course the lack of regular shipping services with suitable facilities for the handling of agricultural products. Attention to this matter would also be required.

But freeing intra-regional trade is not the only requirement for expanding agricultural trade in the Area. Control would have to be exercised over the importation of products from third countries whose production should be encouraged in the Area. The Agricultural Marketing Protocol provides for a common policy of restriction of such imports. Such a policy would have to be maintained. It may, however, become more difficult to determine the existence of shortages since market allocation under the policy of free trade would not be necessary. It may be necessary therefore to use price levels as indicators of shortages. Common external tariffs at higher levels

would be one way of restricting imports from third countries of the commodities concerned. These tariffs could even be made to vary during the year in the case of commodities which are produced seasonally within the Region. However, high levels of external tariff may conflict with international obligations under GATT and with the traditional policy in the Area of low tariffs on food products.

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