

Trade Policy Review Body

TRADE POLICY REVIEW

TRINIDAD AND TOBAGO

Report by the Secretariat

This report, prepared for the Trade Policy Review of Trinidad and Tobago, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Trinidad and Tobago on its trade policies and practices.

Document WT/TPR/G/49 contains the policy statement submitted by the Government of Trinidad and Tobago

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SUMMARY OBSERVATIONS

1. Since the mid 1980s, Trinidad and Tobago has engaged in a process of liberalization and deregulation, which has led to the elimination of a number of restrictions to trade and to a reduction in the average level of tariff protection. Few non-price border restrictions to trade remain, and the amendment of domestic legislation to incorporate Trinidad and Tobago's commitments under the different WTO agreements has been virtually completed. No direct export subsidies are granted; however, a complex system of investment incentives remains in place. Regional trade liberalization undertaken in the Caribbean Community and Common Market (CARICOM) has gone hand-in-hand with commitments under the multilateral trading system. Trinidad and Tobago has been in the forefront of compliance with CARICOM's Common External Tariff (CET) reduction commitments for industrial goods. Tariffs on agricultural goods remain above average, however, and some products are subject to high import surcharges.

(1) ECONOMIC ENVIRONMENT

2. Trinidad and Tobago's economy relies heavily on production and export of oil and natural gas. Proven oil reserves are estimated at 12 years' supply at the current level of production, while proven natural gas reserves have been estimated as sufficient for 55 years of output. Related industrial activities include oil refining, gas processing and production of ammonia, urea, methanol, iron and steel.

3. The economy grew rapidly between 1973 and 1982, triggered by high oil prices, leading to a substantial increase in investment and consumption. Falling oil prices thereafter led to contracting output, declining per capita income, high unemployment, rising current account deficits and loss of foreign exchange reserves. In response, Trinidad and Tobago introduced in 1988 a programme of structural reform and liberalization, aimed at restoring external balance, reducing the public sector

deficit, and improving financial intermediation. This reform process was strengthened in the 1990s, when price controls were virtually dismantled, import duties were reduced under CARICOM provisions and the role of the private sector in economic activity enhanced. However, there remains a large participation of the State in the oil/natural gas sector; overall, government consumption and investment represent between one-fourth and one-third of GDP.

4. Annual economic growth accelerated to over 3% a year between 1994 and 1997, as trade and investment liberalization took hold. Tariffs were cut as a result of the implementation, starting in 1995, of the four-phased reduction programme of CARICOM's CET, which has lowered the maximum tariff on industrial goods from 35 to 20%; capital controls were removed; the fixed exchange rate régime was replaced by a managed float; and a programme of privatization and liquidation of public enterprises was put in place. GDP growth reached 3.2% in 1997, fuelled by an investment and consumer spending boom. Initial forecasts point to an acceleration of growth in 1998, reflecting the effects of massive investment in the oil/natural gas sector. These forecasts may, however, need to be revised downward, to take into account the negative effect of the recent decline in oil prices. Although below its peak, unemployment remains high, at 13.5% at the end of 1997.

5. As a result of improvements in tax collection, proceeds from privatization, and reductions in government subsidies and transfers, Trinidad and Tobago has posted a budget surplus since 1995; the surplus reached 1.8 % of GDP in 1997. Lower oil prices may, however, have a negative impact on public finances in 1998 and 1999.

6. External transactions in goods and services represent over 100% of GDP, with exports of fuels, the main earner of foreign exchange, accounting for over 20%. Low export diversification and strong dependence on the oil/natural gas sector make Trinidad

and Tobago vulnerable to external shocks. The strong decline in oil prices occurring in 1998, while imports continue to increase, is likely to have a negative impact on the current account. Moreover, Trinidad and Tobago's heavy reliance on a single market, the United States, for exports may add to this vulnerability, should the U.S. economy slow down.

7. Until 1997, Trinidad and Tobago generally posted a trade surplus. Recently, however, imports have grown much faster than exports, fuelled by rapid increases in consumer and capital goods, as the economy has expanded and the local currency has appreciated in real terms. Between 1993 and 1997, imports more than doubled, while exports increased by around 50%, and in 1997 a trade deficit of US\$610 million was registered. In 1998, a trade deficit, albeit smaller than in 1997, is again forecast. The current account, in surplus for most of the 1990s, recorded a deficit of US\$708 million (12.1% of GDP) in 1997. The capital account, fed by direct investment flows mainly to the oil/natural gas sector, has registered a surplus since 1996, peaking at US\$619 million in 1997, leading to a substantial accumulation of net foreign exchange reserves, which stood at the equivalent of over four months of imports at end-1997.

(2) TRADE POLICY REGIME AND OBJECTIVES

8. One of the Government's main policy concerns is to diversify the economy away from its dependence on the petroleum sector, by developing non-oil manufacturing activities as well as services, such as transshipment and trading. Other concerns include increasing the level of foreign and domestic investment, generating permanent employment opportunities, and promoting food security. The Government also aims to improve the regulatory, legal and fiscal framework for growth in the energy sector; to maximize local crude oil production; to increase refining capacity; and to develop downstream natural gas-based industries.

9. Trinidad and Tobago, a GATT contracting party since October 1962, became a WTO Member on 1 March 1995. MFN treatment is accorded to all its trading partners. As a result of the Uruguay Round, most industrial tariffs are bound at a ceiling rate of 50%; some products are bound at 70%. There is a substantial gap between bound rates and applied tariffs, which peak at 30%. All agricultural lines are bound, mostly at 100%. Other duties and charges are bound at 15%. Trinidad and Tobago has revised and amended several pieces of domestic legislation to comply with its obligations under the WTO. Thus, anti-dumping legislation and regulations have been amended to conform to the WTO Anti-dumping Agreement; new Patent and Copyright Acts have been adopted, and legislation regarding trademarks and industrial designs amended to conform to the TRIPS Agreement. Legislation with respect to trade secrets and unfair competition has also been put in place.

10. Under the GATS, Trinidad and Tobago made specific commitments on tourism, business (including professional), educational, health-related, recreational, research and development, recreational, cultural and sporting, transport and financial services. Trinidad and Tobago's Schedule includes horizontal commitments on commercial presence and the presence of natural persons. Trinidad and Tobago also participated and presented offers in the subsequent WTO negotiations on telecommunications and financial services.

11. To date, Trinidad and Tobago has not been involved directly, as either plaintiff or defendant, under the GATT or WTO dispute settlement mechanisms.

12. Trinidad and Tobago, a founding member of CARICOM, adopted CARICOM's CET in 1991, implementing the four-phase schedule of CET rate reductions between 1995 and 1 July 1998. Deeper integration among CARICOM countries is expected to result from reforms aimed at consolidating the CARICOM Single Market and Economy (CSME). Two

protocols amending the CARICOM Treaty signed in 1997, are expected to lead to free movement of goods, services and capital, while further steps are being taken to liberalize movement of persons. Schedule I of the CARICOM Treaty allows a few national exceptions to the duty-free entry of goods from other CARICOM member states; for Trinidad and Tobago these are milk and cream, tyre repair materials, and rubber tyres. However, Trinidad and Tobago has chosen not to use this exception, and is in the process of eliminating Schedule I.

13. CARICOM has preferential trade agreements with Colombia and Venezuela. Under the Agreement with Colombia, Trinidad and Tobago, as a CARICOM medium-development country, has bound duty-free access bilaterally as of 1 June 1998 on a number of products, most of which are already imported duty free. Actual concessions have been granted on a small number of products, including skipjack and bonito, and knives and cutting blades for kitchen appliances and lawn mowers. Phased, bound duty reductions will be extended from 1 January 1999 to another group of products, including precious stones, some kinds of coated electrodes and rods, and a group of non-competing inputs and capital goods. Unilateral preferential market access to Venezuela is granted under the CARICOM/Venezuela Agreement on Trade and Investment.

14. The Foreign Investment Act of 1990 is expected to be replaced by a new Investment Promotion Act, now in draft, which seeks to diversify export-related foreign investment. Currently, more than half of foreign investment is in the energy sector and related downstream activities; the United States is the largest foreign investor, mainly in the petroleum sector. There are no restricted sectors for foreign investment; however, approval is required for acquisition of commercial and residential land exceeding a certain area, or where a licence is needed (e.g. for drilling, mining or establishment of a bank by any investor, domestic or foreign; or for acquisition of more than 30% of a publicly

held local company by a foreign investor). Trinidad and Tobago has bilateral investment agreements with Canada, France, the United Kingdom and the United States; agreements with Argentina, Hungary, Italy, the Netherlands and Venezuela are under negotiation. Investment issues are also covered in CARICOM's agreements with Colombia and Venezuela. In addition to the treaty with other CARICOM members, double taxation treaties have been signed with Canada, Denmark, France, Germany, Italy, Norway, Sweden, Switzerland, United Kingdom, United States and Venezuela.

(3) **TRADE POLICY BY INSTRUMENT**

(i) **Border measures**

15. Trinidad and Tobago adopted CARICOM's CET for all goods, except a group of mainly agricultural products (List A) and industrial goods (List C) in 1991. Between 1995 and 1998, maximum import duties for industrial products were lowered from 35% to 20% in four phases. Maximum applied rates for agricultural goods have remained at 40% during the whole implementation period. As a consequence of these reductions, Trinidad and Tobago currently has an unweighted average MFN tariff of 9.1% (slightly higher if ad valorem equivalents of specific duties are included). Nominal protection is higher for agricultural products, with an average rate of 19.1%, while industrial imports face an average tariff of 7%. The tariff structure offers higher protection to final consumption goods and agricultural products than to inputs and capital goods, which are either duty-free or subject to a 2.5 % tariff. Final goods that compete with domestic or CARICOM production face the highest rates. Exceptions to the CET, including some motor vehicles, electrical appliances, and jewellery, are charged rates of up to 30%.

16. Quantitative restrictions have largely been dismantled since 1990. Import surcharges are currently applied on a number of agricultural products. These were originally expected to be eliminated by December 1994,

but this elimination was postponed, although certain surcharges were gradually reduced or phased out. Under a schedule established in 1995, surcharges on bovine meat and milk were to be eliminated by 1998; and those on vegetables and fruit are to be eliminated by 1999. Import surcharges on certain other products will remain after that date; some will be subject to reductions by 2004, but some will remain. For example, import surcharges of 60% on sugar, 75% on icing sugar, and 86% on some poultry cuts are expected to remain in place beyond 2004, considerably exceeding the 15% level bound during the Uruguay Round and included in Trinidad and Tobago's schedule of concessions.

17. According to the authorities, Trinidad and Tobago is *de facto* applying the WTO Agreement on Customs Valuation, although, under the Agreement, Trinidad and Tobago, as a developing country, has until end-1999 to bring its valuation system into conformity with the Agreement.

18. The Trinidad and Tobago Bureau of Standards (TTBS), under the Ministry of Trade and Industry is the enquiry point under the WTO Agreement on Technical Barriers to Trade. Standards are compulsory where they affect the health and safety of consumers or where they can prevent fraud and deception. The TTBS has also the right to test against standards for quality and grading, and is authorised to accept foreign certificates. Environmental standards, using ISO 14000 guidelines, were adopted in 1997, and are the domain of the Environmental Management Authority.

19. Trinidad and Tobago is not a party to the plurilateral Agreement on Government Procurement. Government procurement is not included in the scope of CARICOM, although an action plan to create a central regional information-coordinating agency has been launched. Procurement for governmental agencies is regulated by a Central Tenders Board. Tenders are either selective or competitive, and are open to foreign suppliers. However, a preferential margin of 10% is

accorded to local suppliers of goods and services, and, in some cases, if tenders go to foreigners, a local agent may be required.

20. According to the authorities, anti-dumping legislation has been brought into conformity with the relevant WTO Agreement. The Anti-Dumping and Countervailing Duties Act (No.11 of 1992), notified to the WTO in March 1995, was substantially amended in 1995; however, the amendment has not yet been notified. To date, the only anti-dumping action taken by Trinidad and Tobago has been an investigation on imports of cheddar cheese from New Zealand, initiated in September 1996. In this case, a margin of dumping of 13.93% was calculated; however, no duty was imposed, since the New Zealand Dairy Board undertook to increase its price of cheddar cheese exported to Trinidad and Tobago by the amount of the calculated margin of dumping.

21. Licences are still needed for the importation of some products, namely those included in the Import Negative List, originally used to manage a system of quantitative restrictions to protect infant industries, and now used mainly for licensing purposes. Currently, the List includes livestock, meat, fish, sugar, oils and fats, motor vehicles, cigarette papers, small ships and boats, and pesticides; it does not apply to CARICOM imports, except of oils and fats.

(ii) Measures affecting exports, production and trade

22. Trinidad and Tobago applies no export taxes, but a system of export licensing for a number of products, mainly for security and health purposes but also to control the re-export of capital goods imported under preferential conditions, is in effect. There are no export quotas, except those determined under bilateral arrangements, nor specific export performance requirements.

23. Trinidad and Tobago has notified the WTO that it maintains no export subsidies. However, a number of incentives are applied,

including tax concessions and duty-free access for imports of inputs and capital goods. Some are geared to promoting exports, such as export allowances (in the form of tax credits) under the Corporation Tax Act and the Finance Act; others are designed to promote the development of specific industries or sectors, such as the customs duty concessions for imports of capital goods for a wide range of approved manufactured activities. The Government plans to eliminate export allowances by the year 2000, although Trinidad and Tobago, as a developing country, is required to comply fully with the disciplines of the WTO Agreement on Subsidies and Countervailing Measures only in 2003. Duty concessions under these schemes have, in some cases, already been wiped out by the elimination of tariffs on non-competing inputs and capital goods.

24. The establishment and administration of Free Zones is regulated by the Trinidad and Tobago Free Zones Company, which reviews applications taking into account foreign exchange earning capacity and employment generation potential. No sectoral limitation is applied. Companies granted approved status are allowed to supply domestically a maximum of 20% of goods produced, subject to the payment of import duties. Since 1997, certificates of origin have been required for goods manufactured in the Free Zones. There are currently 24 companies operating under the free-zone régime, with exports totalling US\$38 million in 1996.

25. Although most price controls have been eliminated, and only the prices of sugar, pharmaceuticals, and school books remain directly regulated, a number of goods and services are subject to administered prices. These include certain agricultural products (i.e. coffee, milk, cocoa, etc.), for which guaranteed prices are paid to producers; the ex-refinery prices of certain fuels; and utility fares.

26. Trinidad and Tobago has updated its domestic legislation regarding intellectual property rights to bring it in line with the

TRIPS Agreement. The registration of patents, trademarks and industrial designs is administered by the Intellectual Property Registrar-General, within the Ministry of Legal Affairs.

(4) MEASURES BY SECTOR

(i) Agriculture

27. The contribution of agriculture and food processing, beverages and tobacco to GDP, is just above 5%, but the sector employs some 14% of the labour force. Agricultural exports are dominated by sugar. The main exports of processed products are beverages and prepared cereals. Trinidad and Tobago is a net importer of agricultural products; the main imported goods are cereals, dairy products, oil seeds and vegetables.

28. In the Uruguay Round, Trinidad and Tobago bound its tariffs on all agricultural products at ceiling rates of 100%, with the exception of seven items bound at higher levels; these include poultry, cabbage, lettuce and coffee. Applied tariffs on agricultural products vary between 0 and 40%; in 1998, Trinidad and Tobago's simple average MFN tariff on agricultural products was 19.1%. The highest tariffs are applied to edible fruit and nuts, fish products, edible vegetables, animal and vegetable fat and oil, and meat and edible meat offal.

29. Quantity-based measures, previously applied under the Negative List, were converted to equivalent tariffs in accordance with the Uruguay Round Agreement on Agriculture. Some agricultural products are subject to import surcharges; in 1998, surcharges are applied to various parts of poultry (100%), sugar and icing sugar (60-75%), vegetables (15%) and fruit (5%). Surcharges on fruit and vegetables will be removed by 1999, and those on poultry parts will be reduced in 2004; surcharges on sugar and icing sugar are not subject to reduction. Import duties on alcoholic beverages are set at specific rates, ranging from TT\$4.75 per litre for beer to TT\$40.00 per litre for cordials and

liqueurs. Alcoholic beverages that are locally and regionally produced face excise duties.

30. Sugar is the main agricultural crop. Exports depend primarily on the quota arrangements with the European Union and the United States, which offer guaranteed prices above world levels. Trinidad and Tobago has been allocated an export quota of 47,556 tons of raw sugar by the European Union under the Sugar Protocol to the Lomé Convention, and an additional 10,000 tonnes under the Special Preferential Sugar Arrangement. The United States allocated Trinidad and Tobago a quota of 14,201 tonnes of raw sugar for fiscal year 1997, of which 13,576 tonnes were exported. Refined sugar is exported to other CARICOM countries, but is also imported when domestic production is insufficient to meet export quotas and domestic demand. Some 29,000 tonnes of raw sugar and 9,105 tonnes of refined sugar were imported in 1997. As noted, imports of raw sugar are subject to a customs duty of 40%, and an additional charge of 60%. Imports of refined sugar face a 15% import tariff.

31. Agricultural incentives include subsidies for soil conservation, equipment and machinery, agricultural vehicles and wheel tractors, as well as price support for sugarcane, coffee, cocoa, milk, oranges, grapefruit, paddy, copra and sorrel. Payments granted for price support reached TT\$35.97 million in 1997, while input subsidies totalled TT\$0.4million; together these payments account for some 1.8% of agricultural GDP.

(ii) Manufacturing

32. The manufacturing sector is heavily dependent on oil refining and petrochemicals; petroleum-related manufacturing accounts for two-thirds of total manufacturing GDP. The 1998 average MFN tariff on imports of industrial products (HS Chapters 25-97, covering both manufacturing and mining) was 7.0%, with a peak of 30% and a minimum rate of zero. The highest tariffs are applied on arms

and ammunition, clocks and watches, works of art, clothing and apparel articles, carpets, furniture, toys, footwear, soap and leather goods. A number of incentive schemes are available for manufacturers; thus, customs duty concessions are granted to imports of machinery, equipment and materials for a wide range of approved manufacturing activities. Relief from corporation tax and customs duty is granted to approved enterprises for a period of up to 10 years.

33. Petroleum-related manufacturing includes a refinery, 13 petrochemical plants, a natural gas liquid recovery plant and electricity power plants. Refining activities have fallen considerably from their peak in the 1960s, but the decline has been reversed in the mid 1990s. On the other hand, petrochemical output has been rising considerably; currently Trinidad and Tobago is the world's second largest producer of ammonia, and third largest producer of urea. Non-petroleum manufacturing activities are concentrated in cement, iron and steel.

(iii) Mineral extraction

34. The extractive sector contributed 14.4% to GDP in 1996, while employing under 4% of the labour force; the sector also generates most foreign investment inflows. Hydrocarbons account for almost the whole of the sector's output. Oil production has declined from its peak in the 1970s; conversely, natural gas production has been increasing since 1978. However, the sector still accounted for 22% of government revenue and 73% of foreign exchange earnings in 1997.

35. The tax régime in the petroleum industry is based on a three-tier system consisting of two profit-based corporation taxes (the Petroleum Profits Tax, set at 50% of taxable profits, and an Unemployment Levy, set at 5% of taxable profits), three production-based taxes (a Royalty, a Petroleum Production Levy, a Petroleum Impost) and an income-based tax, (the Supplemental Profits Petroleum Tax. Profits accruing from

exploration, production and refining activities are subject to the Petroleum Profits Tax and taxed at 50%, while profits accruing from petroleum marketing and distribution, for which the state-owned National Petroleum Marketing Company of Trinidad and Tobago and the National Gas Company have the monopoly, are taxed, since 1997, at a rate of 35%, since they are subject to the Corporate Profits Tax. A system of incentives and tax allowances are used to encourage investment in the energy sector, including import duty and VAT exemptions, and deduction of capital expenditures incurred on workovers, heavy oil projects and on a development dry hole for the computation of the Petroleum Profits Tax.

(iv) Services

36. The services sector accounts for over 60% of GDP and around 75% of total employment. Financial services are particularly important, accounting for 11.5% of GDP. Activity in services has been largely liberalized, and market access is fairly open in most sub-sectors; national treatment is granted to foreign suppliers in most areas. The regulatory frameworks for financial services, transport, and telecommunications have been strengthened. In telecommunications, partial privatization had led to a temporary *de facto* monopoly in the provision of basic telephony services by Telecommunication Services of Trinidad and Tobago (TSTT); this monopoly is expected to be dismantled by 2009. Value-added services must use the network of TSTT.

37. Under the General Agreement on Trade in Services (GATS), Trinidad and Tobago scheduled horizontal commitments regarding commercial presence and the movement of natural persons for all sectors included in its Schedule. With respect to commercial presence, the acquisition of over 30% of the equity of publicly traded companies is subject to approval. Specific commitments were scheduled in business services (including professional services, computer and related services, research and

development services, real estate and other business services); educational services; financial services; health related and social services; tourism and travel-related services; recreation, cultural and sporting services; and transport services. Trinidad and Tobago presented a Schedule of Specific Commitments in the Negotiations on Telecommunications, binding full competition in value-added services, using TSTT's network, full competition on satellite-based mobile services and fixed satellite services for public use. Trinidad and Tobago also submitted an additional offer in the 1997 Negotiations on Financial Services, making commitments only in reinsurance.

Conclusions

38. The economy of Trinidad and Tobago has experienced considerable liberalization and deregulation since the mid 1980s, and particularly since. Strong investment in the oil/natural gas sector has fuelled growth since the mid 1990s, at the same time leading to a substantial increase in imports, which added to high investment income outflows, has resulted in a current account deficit. The recent strength of the Trinidad and Tobago dollar, which has resulted from the stringent monetary policy conducted by the Central Bank, may aggravate the current account deficit. Despite the current weakness of oil prices, Trinidad and Tobago's economy has been partly shielded from negative effects by large direct investment inflows. However, the economy remains vulnerable to external shocks due to its excessive dependence on the production and export of fuels, and a prolonged situation of lower oil prices is likely to take its toll on growth. Hence, to ensure long-run economic stability Trinidad and Tobago needs to reinforce its current policy of diversifying away from the oil sector. This effort will be helped by open access to markets for its non-fuel exports.

