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Is a special treatment of small island developing States possible?

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*“The real Caribbean is not a fun place.
It’s a place that has had its hard living…”*

Mary Eugenia Charles *(1988)*
Prime Minister of Dominica (1980-1995)

“… All efforts must be made to ensure a successful outcome of the International Meeting for the 10-year Review of the Barbados Programme of Action for the Sustainable Development of Small Island Developing States in Mauritius in January 2005, which should contribute to the beneficial integration of small island developing States … into the international trading system and the world economy.”

UNCTAD XI
(São Paulo Consensus, 18 June 2004)

Foreword

Globalization offers small island developing States (SIDS) valuable economic opportunities in the same way as it does with other countries. However, because of their intrinsic disadvantages, most SIDS will be unable to seize these opportunities unless certain special measures to compensate their disadvantages are granted to them by their development partners.

UNCTAD has been advocating the cause of small island developing economies for the past three decades. It was the first body to have noted the fallacy of per capita income as the primary yardstick for determining the way these countries ought to be supported. It was also a pioneer in bringing to the international community's attention the importance of economic vulnerability as a more meaningful criterion for guiding development partners in their treatment of SIDS. One of the eight Millennium Development Goals of the United Nations, in calling for a "global partnership for development", specifically seeks to answer the "special needs of … small island developing States".

This publication was prepared in the context of the decennial review of the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. I take this opportunity to thank the Government of Ireland for having generously supported UNCTAD in its work in favour of SIDS over the last five years, particularly toward this publication as well as a forthcoming, more substantial volume on the challenges and opportunities that are relevant to this group of countries.

Carlos Fortin
Officer-in-charge of UNCTAD

Geneva, 14 December 2004

Preface

Probably no category of countries has ever been more commonly misunderstood than small island developing States (SIDS). When Prime Minister Eugenia Charles of Dominica, in 1988, pointed out that “the real Caribbean is not a fun place”, but rather “a place that has had its hard living…”, she was illustrating what is now recognized as one of the most striking paradoxes of international cooperation.

Indeed, there is a pervasive notion that small islands are privileged to be situated in a heavenly natural environment, and that this is the main determinant of the quality of life of islanders. This convenient vision has been fuelled, not only by the way international tourism has portrayed insular destinations, but also by the fact that a majority of SIDS have demonstrated a relatively enviable socio-economic performance, compared with many continental or large developing countries. Overall, the international community has tended to view island societies as relatively prosperous, and has not been inclined to appreciate the intrinsic reality of “small islandness”, which is characterized by environmental and social fragility, and a high degree of economic vulnerability to many possible external shocks beyond domestic control.

Here is where the paradox hurts: the international community recognizes the exceptional disadvantages island societies face, but it has failed to translate this recognition into island-specific support. The vulnerability of SIDS to external factors is not disregarded, but the modest elements of special treatment that would help them become more resilient are not being made available to these countries, even though their costs to the international community would be insignificant.

The scope for any particular group of countries to gain more favourable treatment in the multilateral trading system or in the sphere of development financing is generally limited. In this context, a prerequisite for any gain by SIDS is that their category be clearly defined, naturally on the basis of criteria.

If SIDS, once defined, are to pursue efficient advocacy to promote their cause in the framework of international cooperation, they need to do so on the basis of a few key issues, on the grounds of undisputed island-specific disadvantages.

This volume touches on three areas of particular relevance to the decennial review of the implementation of the Barbados Programme of Action: (i) the issue of erosion of preferential market access, which is one of the most difficult challenges SIDS are faced with; (ii) the importance of the relationship between trade and the environment in the context of the vital objective of diversifying island economies; and (iii) the question of the definition of SIDS and need for criteria to enhance the credibility of the United Nations in its support to the category. As such, the book provides only a partial answer to the question raised in the title: "is a special treatment of SIDS possible?". Ingenuity will be needed to make alternative preferential measures in favour of SIDS acceptable in the context of erosion of trade preferences. At the same time, progress in that direction is unlikely to take place unless significant efforts are made to improve the conceptualization of the SIDS category.

As noted earlier, the opinions expressed in this publication are only those of the four authors and do not necessarily reflect the views of UNCTAD on the relevant subjects.

Habib Ouane
Director,
Special Programme on the Least Developed Countries,
Land-locked Developing Countries
and Small Island Developing States
UNCTAD

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Chapter 1

Small island developing States: origin of the category and definition issues

Philippe Hein[*]

"It is difficult to define a giraffe, but when you see one, you know what it is"

The first Global Conference on the Sustainable Development of Small Island Developing States (SIDS) was held in Barbados, in 1994, under the auspices of the United Nations. It constituted a landmark, as it was the first time a UN conference was entirely devoted to this group of countries. The Conference adopted the *Declaration of Barbados* and the *Programme of Action for the Sustainable Development of Small Island Developing States*[1] (henceforth referred to as the Barbados Programme of Action). Upon the recommendation of the World Summit on Sustainable Development (Johannesburg, September 2002), the United Nations General Assembly decided "to convene an international meeting ... which will include a high level segment, to undertake a full and comprehensive review of the implementation of the Programme of Action …", and to "seek a renewed political commitment by all countries to … practical and pragmatic actions for the further implementation of the Programme of Action …"[2]. In line with this call by the General Assembly, Mauritius agreed to host the "Barbados +10" international meeting, which will take place on 10-14 January 2005.

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[*] Philippe Hein, a former Senior Economist and former Interregional Adviser in the UNCTAD secretariat, is a consultant.

[1] United Nations publication, Sales No.E.94.I.18 and corrigenda.

[2] General Assembly resolution A/57/262 of 20 December 2002, paragraphs 5 and 6.

This chapter reviews the process whereby the category of SIDS came into being. It draws attention to the main limitations of the SIDS denomination as a basis for designing and implementing measures in favour of these countries, and argues that a proper definition of the SIDS category is highly desirable for enhancing the credibility of the category and its capacity to gain greater attention and attract a more effective and favourable treatment from development partners.

1. Categorization of countries

Developing countries cannot be regarded as a uniform, undifferentiated group. There have been many attempts to classify these countries into groups or categories, often with the idea that these categories could form the basis for a more differentiated treatment of developing countries. Numerous (and sometimes analytically useful) categorizations have been proposed, but most have not gone beyond research findings and consideration within academic circles. The few categories referred to below have gained intergovernmental recognition, although the extent to which benefits have been effectively derived by virtue of relevant special statuses has been uneven, and is still subject to debate.

Distinctions based on the level of development

Two predominant distinctions among developing countries, one by the United Nations and the other by the World Bank, set aside the countries considered as the poorest and weakest.

The least developed countries

The Least Developed Country (LDC) category, identified within the United Nations in 1968 and officially instituted in 1971, has earned a significant degree of international recognition. LDCs have been referred to in almost all international conferences as requiring special support measures. They enjoy special treatment within the UN system, for example, proportionately greater allocation of funds from the United Nations

Development Programme. The LDCs are fully recognized by the World Trade Organization as a sub-group of member States that deserve special attention. Most bilateral donors have agreed to bias their cooperation programmes in favour of LDCs. The European Union has not only given special treatment to LDCs through its main arrangements in favour of African, Caribbean and Pacific (ACP) States, but it has also granted, since 2001, duty-free and quota-free access to its market to products originating from LDCs, regardless of whether or not the latter are associated with the European Union (the "Everything But Arms", or EBA, initiative). Of the 50 countries that currently make up the LDC category, 10 are island States with a population of under one million, and therefore clearly falling in the category of SIDS[3].

The low-income (and IDA-eligible) countries

Another classification reflecting the level of development (based on the per capita national income) is referred to by the World Bank as the "low-income countries". This denomination has practical implications, as countries below a periodically reviewed national income cut-off point (US $875 per capita in 2003) are eligible for the soft-lending conditions granted by the World Bank Group (International Development Association/IDA). IDA eligibility confers significant benefits on the relevant countries, considering IDA's very favourable lending terms and its level of resources, which makes it the largest source of development financing in favour of poor countries. The World Bank does not use the LDC category as a determining factor of its funding policy[4]. Yet, almost all LDCs are IDA-eligible[5]. It is also interesting to note that the Word Bank has, for the past

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3 Cape Verde, Comoros, Kiribati, Maldives, Samoa, Sao Tome and Principe, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu (four of these countries have for some time been regarded as close to meeting thresholds of graduation from Least Developed Country status). Another island LDC, Haiti, has a population of about 8 million.

4 However, since 1997, the World Bank and the IMF have been associated with four international organizations that officially recognize the LDC denomination (ITC, UNCTAD, UNDP, and the WTO) in sponsoring and implementing the Integrated Framework for Trade-related Technical Assistance to the LDCs.

5 Equatorial Guinea, an LDC, was graduated out of IDA treatment in 1999, after its per capita income (and borrowing capacity) increased steeply as a result of its oil exports.

two decades, accepted a "small island exception" by granting IDA eligibility to certain small island States with a per capita income above the cut-off point[6].

The Human Development Index ranking

Developing countries are sometimes ranked according to UNDP's Human Development Index (HDI)[7]. Though generally regarded as a meaningful indicator involving important human variables in addition to income per capita, the HDI has not been used as a yardstick for justifying special measures in favour of any particular category of countries. However, as two of the three criteria used for identifying LDCs, namely, the low-income criterion and the human capital weakness criterion involve socio-economic variables that also enter the formulation of the composite HDI, it is not surprising that most of the countries with the lowest HDI scores are also LDCs.

Distinctions based on geographical factors

Two groups of developing countries have been internationally identified as geographically disadvantaged: land-locked developing countries and small island developing States ("island developing countries" before 1994). UNCTAD, after initiating the LDC category in the early 1970s, played a pioneering role in developing a framework for international action in favour of countries in these two groups[8]. The third session of UNCTAD, in 1972, decided that a panel of experts should identify and study the problems of island developing countries. UNCTAD IV, in 1976, encouraged the international community to envisage special measures in favour of these countries. In 1977, the UNCTAD secretariat established a

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6 Cape Verde, Dominica, Grenada, Kiribati, Maldives, Samoa, St. Lucia, St. Vincent and the Grenadines, Tonga and Vanuatu are IDA-eligible under the current IDA 13.

7 Cf. UNDP, Human Development Report 2002.

8 In fact, as regards land-locked developing countries, there had been some international consideration of their problems prior to the founding in UNCTAD in 1964. These were mostly legal issues associated with transit problems and the question of access to the sea in the context of the UN Conference on the Law of the Sea.

Special Programme for Least Developed Countries, and Land-locked and Island Developing Countries, the first such institutional unit within the United Nations (a unit still in existence today). The main characteristics and problems of island developing countries were discussed in UNCTAD reports and raised in United Nations General Assembly resolutions, at regular intervals, between the late 1970s and the mid-1990s. The most commonly raised problems were issues of smallness and remoteness, constraints in transport and communications, distance from market centers, low resource endowment/narrow resource base, dependence on few commodities as sources of foreign exchange earnings, limited internal markets, and vulnerability to natural and environmental disasters.

The notion of "island developing countries" was abandoned by the United Nations in 1994, and gave way to a more focused denomination, that of *small* island developing States (SIDS).

Distinctions based on size

There is a wealth of literature on the implications of the size of countries. One of the first manifestations of the international attention to these issues was a meeting of the International Economic Association in Lisbon, in 1957[9].

The main international organization that took a special interest in small developing countries (regardless of their geographical characteristics), and has been pursuing advocacy of their case, is the Commonwealth Secretariat. In 1982, the Commonwealth Secretary-General prefaced a book on *Problems and Policies of Small Economies*[10], and ever since, small States have been a particular focus of the work of the Commonwealth Secretariat. In 1997, the problems of small States were specifically flagged at a meeting of Commonwealth Heads of States and Governments in Edinburgh (United Kingdom). Subsequently, the Commonwealth Secretariat and the World Bank established a Joint Task

9 Robinson, E.A.G., ed., The Economic Consequences of the Size of Nations, 1960, London, Macmillan.

10 Edited by B. Jalan, London, Croom Helm, 1982.

Force on Small States to make recommendations on desirable responses to the problems of small economies. The work of this Joint Task Force, which reported in May 2000, has gained much visibility. The attention paid by the Commonwealth to issues relevant to small States was confirmed by the heads of States and governments in 2002, in the following terms: "We recognize the particular vulnerabilities of small States, as well as the need for concerted action by the international community to address their special needs. We further appreciate the importance of systemic changes to respond to these needs, and we commit the Commonwealth to pursue innovative and practical support mechanisms for small States" (Coolum Declaration, 3 May 2002).

In parallel, the problems of small economies have been raised in the World Trade Organization (WTO), partly encouraged by the work of the Joint Task Force. This led to a specific reference to small economies in the Doha Ministerial Declaration in 2001. The ministers agreed that the WTO should "examine issues relating to the trade of small economies", and decided to establish a Work Programme on Small Economies. They stated that "the objective of this work … [would be] to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members"[11]. This work programme has been conducted mainly through a series of "dedicated sessions" of the Committee on Trade and Development, but the results have so far been limited. Almost exactly the same language as in Doha was reiterated in the "July package" adopted by the General Council of the WTO, in Geneva, in July 2004[12].

The consideration of small economies in the international debate, especially in an organization as important as the WTO, has been a development of significance, and has raised hope among many developing countries that perceive themselves as small. However, from the point of view of SIDS, this has been a mixed blessing. On the one hand, it shows that some notice has been taken, in a major world forum, of trade-related

[11] WTO, Doha Ministerial Declaration, Para. 35.
[12] Document WT/GC/W/535 of 31 July 2004.

problems associated with smallness, and it brings on board several non-island States, thereby making for a wider coalition. However, the focus of the plea for special consideration has tended to be diluted by the presence, in relevant discussions, of small continental States and States (islands or not) that are considerably larger than those in the core group of obvious small island developing States. While the United Nations never sought to define the SIDS category, the advent of a (presumably wider) "small economies" group in other circles opened a Pandora's box. Indeed, no attempt has been made by the WTO to identify which economies should be considered small, and which should not.

2. From island developing countries to small island developing States

Since 1994, the United Nations has discontinued its consideration of island developing countries, a category in which a number of large island States were found, and has explicitly recognized the specific problems of *small* island developing States (SIDS). This was a logical development, which induced more focus in the analysis of relevant issues.

In the early UNCTAD and United Nations General Assembly resolutions of the 1970s and 1980s on island developing countries, the problems associated with smallness (lack of natural resources, heavy dependence on imports, limited internal markets, export concentration, etc…) figured prominently and were stressed. In 1985, the World Bank recognized the "small island exception" for IDA eligibility. The non-aligned movement had also pursued a specific focus on small island countries for a long time[13]. However, the statistical appendices of UNCTAD and UN reports on island developing countries always contained data on all island developing States, including relatively large island countries such as Madagascar, Sri Lanka, and even the Philippines and Indonesia. Thus, although it had always been informally understood that

[13] See, for example: The Non-aligned meeting of experts on small island developing countries, Report NAC/CONF.7/EM/DOC.4/Rev.2. Non-Aligned Movement, Grenada, 1983.

the advocacy was relevant principally to the situation of small island countries, it was only in 1994 that it became politically possible to exclude larger States from the range of island developing countries that were deemed in need of special attention.

The formal phasing out of the island developing countries category in favour of SIDS was initiated in 1992 in an indirect manner, on the occasion of the United Nations Conference on Environment and Development ("the Earth Summit") held in Rio de Janeiro in 1992. Agenda 21, which was adopted by this conference, contained a special section (chapter 17, section G) devoted to the sustainable development of small island developing States. Following this conference, the UN General Assembly decided, in December 1992[14], to convene the first Global Conference on the Sustainable Development of Small Island Developing States (Barbados, April-May 1994). In the same year, however, another resolution on island developing countries was routinely adopted by the General Assembly[15]. Since 1993, all UN institutions, meetings and decisions which island-specific issues were relevant to have focused on SIDS, and since 1994, on the Barbados Programme of Action and its follow-up[16]. The United Nations Millennium Declaration of September 2000 (General Assembly resolution 55/2) contained a specific reference (in paragraph 17) to the special problems of SIDS. The International Conference on Financing for Development (18-22 March 2002) mentioned the special needs of SIDS no less than five times in the "Monterrey Consensus", and the Johannesburg Plan of Implementation which resulted from the World Summit on Sustainable Development (Johannesburg, 26 August-4 September 2002) devoted one of its 11 chapters to SIDS.

These intergovernmental pronouncements on SIDS have been duly reflected in the structure of the UN Secretariat. A High Representative for the Least Developed Countries, Land-locked Developing Countries and

[14] Resolution 47/189

[15] Resolution 47/186

[16] e.g., General Assembly resolutions 49/122 of 1994, 51/183 of 1996, 52/202 of 1997, 53/189 of 1998, 54/224 of 1999, 55/199 of 2000.

Small Island Developing States was appointed in 2001[17], and the Department of Economic and Social Affairs has maintained a Small Island Developing States Unit. Sub-programme 5 of the mandate of UNCTAD also relates to “Least developed countries, land-locked developing countries and small island developing States”.

On the other hand, in the Cotonou Agreement of 2000 between the European Union and ACP countries, as in the earlier Lomé Conventions, continued to make mention of island countries (without the adjective “small”), and the 26 island ACP countries referred to in Annex VI, Article 4, include larger island States such as Haiti, the Dominican Republic, and Madagascar. This continued lack of explicit focus on smallness may simply be the result of a diplomatic line of least-resistance, in a context where any change from the provisions of earlier conventions could have antagonized the larger island States, and unnecessarily complicated negotiations.

AOSIS: the coalition of SIDS

It is to the credit of small island developing States that, despite their geographical dispersion and the limitations of their diplomatic resources[18], they have been able to establish their own political structure, the Alliance of Small Island States (AOSIS). The AOSIS was created in the context of the Second World Climate Conference in Geneva in November 1990, when concerns about climate change and its feared multi-faceted impacts, especially sea level rise, brought small island States together and enabled them to gain recognition of their unique situation and the risks they were facing.

The AOSIS was particularly active at the first Earth Summit (Rio de Janeiro, 1992). Two years later, it was the leading force in the Global Conference on the Sustainable Development of SIDS. Since then, the Alliance has been playing an important consultative and substantive role in

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17 Approved by the General Assembly in its resolution 56/227 of 24 December 2001.

18 As an illustration, one of the founders of the AOSIS, Danielle Jorre de St. Jorre, the Foreign Minister of Seychelles, was at the same time acting as her country’s Ambassador to the United Nations as well as several countries.

supporting the implementation of the Barbados Programme of Action, and the preparations for the Mauritius review meeting.

The AOSIS calls itself a coalition rather than a formal organization. It has no charter, budget or secretariat. It functions mainly as an *ad hoc* lobby and negotiating voice within the United Nations system, primarily through its members' diplomatic missions to the United Nations in New York. In fact, the AOSIS is so informal and flexible that some non-island "low-lying coastal States" are included in its membership, alongside genuine island States.

3. The concept of vulnerability and its relevance to SIDS

A recent feature of the international debate on disadvantaged countries, including SIDS, has been the increasing emphasis on their vulnerability. The concept of vulnerability relates to ecological fragility, proneness to natural disasters, and concentration of exports on limited ranges of products and markets. These characteristics were stressed, between 1974 and 1994, by numerous UNCTAD reports and UN General Assembly resolutions on island developing countries.

In a context where available data showed that SIDS tended to fare better, in terms of per capita income and quality of life, than most other developing countries, there was concern that the validity of the category as being "disadvantaged" and meriting special attention might be questioned. At the same time, arguments based on the disadvantage of remoteness were also becoming less convincing, as air access to most SIDS was improving (as a result of tourism), international transport costs were decreasing, and progress in telecommunications was reducing the disadvantage of distance[19].

[19] In fact, improved telecommunications have opened up new economic opportunities, particularly in the sphere of international services, where several SIDS have been able to find avenues for economic re-specialization (e.g. offshore services, data processing services).

The idea was put forward that, for SIDS and other groups (in particular, LDCs), vulnerability should be taken into account to better illustrate intrinsic disadvantages. At the same time, the need was felt to operationalize the concept of vulnerability through the use of indicators to capture the proneness of countries to external shocks beyond domestic control, as well as the impact of relevant shocks. Following some pioneering work commissioned by UNCTAD in 1992, two major parallel efforts were made in this regard.

One was at the initiative of the Commonwealth Secretariat, which, in the context of its work on small economies, produced an index (the Commonwealth Vulnerability Index/CVI) for 111 developing countries[20]. The other effort took place within the work programme of the Committee for Development Policy (CDP) of the United Nations[21] to revise the criteria for identifying the LDCs[22]. An Economic Vulnerability Index (EVI) was constructed by the Committee (initially with a ranking of 128 developing countries), and used in the 2000 review of the list of LDCs[23]. At its substantive session of July 2000, the Economic and Social Council (ECOSOC) "noted with appreciation" the revised criteria proposed by the CDP, including the new economic vulnerability criterion. The EVI was used again in the 2003 review of the list of LDCs.

The CVI and the EVI use different conceptual and methodological approaches to the notion of economic vulnerability, and while they give broadly similar results, a number of significant differences are observable between the two country rankings. Despite some attempts to make a

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[20] Atkins, J P, Mazzi, S, and Easter, C D (2000), A Commonwealth Vulnerability Index for Developing Countries: the Position of Small States, *Economic Paper,* No. 40, Commonwealth Secretariat, London.

[21] Formerly Committee for Development Planning (same acronym) until 1998.

[22] It is interesting to note that after the graduation of Botswana from LDC status in 1994, the debate on graduation became entirely focused on SIDS, as four of these countries (Cape Verde, Maldives, Samoa, Vanuatu) began to demonstrate some proximity to the graduation thresholds relevant to the different criteria used in identifying the LDCs.

[23] See details and comments on the EVI and LDC criteria in general in Chapter 17 below. Other comments on the main vulnerability indices can be found in: WTO, Small economies: A review of the literature, 23 July 2003 (WT/COMTD/SE/W/4), para. 29-37.

convergence of views possible between the teams responsible for constructing these two indices, no consensus was reached, and the two indices have been used by various authors and institutions with full knowledge and appreciation of the substantive differences.

Admittedly, "vulnerability" remains an elusive concept. Yet it is, alongside "sustainability", a term that has acquired the status of a slogan, and one of the most frequently used concepts in the international debate on SIDS in the United Nations, and on "small economies" in other circles. There is continued interest in measuring the magnitude of external shocks and the capacity of countries to withstand these shocks, including the issue of environmental vulnerability. In 2002, the United Nations General Assembly reiterated "the importance of the vulnerability index as a tool for assessing, and therefore addressing, the vulnerability of small island developing States, as well as identifying the challenges to their sustainable development"[24].

4. Skepticism remains

As seen above, there is no lack of international declaration in favour of SIDS, and no lack of reference to their vulnerability. But there is a paradox between the consistent political recognition of the problems of SIDS and the absence of proportional response to these problems, particularly in terms of differentiated special treatment. Skepticism remains about the legitimacy of SIDS as a category requiring special attention, and there has been reluctance in providing these countries with concrete forms of special treatment, although this is generally not said openly in international fora dealing with these questions. The problems faced by SIDS are not regarded as a major issue in international affairs. The main players in the international community tend to take the view that policy

[24] General Assembly resolution 57/262. This resolution referred to "the" vulnerability index without specifying which particular index it was referring to. One is naturally inclined to assume that the General Assembly was implying the CDP's Economic Vulnerability Index, which is the only relevant indicator used in the United Nations system.

issues and resource implications of statements in favour of SIDS are not worth the time and efforts it would take to argue at length or be brought to block relevant initiatives. If the language proposed can appease SIDS, many of which are strategically located and have a vote in various international bodies, why antagonize them? It would suffice to ensure that the "decisions" taken are vague enough, and do not contain any target, time frame or commitment that could be effectively monitored. Thus, statements by governments and international organizations alike tend to follow up on rehashed consensual issues by reporting "good progress", and to acclaim the mere holding of non-conclusive meetings as "positive achievements".

A typical example of this politely supportive, yet almost dismissive attitude was noticed in the language used when the Commonwealth Secretariat/World Bank Joint Task Force report on small States was presented to the influential World Bank/IMF Development Committee in April 2000. The Committee "welcomed the report and its analysis of the special characteristics of small States that make them particularly vulnerable, while noting that a number of larger States shared some or all of the same characteristics" (Communiqué, paragraph 11). There has, in fact, not been any effective follow-up to the report in the World Bank, except for the holding of an annual Small States Forum at which various international organizations have listed the activities they undertake –and would have undertaken anyway— in small States.

Similarly, in 2001, the WTO's Doha Ministerial Declaration accepted to only "examine" the case of small economies, and explicitly ruled out the creation of a new sub-category of member States. Despite the successive reports of "progress" in the Work Programme on Small Economies (WPSE), no concrete result had been achieved by 2004. As a Scandinavian delegate put it, "it was unclear what kind of problem should be addressed and which kind of countries were affected by those problems"[25]. The situation became even more blurred in 2003, at the Fifth WTO Ministerial Conference in Cancun (Mexico), when 18 land-locked

[25] Document WT/COMTD/SE/M/4, 10 March 2003.

developing countries tabled a proposal[26] in favour of land-locked developing countries under the auspices of the WPSE. This initiative caught SIDS representatives off balance, as the latter had been careful, for their part, not to single out the issue of "islandness" in the WPSE, in keeping with the language of Doha, which deliberately focused on the issue of "smallness"[27]. Land-locked developing countries delegates, finding no opposition to their separate plea, tabled further "proposals submitted by the land-locked developing countries" at the Committee on Trade and Development in April 2004[28].

This breach within the WPSE may have tolled the knell of the amorphous notion of "small economies" as a basis for advocating special consideration. Yet, it leaves a glimmer of hope, for SIDS and land-locked developing countries alike, that two distinct lines of advocacy could still be viable within the WTO, under the general umbrella of the WPSE.

The lingering skepticism about the validity of the case for SIDS is also grounded in research findings. The latter were aptly summarized by a comprehensive review of the literature by the WTO secretariat[29]. The conclusion of this review was, in fact, discouraging from the point of view of countries claiming special attention: *"conclusions in the empirical literature tend to be somewhat contradictory and inconclusive on a number of important points"*. The review also stressed that *"each small economy is unique"*. Characteristics such as *"higher GDP volatility, greater openness to trade, higher per capita international aid and more concentrated production and export structures*" were duly noted. However, it was added that "*small states do not perform badly in terms of GDP levels, growth rates, social, health and educational indicators, cohesion variables and greater flexibility in the decision-making process"*. As regards globalization and integration into the world economy, the WTO Secretariat

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26 Document WT/MTN (03)/W/23, 14 September 2003.

27 The last reference to SIDS in the WTO seems to have been made at the Doha Ministerial Conference, when Minister Cuttaree of Mauritius made a statement on behalf of "Small Island Developing Economies, including SIDS" (WT/MIN(01)/ST/66, 11 November 2001).

28 See WT/COMTD/SE/W/10, 27 April 2004.

29 Op. cit. (WT/COMTD/SE/W/4, 23 July 2002).

pointed out that there is "a*mbiguity*" as to what this represents for small States. "*According to some analysts, globalization means a real opportunity for countries that suffer from remoteness and isolation"*, but *"others argue that small economies are too weak and vulnerable to be able to survive…"*. The review concluded that the problems "*can only be addressed by unbundling country groupings and focusing more closely on the specifics and realities facing individual economies"*. The latter remark clearly amounted to a recommendation to abandon the collective work programme on small economies, since each case ought to be examined separately. No delegation in the WTO saw fit to refer to this embarrassing conclusion, either by agreeing or by disagreeing with it.

Another example of ambiguous assessment and mixed message is provided by Professor Jeffrey Sachs' keynote address at the second Small States Forum convened by the World Bank in September 2002[30]. Professor Sachs eulogized the success of small economies, quoting the successful example of Iceland, where he had been an advisor. He stated that he himself was surprised that the research he had supervised at Harvard had led to the conclusion that "countries between one million and 10 million seem to be disadvantaged compared to countries under one million". He considered, however, that "location matters tremendously", and stressed the disadvantage of remoteness, as was the case for Pacific island countries. In his views, small land-locked developing countries have been the most affected among all disadvantaged countries.

The skepticism noted above principally relates to "small economies", but it is also to a great extent valid for SIDS as well. In theory, SIDS could be in a better position than small States to attract a greater degree of recognition. Indeed, in addition to the problem of "smallness", which they share with continental small States, SIDS face special disadvantages that relate to insularity, including specific environmental and logistical constraints. Most UN declarations, from the World Food Summit in 1996 to the Millennium Development Goals in 2000, have recognized the specific

[30] www.worldbank.org/smallstates/

problem of "islandness" in addition to the more common issue of "smallness", which applies to small economies in general.

Even the General Assembly seems to be slowly drifting into scepticism, and has downgraded the status of the SIDS legitimacy in a subtle manner. Though it has been a UN practice to reconvene thematic world conferences 10 years after the original landmark conference (e.g. Cairo 1994 on population, Brussels 2001 on the Least Developed Countries), the Barbados Global Conference of 1994 is followed 10 years later, not by another global conference, but by a mere "international meeting".

In short, the perception persists that the vulnerability of SIDS has been forgotten, and that this issue is not receiving the attention it deserves. As two Mauritian negotiators once observed: "the problems of SIDS have been, and continue to be, raised in several fora, but no concrete action has been taken so far"[31].

5. The definition problem

Some of the skepticism and lack of concrete action stems from the absence of a definition for the SIDS category. No programme can be meaningful, operational and monitorable if it is not clear what specific countries are being considered. Likewise, for "small economies" in the WTO, as an independent assessment predictably reported: "the debate is… bogged down due to persistent differences –including between developing country Members— on how a small economy should be defined"[32].

This vital question of definition was adequately addressed by the United Nations in the case of LDCs: there are criteria for inclusion in (or graduation from) the category, and there is a well established process of

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[31] G. Rajpati and S. Sahadutkhan, Small island developing States: the forgotten vulnerability, *Bridges*, International Centre for Trade and Sustainable Development, Year 6, No. 5, June 2002, p. 9. This article is a good example of commentators talking interchangeably about SIDS and small economies.

[32] *Bridges*, June 2002, Year 6, No. 5, page 13.

triennially reviewing the list, with a group of independent experts (the Committee for Development Poilicy) defining and applying the criteria, and the Economic and Social Council and the General Assembly eventually deciding on adding countries to the list or graduating them from LDC status. As regards land-locked developing countries, there is no ambiguity as to whether a particular country is land-locked or not[33]. Similarly, there has never been any doubt as to which countries were regarded by the World Bank as low-income and/or eligible for IDA, and which were not. The list of IDA-eligible countries, which includes "small island exceptions", is approved by the "Deputies Committee" of World Bank and published on the IDA website.

Availability of a precise list of countries is, of course, no guarantee that concrete action will follow. But fuzziness and lack of clarity offer an easy pretext for inaction, and may even bring about spurious and unverifiable claims that action has indeed been taken.

How small is "small"?

One of the main conceptual problems underlying the question of the definition of SIDS hinges on how to define "small". Different definitions of smallness have been envisaged in the relevant literature, with criteria ranging from population to land area, national income, or the share of world trade. The most commonly used criterion, in recent years, has been a population threshold of 1.5 million, as proposed by the Commonwealth Secretariat and reflected in the report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States. However, even the Commonwealth has shown flexibility in this respect, as it also includes four "larger member countries (Jamaica, Lesotho, Namibia, and Papua New Guinea) because they share many of the same characteristics of

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[33] The Democratic Republic of the Congo (DRC), for instance, has a very short coastline, compared with the vast land-locked portion of its territory, and clearly faces problems that are similar to those of land-locked developing countries. Yet, it has never been envisaged that the DRC should be included in this category.

smallness"[34]. The exception for a country with a population exceeding five million such as Papua New Guinea, if generalized worldwide, opens the door to several other exceptions, such as Panama, Uruguay or Togo, which have smaller populations than Papua New Guinea while exceeding the 1.5 million threshold.

A more recent definition of a "small economy" seems to be gaining currency, particularly in relation to trade issues. It is the "share of world trade", as suggested by Michael Davenport[35] who envisaged a threshold of 0.02% of overall merchandise trade, thereby accepting a group of 42 "small and vulnerable States". While it makes sense, in trade negotiations, to define smallness through the share of global trade, it should be noted that this variable is only weakly correlated with the population size criterion[36], and would generate a different set of countries.

In any case, neither the definition based on the population criterion nor any other definition of smallness has ever been formally validated by an intergovernmental body. In the WTO, where small economies are seeking special recognition of their needs, the absence of definition has led to proposals on their behalf[37] being presented by countries such as Guatemala (population: 11.7 million; share of world trade: 0.06%) and Sri Lanka (18.8 million; 0.09%), as well as several others that exceed both the 1.5 million population yardstick and the 0.02% threshold. More than two-thirds of the WTO membership, and more than 80% of its members from developing countries, could well be considered as "small economies" and could therefore, in this scenario, claim special treatment[38].

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[34] Small states: Meeting the development challenge. Report of the Commonwealth Secretariat/World bank, March 2000, Paragraph 8.

[35] Davenport, M. (2001), A Study of Alternative Special and Differential Arrangements for Small Economies, Interim Report, Commonwealth Secretariat.

[36] See WT/COMTD/SE/W/5, Para. 17.

[37] WTO document WT/COMTD/SE/W/3.

[38] More than two-thirds of WTO members (106 out of 143) have a smaller population than Sri Lanka, and only 35 have a larger population. See WT/COMTD/SE/W/5, Data appendix, Table 1, p. 21.

In short, until an agreed definition of a small economy is available, the term “small” may be applied to almost any economy or State[39] in any given context, discussion or meeting.

SIDS or small economies?

Defining “smallness” is, in itself, problematic, but the interchangeable use of, or loose reference to, terms such as “small island developing States” (Barbados 1994), or “small economies”, or “small and vulnerable economies” (Doha 2001), or “structurally weak, vulnerable, and small economies” (São Paulo 2004) gives rise to a great deal of confusion. In any particular forum, the lack of clarity about what category is actually under consideration is invariably a reason or pretext for decision makers not to take the issue seriously. Of the 44 small economies listed in the Commonwealth Secretariat/World Bank Joint Task Force report, 33 are island States, but 11 are not. Yet, there is a reluctance in international diplomatic circles to even mention the fact that small economies and SIDS are different –though overlapping— categories.

An illustration of the present confusion (talking at cross-purposes) is provided by the global debate on trade issues. The UN General Assembly, at its special session in 1999, highlighted “the impact on SIDS of globalization, trade liberalization and the erosion and/or loss of preferential treatment in economic relations”, and specifically encouraged the World Trade Organization to “consider the granting of special and differential treatment to SIDS”. In 2001, the Doha Ministerial Conference of the WTO addressed the issue, not of SIDS but of small economies, and established the Work Programme on Small Economies (WPSE). This was followed by the 2002 World Summit on Sustainable Development in Johannesburg, where trade issues were again raised. The Johannesburg Programme of

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[39] For example, in a seminar at the Indian Ocean Commission on small economies/SIDS, the main background document duly considered Madagascar as a small economy. (Commission de l’Océan Indien, Mission d'identification des thèmes relatifs aux petites économies insulaires et vulnérables pour les négociations des futurs accords de partenariat économiques UE/ACP, Rapport Pardevo, 2002). However, Madagascar, with a population of 16.4 million and known as “la grande île”, does not appear in the present UN list of SIDS or in the AOSIS membership.

Implementation, in paragraph 58(f), called for "work to ensure that, in the ongoing negotiations and elaboration of the World Trade Organization work programme on trade in small economies, due account is taken of small island developing States, which have severe structural handicaps in integrating into the global economy, within the context of the Doha development agenda". Thus, relevant UN recommendations stress the need to deal with the trade problems of SIDS, although island-specific issues are not singled out in the WTO's WPSE.

This confusion is explained by institutional factors. Different well-meaning international bodies, though emanating from essentially the same governments, tend to pursue parallel agendas, with scant regard to each other's work. While the World Trade Organization is "examining" the case for small economies, the Commonwealth Secretariat continues to act in favour of small States (a significant part of its membership). For its part, the World Bank follows up on the work of the Joint Task Force by convening the annual Small States Forum, while in practice recognizing the "small island exception", not a "small State exception", for IDA eligibility. As for the United Nations system, it is bound to support the implementation of the Barbados Programme of Action, which only deals with SIDS, though not on the basis of a definition.

Intergovernmental postures are indeed influenced by the technical views and bureaucratic interests of relevant international secretariats. However, the lack of international coherence also reflects the compartmentalized attitudes and interests of the national bureaucracies that are delegated to relevant meetings. In SIDS capitals, there is often a division of work that leads to compartmentalization and defeats efforts to promote effective coordination. Any conference or meeting that involves "sustainable development" in its title will be regarded as coming under the exclusive preserve of the Ministry of the Environment, and the latter will tend to confine the range of issues at stake within the scope of ecological policy. Ministries of Trade, on the other hand, will have an interest in issues relevant to "smallness", not "islandness". Similarly, diplomatic representations, where they exist, will understandably focus on the immediate meetings they are called upon to attend. Typically, a New York-based group of ambassadors will concentrate on the environmental issues relevant to SIDS, and may do little justice to other key issues, while Geneva-based ambassadors will tend to focus solely on WTO matters (hence on small and vulnerable economies) and disregard environmental issues. Representatives from Ministries of Finance will attend World Bank meetings, and may not be too sure whether they should plug on small economies or SIDS, as deserving special attention.

The latest addition to the confusing proliferation of categories emanated from the eleventh session of UNCTAD, in São Paulo (Brazil) in June 2004. Paragraph 33 of the São Paulo Consensus states that "UNCTAD should enhance its work on the special problems of LDCs, small island developing States, and land-locked developing countries and the related special problems and challenges faced by transit developing countries as well as structurally weak, vulnerable, and small economies". This paragraph indeed cites five different categories: LDCs, SIDS, land-locked developing countries, transit developing countries, and an unexpected and rather cumbersome category referred to as "structurally weak, vulnerable, and small economies". This amalgamation reveals that member States, in a bulimia of advocacy, deliberately accepted a proliferation of categories. Only three of the five groups cited are UN-recognized categories (LDCs, land-locked developing countries, SIDS). Another one (transit developing countries) does not enjoy distinct UN recognition as a specially disadvantaged or otherwise remarkable group. The fifth (undefined) entity cited in the single sentence of paragraph 33 (*structurally weak, vulnerable, and small economies*) inflates the numbers of countries worthy of sympathy, thereby fueling the perception of a proliferation of categories in the framework of international cooperation. This perception is deleterious to the credibility of any of the categories that have a legitimate claim to attention. With these five entities within the same sentence, there is apparent generosity toward a large number of UNCTAD member States (a very large majority of developing countries), but the amalgamation does little to foster concrete action toward any of them, and in particular SIDS.

6. Conclusion

Over the past 30 years, the United Nations system has supported the cause of small island developing States as countries meriting special attention because of the intrinsic, serious disadvantages they generally face. Though many good intentions have been expressed, skepticism remains, among development partners, as to the special needs of SIDS. It is too early to prejudge the outcome of the latest major international pronouncements in favour of SIDS, such as those emanating from the Johannesburg Plan of Implementation in its chapter VII, which is the foundation for the review of the implementation of the Barbados Programme of Action. However, it is safe to predict that the outcome of these efforts will be considered by many as falling far short of expectations. Indeed, in the absence of precise targets, and most importantly, of a definition of the countries concerned, monitoring and evaluating any process relevant to SIDS is an almost insurmountable challenge.

It is hoped that the decennial review of the implementation of the Barbados Programme of Action will trigger the "practical and pragmatic action" expected by the General Assembly. But in the context of the pervasive skepticism about the credibility of the SIDS category, it will be difficult to avoid that the Mauritius International Meeting turns out to be merely another amiable assembly unanimously expressing pious wishes and good intentions in favour of a nebulous group of countries.

Chapter 2

Preferential market access and erosion of preferences: what prospects for SIDS?

Stefano Inama[*]

Small island developing States (SIDS) are beneficiaries of a variety of trade preferences, many of which overlap with one another[1]. Their trade pattern still largely reflects the lasting economic relationship with their former colonial partners.

It is widely recognized that the composition of trade is as important as the level of trade in assessing the impact of international trade on economic development and poverty reduction[2]. This has implications in analyzing the magnitude and significance of the erosion of preferences, as these depend on the structure of exports, the dependence on preferences, and the effective utilization of these preferences. Several SIDS are heavily dependent on international trade in services, while others export goods under "most favoured nation" (MFN) duty-free conditions. Thus, some SIDS are not much threatened by the phenomenon of preference erosion in the context of trade liberalization.

This chapter examines the market access conditions SIDS face on their main export markets (section 1), assesses the effectiveness of relevant preferences (section 2), and offers some remarks on the paramount issue of preference erosion for SIDS (section 3).

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* Stefano Inama is a Senior Expert in the UNCTAD secretariat.

1 See Annex 1.

2 Birdsall and Hamoudi, Commodity dependence, trade and growth: when openness is not enough, Center for Global Development, Washington D.C., 2002.

SIDS exports: dominant features

The following briefly describes the dominant features of the export structure of 26 SIDS economies (based on COMTRADE data).

In **Antigua and Barbuda**, merchandise exports, except for some fisheries products, appear to mainly consist of re-exports to neighbouring islands.

In the **Bahamas**, lobster, polystyrene and rum accounted for 77% of total exports in 2001. In that year, the United States was the main destination of these exports (68% of total exports), followed by the European Union (27.8%).

In **Barbados**, 17 products accounted for 70% of total exports in 2003. Raw sugar (12.4% of total exports) and rum (10%) were the two main exported products, and the European Union the first destination (20% of total exports), followed by the United States (18%) and Trinidad and Tobago (15.3%).

In **Dominica**, eight products represented 76% of total exports in 2003. Soaps (27% of total exports) were followed by bananas (19%), toothpaste (15%), and disinfectants (4.3%). The European Union is the largest market for bananas (81% of total banana exports), and Jamaica for soap (about 50%).

In **Grenada**, nutmeg, frozen albacore tuna and cocoa beans accounted for 52% of total exports in 2003. The European Union was the destination of 69% of Grenada's exported nutmeg, and the United States that of almost all (99%) of its albacore tuna exports.

For **Jamaica**, in 2002, the main export markets were the European Union (31.3% of total exports), the United States (28.1%), and Canada (14.5%). Six products accounted for 79% of the total value of Jamaican exports in that year. Aluminum oxide and aluminum ores alone represented 65% of exports, while other significant export items were sugar (5%), alcohol (3%), rum (3%) and coffee (2.9%).

In **St. Kitts and Nevis**, electrical switches and sugar accounted for 75% of total exports in 2002, and the United States and the European Union were the two largest destinations.

In **St. Lucia**, bananas, beer, carton and garments were the four largest individual export items in 2003, a year in which they accounted for 75% of total exports.

In **St. Vincent and the Grenadines**, six products (dominated by bananas) represented 79% of total exports in 2003.

Trinidad and Tobago has been the largest exporter among Caribbean SIDS. Its exports have been heavily concentrated in six products. Petroleum, natural gas and derivatives from these accounted for 54% of total exports in 2002, with 50% to the United States market and 13% to the European Union.

In **Cape Verde**, the merchandise export pattern has been concentrated in shoe and garment exports to the European Union (80% of total exports) and the United States (17%).

In **Comoros**, vanilla, cloves and essential oils represent 94% of total exports, with the European Union as the main destination (59%), followed by the United States (16.5%) and Singapore.

In **Maldives**, garments and fisheries products accounted for 78% of total merchandise exports in 2002, with the United States (32.2%), Thailand (16.4%) and the European Union (15%) as the main destinations. However, tourism receipts constitute over 80% of the gross foreign exchange earnings of the country.

Mauritius has been a unique case of successful diversification among SIDS, with the European Union as its main market (65% of total merchandise exports in 2003), followed by the United States (17.5%). In 2003, 29 products accounted for 75% of total exports, and 10 of these 29 products were garments, while others consisted of sugar, frozen fish and tuna, jewellery and electronics.

The export structure of the economy of **Sao Tome and Principe** has been largely concentrated in one product and one destination, with cocoa beans accounting for 93% of total exports, and the European Union for 94%.

In **Seychelles**, prepared tuna, fish flours and fresh fish and shrimps accounted for 91% of total exports in 2002. The European Union was the main destination of these exports (74.6%).

In **Fiji**, 29 products accounted for 75% of total merchandise exports in 2003, with sugar alone representing 23%, and garments a cumulative share of 19%, well above tuna and gold. The direction of exports was diversified, with the United States accounting for 28% of total exports, Australia 27%, the European Union 22%, and New-Zealand 3.6%.

Exports from **Kiribati** are largely concentrated in two products and markets: copra to Bangladesh, and ornamental fish to the United States.

Tuna exports to the United States and the Philippines have been the main source of foreign exchange earnings for the **Marshall Islands**.

Calcium, phosphates and frozen shrimps have been the main exports from **Nauru**, with the European Union and Korea as leading destinations.

Garment exports to the United States and tuna exports to Japan account for about 70% of total exports from **Palau**.

In **Papua New Guinea**, silver, petroleum, copper and gold accounted for 71% of total exports in 2003, a year in which palm oil represented 6% of exports, and coffee 3.3%.

Exports of electrical wiring harnesses to Australia, garments to the European Union and fish meat to the United States represented 77% of the total merchandise exports of **Samoa** in 2002.

In the **Solomon Islands**, three products account for 77% of total exports, with wood exports to China (34%) and South Korea (29%) as the main sources of foreign exchange earnings, while tuna exports to Japan and cocoa beans exports to Singapore make up the rest of the export structure.

Squash exports to Japan and fish product exports to the United States have been the main sources of foreign exchange earnings for **Tonga**.

In 2002, 76% of the total merchandise exports of **Vanuatu** were concentrated in four products (copra, seaweed, wood, meat) and five destinations.

1. Market access conditions relevant to SIDS[3]

There is no special trade preference by virtue of SIDS status. However, all SIDS qualify for at least one preference scheme. While SIDS that fall within the LDC category benefit from LDC-specific preferences, all other SIDS — a majority — are beneficiaries of preferences through special programmes such as the Caribbean Basin Initiative of the United States, Caribcan of Canada, or SPARTECA of Australia and New Zealand. The European Union grants special trade preferences to a large majority of SIDS by virtue of the Cotonou Partnership Agreement between African, Caribbean and Pacific (ACP) countries on the one hand, and members of the European Union on the other.

After the first ministerial conference of the World Trade Organization (WTO) in 1996, WTO members stressed the importance of granting special trade preferences to LDCs. They agreed on a plan of action that called for autonomous concessions — essentially duty-free access — on the part of developed countries, with a view to improving the capacity of LDCs, which are structurally handicapped, to face international competition in the multilateral trading system[4]. Under this plan of action, a number of initiatives were taken to improve market access conditions for LDCs.

In May 2000, the United States promulgated the Africa Growth and Opportunity Act (AGOA), through which the Generalized System of Preferences (GSP) scheme of the United States was amended to expand the

[3] For a detailed description of the schemes, see: Trade preferences for LDCs: an early assessment and possible improvements, UNCTAD, 2003.

[4] See WTO document WT/G6/2/195.

range of products, in particular to textiles and clothing, in favour of designated sub-Saharan African countries.

Japan's GSP scheme was reviewed in December 2000 and amended to provide duty-free access to the Japanese market for a number of industrial products originating in LDCs. After a second review in April 2003, a further list of agricultural products of interest to LDCs was introduced, essentially granting duty-free access for all products.

In countries of the European Union, the "Everything But Arms" (EBA) initiative entered into effect on 5 March 2001, providing duty-free and quota-free access to all products other than arms, as well as a special trade regime for bananas, rice and sugar, with tariff quotas in the transitional period before the phasing out of preferences.

In January 2003, the Canadian scheme of trade preferences was greatly improved, through an extension of product coverage to all products, including textiles and clothing, and new rules of origin, with some minor exceptions regarding selected agricultural products.

The trade preferences of the United States toward SIDS

The US GSP scheme provides for duty-free entry of all products originating from designated beneficiaries. It has been in operation since 1976, initially for two periods of 10 years, and then renewed every year or every other year. The latest renewal took place through the Trade Act of August 2002. The latter authorized the scheme, which had expired in September 2001, to be extended to December 2006.

A significant improvement was brought to the US scheme in 1997, when 1,783 new products originating from LDCs were granted duty-free treatment. The list of products that are eligible for GSP treatment comprises selected dutiable manufactured and semi-manufactured products, as well as agriculture and fisheries products and primary industrial products that are normally not duty-free. The US Government, through the GSP Sub-committee, conducts annual reviews of the list of eligible goods and beneficiaries. Certain articles such as textiles, watches, footwear, handbags, luggage and watches are excluded from the list of eligible products. Also ineligible are domestically sensitive products such as glass and steel products, and electronic components.

The United States has several preferential programmes that are relevant to imports from SIDS. However, none of these programmes warrant duty-free, quota-free access for all imports from SIDS, and there is no preferential scheme exclusively for SIDS. A long-standing principle of US trade policy has been to make preferential treatment conditional upon the adherence of relevant countries to certain eligibility criteria. Such criteria generally relate to the laws and policies of recipient countries rather than to their economic performance. Indeed, some of the poorest countries have been found not to meet the requirements set in the trade-related laws of the United States.

While special programmes such as those resulting from the Caribbean Basin Initiative and the AGOA are relevant to several SIDS by virtue of specific US regional policies, Pacific SIDS benefit from the regular US schedule of GSP concessions, and as such, are part of a wider range of beneficiaries.

The Caribbean Basin Initiative

The Caribbean Basin Initiative (CBI) is a programme to promote economic development through private sector initiative in Central America and the Caribbean. A major goal of the CBI is to encourage foreign and domestic investment in non-traditional sectors, with a view to diversifying relevant economies. The Caribbean Basin Economic Recovery Act of 1983 (CBERA), amended in 1990, and the Caribbean Basin Trade Partnership Act of 2000 (CBTPA) are collectively known as the CBI, an initiative that grants duty-free entry to the US market on a permanent basis for a broad range of products of interest to countries of the region. The CBTPA provides beneficiaries with trade benefits that are similar to those enjoyed by Mexico under the North American Free-Trade Agreement (NAFTA). The main elements of the CBI that are available to all CBI beneficiaries are the following:

- duty-free entry to the United States for a wide range of products grown or manufactured in CBI countries, as an incentive for investment and expanded export production, and other special tariff measures;
- CBI textile programme: under the CBTPA, apparel manufactured in eligible CBI countries and based on US yarn and fabrics, as well as non-textile products excluded from earlier CBI legislation, can enter the United States on a duty-free, quota-free basis;
- CBI government procurement: national treatment is granted to CBI countries in bidding opportunities for certain types of procurement to the US government;
- CBI exporters to the United States are exempted from the US Import Merchandise Processing Fee, which is a value-based customs surcharge levied on incoming goods to cover the operation costs faced by the US Customs;
- various facilitation measures are granted by relevant public authorities, essentially through private sector development programmes relevant to trade and investment financing, and technical assistance programmes.

Though generally not eligible for CBI tariff preferences, garments have represented the largest category of imports from CBERA countries since 1988 (5.5% of total US imports from the region in 1984, rising to 48% in 1998).

However, relevant trade statistics show that Caribbean SIDS have not seized the trading opportunities arising from CBERA, although apparel manufactured in eligible CBI countries on the basis of US yarn and fabrics has entered the United States duty-free and quota-free since October 2000. CBI beneficiaries now effectively enjoy “NAFTA treatment” in the context of apparel exports to the United States.

The Africa Growth and Opportunity Act

The Africa Growth and Opportunity Act (AGOA)[5] is the most recent US initiative involving a new trade and investment policy toward Africa. It is of special importance to SIDS near the African continent.

Textiles and clothing have been statutorily excluded from GSP preferences since the inception of the US GSP programme. In this context, the AGOA was a significant development in the history of US preferences, as it offered duty-free access to the US market for textile and clothing products from sub-Saharan Africa.

In the light of Title I-B of the Act, AGOA benefits amount to what could be referred to as a "super GSP". While the normal US GSP schedule incorporates many product coverage limitations, the AGOA provides duty-free treatment for a wide range of products, even wider than the treatment resulting from the 1997 coverage enhancement for LDCs. The AGOA covers, upon fulfilment of specific origin and visa requirements, textile and garment articles that were previously considered import-sensitive and statutorily excluded from the GSP. The Trade Act of 2002 contains amendments to apparel and textile-related provisions under the AGOA.

The "AGOA-enhanced" GSP benefits will be in place until 30 September 2008, and will provide investors and traders in qualifying countries with a fair measure of market access predictability. An additional element of comfort, for beneficiaries, stems from the fact that the GSP authorities within the Office of the United States Trade Representative do not carry out the usual annual review of product coverage for AGOA products.

The AGOA adds 1,835 products to the range of regular GSP products (approximately 4,650). All AGOA-designated countries enjoy duty-free access to the US market for all eligible products under the regular US GSP schedule, including products that had so far enjoyed GSP

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5 AGOA, which forms part of the Trade and Development Act of 2000, was signed into law by the President of the United States on 18 May 2000. The AGOA implementation regulation was published on 2 October 2000.

treatment only if they were originating from LDCs. AGOA products that were previously excluded from GSP treatment, even for LDCs, include watches, electronic articles, steel articles, footwear, handbags, luggage, work gloves, leather apparel, and semi-manufactured and manufactured glass products.

The AGOA provides preferential tariff treatment for imports of certain textile and apparel products from designated countries of the African region, provided that these countries have: (i) adopted an effective visa system and related procedures to prevent illegal transhipment and the use of counterfeit documents; and (ii) made substantial progress toward implementing and following certain customs procedures to assist the US Customs in verifying the origin of the products. As of August 2002, 18 continental and island countries of the African region were eligible for preferential treatment under the AGOA. Among these countries were Cape Verde and Mauritius, which were approved by the United States Trade Representative after they had demonstrated that their visa system enabled them to prove that relevant textile goods were effectively made locally, in accordance with the rules of origin. The US government provided beneficiaries with guidance on the elements of an effective visa system[6].

The trade preferences of Japan toward SIDS

The Japanese GSP scheme was recently reviewed and extended for another decade, until 31 March 2014. During the 2001/2002 fiscal year, the special treatment granted to all LDCs was improved by adding a number of tariff items to the list of products for which only LDCs were enjoying duty-free and quota-free treatment[7]. As a result, LDCs such as Kiribati and Tuvalu were added to the list of beneficiaries. Comoros is also eligible for the same preferential treatment under the Japanese scheme if it requests it.

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6 The information concerning country eligibility is available at www.ustr.gov.

7 For detailed information on the current scheme, see: Handbook on the Scheme of Japan 2002/2003 (UNCTAD/ITCD/TSB/Misc.42/Rev.2).

LDCs enjoy duty-free access to the Japanese market for all products covered by the scheme and an additional list of products for which preferences are granted to LDCs only.

Japan further improved its GSP scheme in 2003. The number of agriculture and fisheries products under duty-free and quota-free treatment was increased from 300 to some 500 items for LDCs. This now improved scheme includes prawns and frozen fish fillets, while nearly all industrial products from LDCs have already been given duty-free and quota-free treatment. According to the Japanese government, this expansion has brought the proportion of products under maximum preferential treatment from about 80 to over 90% of total Japanese imports from LDCs.

Moreover, the number of products covered by the Japanese schedule of GSP preferences for developing countries has been increased, with the addition of about 120 items, almost all of which are agricultural products (e.g. dried prunes, copra oil, avocado, pawpaw). Furthermore, tariff levels have been reduced for about 60 products covered by the GSP.

The trade preferences of the European Union toward SIDS

The preferential market access conditions relevant to SIDS exports to the European Union (EU) are regulated by two main sets of trade arrangements:

- the GSP scheme of the European Union, since the entry into force of the "Everything But Arms" (EBA) amendment on 5 March 2001, has provided, for an unlimited period of time, duty-free and quota-free access to the EU market for all products originating from LDCs except arms and ammunition, with special provisions applicable to three sensitive products (bananas, rice, sugar) for which customs duties will be phased out over specific transitional periods[8]; and

[8] The phasing-out period for bananas is 2002-2006, and for sugar and rice, 2006-2009. However, a duty-free quota on sugar and rice, based initially on the best LDC export performance during the 1990s, is now available to LDCs. These quotas are to increase by 15% each year in order to ensure effective market access for LDCs in the European Union market during the transition period.

- the new ACP-EU Cotonou Partnership Agreement[9], which supersedes the Lomé IV Convention, provides for an eight-year rollover of the preferences previously granted under Lomé IV, with minor improvements, until 2008[10].

One of the main differences between the preferential regime provided to LDCs under the EBA-amended GSP scheme and the Cotonou trade regime relates to the legal nature of the two preferential arrangements. Whereas the GSP was conceived as a unilateral, non-reciprocal and "unbound" regime granted by development partners in support of developing countries, the Cotonou preferences stem from a legally binding international treaty between two parties (the European Union and the ACP States). Under this treaty, the European Union committed itself to granting, until 2008, non-reciprocal preferential access to its single market for ACP products. To give stability to its GSP preferences for LDCs, the EU pledged to maintain its preferential treatment of LDC products for an unlimited period of time, and without periodical reviews.

Before the EBA brought ultimate improvements to the range of market access concessions to LDCs, the very high trade-weighted coverage (99.9%) that had been granted either under the former Lomé Convention or under the Cotonou Partnership Agreement appeared to provide little scope for improving market access for LDC products[11]. However, a closer

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9 The Partnership Agreement between the EU and 78 ACP States was signed in Cotonou (Benin) on 23 June 2000. Pending the ratification process, the Agreement was put into provisional application on 2 August 2000, according to the modalities laid down in Decision No. 1/2000 of the ACP-EC Council of Ministers of 27 July 2000 (2000/483/EC, Official Journal L 195 of 1.8.2000, p. 46).

10 Under the Cotonou Partnership Agreement, the EU had anticipated the EBA initiative by entering into a commitment whereby it would "start a process which, by the end of multilateral trade negotiations and at the latest 2005, will allow duty-free access for essentially all products from all LDCs, building on the level of the existing trade provisions of the Fourth ACP-EC Convention and which will simplify and review the rules of origin, including cumulation provisions, that apply to their exports" (article 37, paragraph 9, of the Cotonou Partnership Agreement).

11 Trade-weighted coverage is given by matching a covered product with LDC trade (this is one of the main indicators to assess the relevance of the preferential schemes for LDCs). Brenton, P., Integrating the least developed countries into the world trading system: The current impact of EU preferences under Everything But Arms, World Bank, February 2003.

analysis of the preferential treatment provided under the Lomé/Cotonou regime and the pre-EBA GSP revealed that the product coverage and preferential rates granted to LDCs were not equivalent to duty-free access[12].

All SIDS (except Maldives and Timor-Leste, which are LDCs) are recipients of trade preferences under the Cotonou Partnership Agreement. However, the main preferences are concentrated in the protocols that provide special market access for bananas, rum and sugar[13].

Maldives and Timor-Leste, as LDCs though not ACP States, benefit from the EBA treatment, which grants them better market access conditions for some agricultural products than the regular GSP[14].

The trade preference of Canada toward SIDS

The Canadian legislation relevant to tariff concessions in favour of developing countries was brought into effect in July 1974. After an initial period of 10 years, the Canadian scheme was renewed in 1984, with a number of improvements, including an expanded coverage. The scheme was renewed again in 1994 and 2004.

In September 2000, the Canadian government widened the product coverage of its GSP scheme for LDC exports with an additional list of 570 products that had previously been excluded from the scheme. This initiative, however, did not provide additional preferences for textiles and clothing. There was, therefore, little change in the levels of preference to LDCs. Indeed, the additional list of products covered a tiny fraction of LDC exports, as only 15 of the 570 additional products were actually exported to Canada. The limited improvements that were brought to market

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12 See: Improving market access for LDCs, UNCTAD/DITC/TNCD/4. A detailed analysis of the preferences granted under the Lomé/Cotonou agreements is currently being prepared by UNCTAD.

13 For details of these protocols, see the ACP-EU Partnership Agreement in the supplement to *The Courier* of September 2000.

14 In fact, these additional market access opportunities relate to temperate agricultural products. See, for more details, UNCTAD, 2003, op. cit.

access conditions were concentrated in wines, and to a lesser extent seafood (lobster) and mushrooms.

In January 2003, the Government of Canada granted duty-free and quota-free access to LDCs, except for dairy products, eggs and poultry. The most important addition, under this initiative, was the duty-free and quota-free treatment of textiles and clothing. The initiative also changed the rules of origin by introducing an innovative cumulative system that allowed inputs to originate from any preference-receiving country[15].

As a result of the addition of garments into the GSP scheme of Canada, Maldives became the largest SIDS beneficiary of the Canadian preferential regime (55% of Canadian imports from SIDS). Other main beneficiaries include Fiji (27%), Jamaica (8%), Barbados (6%), Mauritius (3%), and St. Kitts and Nevis (1%). Garments, skipjack tuna and rum were the products that benefited most from Canadian GSP preferences.

In addition to the Canadian GSP scheme, Caribbean SIDS may benefit from Caribcan, a trade development assistance programme for Commonwealth Caribbean countries and territories established in October 1985. The duty-free provisions of Caribcan exclude some goods (in particular, those relevant to chapters 50 to 65 of the Harmonized System), and the rules of origin relevant to the Commonwealth Caribbean Countries Tariff (CCCT) treatment are set out in regulations enacted under Section 24 of the Canadian customs tariff.

For a Caribbean SIDS to qualify for duty-free treatment under Caribcan, at least 60% of the factory value of the goods — as packed for shipment to Canada — must originate from the relevant Caribbean country, or other Caribbean beneficiaries, or Canada. The goods must have been finished, in the Caribbean exporting country, in the form in which they will be imported into Canada. Pursuant to the Canadian proof of origin regulations, either a duly completed certificate of origin (form A), or a written statement of origin signed by the exporter must be presented to the Canadian Customs at the time of release or accounting.

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[15] Details of the Canadian rules of origin are provided in: Trade preferences for LDCs: An early assessment and possible improvements, UNCTAD, 2003.

In 2002[16], 97% of all Canadian imports from Caribcan countries entered Canada on a duty-free basis. Annex 3 shows the top 25 commodities benefiting from Caribcan preferences.

The trade preferences of Australia and New Zealand toward SIDS

Given their geographical location, Australia and New Zealand are important markets for Pacific SIDS. Through their GSP schemes, these two countries grant duty-free and quota-free access to LDCs, in particular, to the five LDCs of the Pacific (Kiribati, Samoa, Solomon Islands, Tuvalu, Vanuatu).

The South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) is a non-reciprocal trade agreement under which Australia and New Zealand offer duty-free and unrestricted or concessionary access to their markets for virtually all products originating from SIDS of the Pacific Islands Forum. SPARTECA was signed by most Forum members in 1980, and came into effect in January 1981. Under this scheme, New Zealand provides duty-free and unrestricted access to its market for all products from Forum countries. Australia offers the same concessions, except for sugar. To qualify for SPARTECA preferential treatment, Pacific goods exported to Australia or New Zealand must meet the rules of origin set out in SPARTECA.

2. Assessing the trade preferences granted to SIDS

Assessing the value of trade preferences before engaging in negotiations is particularly important to SIDS that have been beneficiaries of tariff preferences and face the risk of preference erosion as a threat on their socio-economic stability.

The literature on trade preferences indicates that only a handful of countries really benefit from trade preferences[17]. This section identifies the

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16 See WTO/L/545 of 17 November 2003.

17 See: S. Inama, Erosion of trade preferences: where, how, and when? Mimeo, 2004.

SIDS and relevant export products that benefited most from the trade preferences granted by the European Union to ACP SIDS, by the United States to Caribbean SIDS and regular GSP beneficiaries, and by Japan to SIDS under its GSP scheme. Regarding the EU, the data allowing this analysis are presented in Annex 2. These country-product pairs are most likely to be affected by further erosion in the context of trade liberalization. Particular attention has been devoted to those products that were effectively utilized, i.e., products that enjoyed or claimed a preferential tariff treatment at the time of importation. Low rates of utilization have been pointed out in specific cases, while some available preferences to sectors where SIDS have not yet developed a supply capacity or recorded trade may be effectively utilized only in the future.

Often, trade preferences have not been able to encourage investment and generate export diversification. It deserves to be noted that the trade preferences that were granted under the four Lomé conventions or the current Cotonou Partnership Agreement did not improve export diversification and supply capacities in most ACP countries[18].

Assessment of trade preferences available to ACP SIDS

In Antigua and Barbuda, only a minimal share of exports to the European Union took place through trade preferences in 2002. The first individual commodity for which preferences were used was rock lobster, with a significant preferential margin of 12.5% and a utilization rate of over 90%.

In the Bahamas, in 2002, frozen rock lobster was also the largest beneficiary of ACP-specific preferences, with a utilization rate of almost 90%. Other tariff lines eligible for ACP trade preferences included sugar and certain varieties of rum. Yet, the largest export of rum took place in 2002 under a tariff line that was duty-free on an MFN basis.

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[18] See: EU Commission Green Paper on the future of EU/ACP relations.

In Barbados, in 2002, raw sugar and wrenches, classified in three tariff lines, accounted for 90% of all claimed trade preferences. The preferential margin for sugar amounted to 33.9 euros per 100 kg.

In Dominica, trade preferences for banana exports accounted for more than half of all claimed preferences in 2002.

In the same year, in Grenada, exports of bananas, fish and pumpkin accounted for 92% of trade preferences. A preferential margin of 15% was recorded for fish, and of 12.8% for pumpkin. The main commodity exported to the European market, nutmeg, already accedes duty-free on an MFN basis.

In the sphere of Caribbean SIDS exports to the EU, the individual tariff line that benefited most from ACP preferences, in 2002, was aluminum oxide from Jamaica, with a utilization rate near 70% and a preferential margin of 4%. Jamaican exports of cane sugar enjoyed trade preferences with a utilization rate of 69%. Banana was the third commodity benefiting most from ACP-specific preferences, with a utilization rate of 77%. These three products, together with garments, classified under four tariff lines with utilization rates over 80%, accounted for 90% of all claimed trade preferences in Jamaica.

Exports from Comoros under preferential access to the EU market have been concentrated in three tariff lines: vanilla, cloves and essential oils. The utilization rate was not particularly high (about 60%).

Exports from Mauritius to the European Union have been dominated by garments ($534 million in 2002) and raw cane sugar ($288 million). For garments, the utilization rate was high (90%), with an average preferential margin of 10%. Preserved tuna was also exported ($58 million in 2002), with a high preferential margin of 24%. These three categories of products –all with high utilization levels— account for about 90% of all trade preferences claimed by Mauritius.

In Sao Tome and Principe, fish and copra are the two main products enjoying trade preferences, with preferential margins of 15% and 6.4%, respectively.

In Seychelles, frozen fish and preserved tuna are the two main products benefiting from trade preferences, with a high utilization rate (about 90%) and high preferential margins (15% for frozen fish, 22% for frozen tuna, 24% for preserved tuna).

Exports from Fiji to the European single market have almost all been concentrated in sugar, a commodity that accounts for nearly 99% of the total value of Fijian exports to the EU under preferential treatment.

Exports from Papua New Guinea under preferential access to the European Union consisted of five products, namely, crude palm oil, crude coconut and palm kernel oil (with preferential margins ranking from 3.8 to 6.4%), as well as preserved tuna and vanilla, with a combined share of 92.5% of the total value of exports to the EU under preferential treatment. About a third of the exports of Papua New Guinea took place on an MFN duty-free basis.

Tuna exports from the Solomon Islands to the EU, in 2002, benefited from a preferential margin of 22%.

Exports of vanilla from Tonga to the EU have enjoyed duty-free access on an MFN basis, not through preferential treatment.

In Vanuatu, copra is the only commodity enjoying preferential treatment on the European single market, with a preferential margin of 2.5% or 6%, depending on the nature of the copra.

Overall, the ACP SIDS that benefited most from EU trade preferences were Mauritius (40%); the Bahamas (16%); Jamaica (15%); Trinidad and Tobago (9%); Seychelles (8%); Papua New Guinea (6%); Fiji (4%); Barbados (1%); and Dominica (1%). The products that benefited most from the same preferences were garments (28%); raw cane sugar (23%); rum (16%); tuna (10%); aluminum oxide (8%); crude palm oil and coconut (6%); petroleum (5%); banana (2%); and fish (2%).

Assessment of trade preferences available to Caribbean SIDS under the CBI[19]

Major exports from the Bahamas under CBI treatment, in 2002, included polystyrene (with a preferential margin of 6.5%), grapes, cigars, and sponges. These four products represented 95% of CBI preferences effectively used by the country.

Exports from Barbados to the United States under CBI treatment involve rum, ethyl alcohol, wrenches and machinery. Their cumulative share of all preferential imports from Barbados into the United States under the CBI has been close to 80%, and the relevant utilization rate has been high.

Ceramic items constitute the main dutiable export from Dominica to the United States under CBI treatment, with a preferential margin of 5.7%.

Nutmeg, essential oils and concentrates from essential oils have been the main exports from Grenada to the United States under the CBI. These products were not admitted into the United States with any preferential margin, as they entered duty-free on an MFN basis.

With regard to Jamaica, seven products accounted for 78% of all US imports from that country under CBI preferences in 2003. Ethyl alcohol, with a 2.5% preferential margin, was the main beneficiary, followed by yams (6.5% preferential margin), pawpaw, sauces and other fruits, with an average preferential margin of 6.4%.

Preferential exports from St. Kitts and Nevis were concentrated in electrical switches (with a 2.7% preferential margin), and television and machinery parts.

Exports of electronics from St. Lucia, namely, television antennas and transmission apparatus, were also the two items that benefited most from CBI preferential treatment, with a preferential margin of 1.8%.

19 Trade data in this section relate to 2002, unless otherwise indicated.

In 2002, methanol, steel bars and tyres accounted for 89% of the total value of exports from Trinidad and Tobago to the United States under CBI preferential treatment. Methanol alone (70% of the total value) enjoyed a preferential margin of 6%.

Overall, the Caribbean SIDS that benefited most from CBI preferences, in 2002, were Trinidad and Tobago (62%); Jamaica (16%); the Bahamas (13%); St. Kitts and Nevis (5%); Barbados (2%); St. Lucia (1%); and St. Vincent and the Grenadines (1%). Products that were of greatest relevance to US imports from Caribbean SIDS under the CBI preferential scheme included methanol (51%); polystyrene (13%); steel products (12%); electrical products (7%); ethyl alcohol (7%); pneumatic tyres (4%); rum (4%); and yams (2%).

Assessment of trade preferences available to other SIDS under the GSP scheme of the United States[20]

While US preferential imports from Caribbean SIDS and SIDS of the African periphery mainly took place under the AGOA and CBI initiatives, US imports from Pacific SIDS were covered by the regular US GSP scheme. US preferential imports from Pacific SIDS under the US GSP scheme mainly involved mineral waters, sugar, molasses, bananas and other fruits from Fiji, all of which have demonstrated a very high utilization rate. Fresh yam exports from Tonga received duty-free treatment under the GSP.

Overall, six SIDS were the main beneficiaries of US preferential trade arrangements, either through special regional schemes or under the regular US GSP scheme. The shares of preferential trade relevant to these six countries are as follows: Fiji (40%); Mauritius (33%)[21]; Jamaica (10%); Seychelles (9%); Trinidad and Tobago (5%); and Barbados (3%). Six products or groups of products of SIDS origin have dominated the multi-

[20] Trade data in this section relate to 2001.

[21] A very large share of the garments imported from Mauritius under the AGOA (95% in 2002) were dutiable goods. However, a relatively low utilization rate (about 40%) was recorded.

faceted pattern of preferential imports under the regular US GSP scheme. These products were: cane molasses and sugar (46%); mineral water (29%); accessories of breathing appliances (12%); dasheens and yams (6%); sunglasses (4%); and silver articles (3%).

Assessment of trade preferences available to SIDS under the GSP scheme of Japan[22]

In Japan, imports of skipjack tuna from the Solomon Islands have benefited from a preferential margin of 9.6%. Exports of yellowfin tuna and big-eye tuna, on the other hand, did not enjoy preferential treatment under the GSP scheme of Japan.

Tuna exports from Fiji to Japan did not benefit from the Japanese scheme. Yet, they enjoyed a preferential rate of 3.5%, as did fish exports from Mauritius and tuna exports from Papua New Guinea to Japan.

The seven SIDS that have benefited most from the Japanese scheme of market access preferences are the Solomon Islands (45%); Trinidad and Tobago (20%); Papua New Guinea (14%); Maldives (13%); Jamaica (3%); Mauritius (3%); and Fiji (2%). Skipjack tuna accounts for 95% of the total Japanese imports from SIDS under GSP treatment, followed by coffee (3%), and beer and rum (2%).

3. The issue of preference erosion

Trade liberalization on an MFN basis inevitably results in preference erosion. All SIDS that are preference-dependent have asked themselves whether they should seek compensation for the inevitable erosion of trade preferences, or aim at improving preferences and making them more effective[23]. The real value of trade preferences depends on the structure of

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[22] Trade data in this section relate to 2001.

[23] For an overall analysis of the issue of possible losses as a result of trade liberalization in agriculture, see: Turning losses into gains: SIDS and multilateral trade liberalization in agriculture, UNCTAD, 2003.

production in the country in question, and its utilization of the trade preferences.

For sugar and bananas, erosion is a serious threat for several SIDS. Contrary to many other beneficiaries, SIDS do not report persistent cases of low utilization. The reason behind this is that SIDS, with the notable exception of Mauritius, mainly export agricultural commodities and processed agricultural products that are not generally affected by stringent rules of origin (except for the fisheries sector). Low utilization rates have been recorded only in some cases.

The risk of erosion can be analysed in the light of the following hypotheses:

- the greater a country's dependence on trade preferences and the concentration of these preferences into a small number of export products, and the higher the relevant preferential margins, the more significant the implications of preference erosion are likely to be;
- on the other hand, the lower the rate of utilization of available preferences, that is to say, the greater the share of trade pursued on an MFN basis, the higher the risk of facing international competition, irrespective of whether MFN liberalization is taking place or not;
- the higher the rate of utilization of relevant preferences, the more likely it is that these preferences were deemed necessary to offset a competitive disadvantage, and the greater the probability that the country may have been overlooking the importance of diversifying the export structure in anticipation of the shock of erosion.

Accordingly, SIDS with low preferential coverage and/or a low utilization ratio will probably experience little loss in the context of erosion of preferential margins, as a large part of the relevant trade will be taking place under MFN conditions. On the other hand, for SIDS that have indeed benefited from preferential trade, much of the total merchandise trade will soon be taking place on an MFN basis if erosion affects the few products in which the relevant preferences are concentrated.

With the dismantling of textile and clothing quotas under the Agreement on Textiles and Clothing of the WTO, the issue of erosion has become particularly acute among garment-exporting SIDS, notably Mauritius. The elimination of quotas in the international textile trade is expected to generate substantial benefits for developing countries in general, with an expansion of relevant exports by 100 to 240%[24]. It has been estimated that the additional export revenue and overall income gains resulting from this liberalization will amount to $40 billion and $24 billion, respectively. Trade liberalization is also expected to induce the creation of some 27 million jobs. International competitiveness will naturally be the determining factor of the distribution of the “dividends” of liberalization. In this context, emergent Asian developing countries are likely to be the main winners. A few SIDS are small suppliers of textile and garments, and facing the risk of losing market shares, considering the competitive disadvantage they face as a result of their geographical characteristics and relatively high standards of living.

4. Possible measures of adjustment to preference erosion

The need to retain trade preferences, which are an essential facet of the principle of special and differential treatment, is irreversibly defeated by the broader objective of tariff reduction in the multilateral trading system. Preferences have never been placed before overall trade liberalization, despite the recognition of the importance of special and differential treatment by the WTO.

A number of suggestions can be made to help mitigate the adverse impact of preference erosion and of the dismantling of textile import quotas in accordance with the Agreement on Textiles and Clothing.

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[24] Abreu, Marcelo de Paiva (1995), Trade in manufactures: the outcome of the Uruguay Round and developing countries' interests; in: Martin W. and Winters A., eds., The Uruguay Round and the Developing Economies, *World Bank Discussion Paper,* 307, Washington, DC.

As outlined in some recent UNCTAD reports[25], there are still many gaps in the existing preferential programmes, and as a result, some SIDS are denied preferential treatment, either in principle or in practice, for many products. A meaningful move, on the part of preference-giving countries, would consist of filling these gaps and extending comprehensive preferential treatment to developing countries that are most in need of preferences. It could also be envisaged that comprehensive preferences be made a legally enforceable obligation. GSP preferences for developing countries in general are treated, under the Enabling Clause of 1979, as a privilege that may be granted or withdrawn by relevant development partners. By contrast, certain countries with acute disadvantages, such as LDCs or SIDS, could be granted preferential access on a binding and permanent basis.

Erosion, in SIDS, affects a handful of products. The question of the price of sugar in relation to the eventual phasing out of the sugar protocol for ACP exporters to the European Union is a major concern in the few SIDS that significantly depend on this commodity. Access to the EU market, for ACP banana producers, is also a subject of vital concern.

For a number of Pacific SIDS, fish exports constitute a significant source of foreign exchange earnings. Under the Doha development agenda, the market access negotiations on fisheries products currently underway are aimed at reducing MFN tariffs in the wider context of non-agricultural market access (NAMA) negotiations. The outcome of these negotiations is likely to result in further preference erosion. In this context, the existence of rental revenue from the renting of fishing rights to foreign fishing fleets can be regarded as an advantage for SIDS that would not have the capacity to compete internationally. Apart from subsistence fisheries and some specific niche markets (e.g. aquarium fish), few SIDS operate fishing fleets that are large enough to meet international competition in the global fishing industry.

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[25] See: Trade preferences for LDCs: an early assessment and possible improvements, UNCTAD, 2003.

Maldives is one of the few SIDS with a genuine national fleet. One cause of its competitive disadvantage is also a benefit to the international community as a whole: Maldivian fishing is deemed “sustainable” as it is mainly based on line and pole methods, while most fishing nations use (more profitable) stock-depleting seine methods. Factors other than market access considerations, such as fish stocks and limitations on fish catches, may ultimately determine the income SIDS are able to derive from their fisheries industry.

It is also important to note that the main beneficiaries of market access preferences, in the fisheries industry, are often the fishing enterprises established in preference-giving countries. Their vessels often directly import — without processing — catches originating in SIDS territorial waters, thereby benefiting from tariff preferences[26].

The “trade integration mechanism” (TIM) of the International Monetary Fund (IMF) seeks to remedy the temporary balance of payments problems resulting from the implementation of WTO agreements[27]. The IMF has cited tariff preference erosion, adverse changes in food-related terms of trade, and the dismantling of quotas under the Agreement on Textiles and Clothing as possible causes of imbalance in the current account.

Upon analysing the possible impact of preference erosion in developing countries, the IMF found that this impact was unlikely to be substantial for most countries. However, for a minority of countries, the impact is recognized to be significant, particularly in the context of the phasing-out of textile quotas.

Other compensatory mechanisms existed under the Lomé conventions between ACP countries and the European Union. Under the

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26 This fact is further demonstrated by the stringency of the EU rules of origin on fishery products. See on this: S. Inama, Improving Market Access for LDCs, UNCTAD, 2001.

27 See: Financing of Losses from Preferences Erosion, Communication from the International Monetary Fund, WT/TF/COH/14 of 14 February 2003; IMF, Fund Support for Trade-related Balance of Payment Adjustments, prepared by the Policy Development and Review Department. The trade integration mechanism (TIM) was officially established by a decision of the Fund on 13 April 2004.

Cotonou Partnership Agreement, support to ACP SIDS is possible in cases of fluctuation of export earnings, a phenomenon that is symptomatic of the vulnerability of island economies to external shocks beyond domestic control. While the Stabex and Sysmin, which were compensatory mechanisms under the Lomé conventions, were not renewed, a new flexible programming system now makes it possible to extend support to ACP SIDS through the funds allocated for programme framework.

A remaining question relates to the relationship between financial arrangements to compensate losses of preferences, and the agreements that will emerge from the Doha development round. So far, the multilateral trading system has considered preferential market access under the GSP or other initiatives as a matter outside the competence of the WTO. Preferences have been tolerated as an exception from the MFN principle rather than a legally enforceable obligation. In short, preferences have been dealt with outside the GATT and WTO framework *per se*.

In bilateral or regional integration arrangements or initiatives like the Euro-Mediterranean partnership initiative, financial packages tend to be the rule rather than the exception. Nowadays, developed countries are more inclined to financially assist developing countries in general, and SIDS in particular, in adjusting to the increasingly competitive global environment. This is particularly true for ACP SIDS in the context of negotiations to replace the former non-reciprocal preferences with reciprocal trade relations with the European Union under the upcoming regional Economic Partnership Agreements. Developed countries are more and more likely to support adjustment programmes that will involve mixed packages of aid and loans at favourable rates to respond to the needs of SIDS in the context of trade liberalization.

Annex 1. Eligibility of 29 SIDS for various preferential schemes of Australia, Canada, New Zealand and the United States

SIDS	US GSP scheme toward LDCs	AGOA	CBI	Canada's GSP scheme toward LDCs	GPT of Canada	Preferential scheme of Canada toward Commonwealth Caribbean SIDS	Regular GSP scheme of Australia (ASTP)	Regular GSP scheme of New Zealand	New Zealand's scheme toward LDCs	SPARTECA scheme of Australia and New Zealand
Antigua and Barbuda			x		x	x		X		
Bahamas			x		x	x				
Barbados			x		x	x		x		
Cape Verde	x	x		x	x		x		x	
Comoros	x			x	x		x		x	
Dominica			x		x	x		x		
Fiji					x		x*	x		x
Grenada			x		x	x		x		
Jamaica			x		x	x		x		
Kiribati	x			x	x		x*		x	x
Maldives				x	x		x		x	
Marshall Islands					x		x*			x
Micronesia (Fed. St. of)							x*	x		x
Mauritius		x			x			x		
Nauru					x		x*	x		x
Palau								x		
Papua New Guinea					x		x**	x		x
Samoa	x			x	x		x*		x	x
Sao Tome and Principe	x	x		x	x				x	
Seychelles		x			x			x		
Solomon Islands				x	x		x		x	x
St. Kitts and Nevis			x		x	x		x		
St. Lucia			x		x	x		x		
St. Vincent and the Gr.			x		x	x		x		
Timor-Leste										
Tonga					x		x*	x		x
Trinidad and Tobago			x		x	x		x		
Tuvalu	x			x	x		x*		x	x
Vanuatu	x			x	x		x*		x	x

* Australia grants preferences under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA).

** Australia grants preferences under the Papua New Guinea/Australia Trade and Commercial Relations Agreement (PATCRA) or SPARTECA, as appropriate.

Annex 2. Different preferential regimes of the European Union toward SIDS and other countries

Product	Rates of duty (%)				Value of imports from SIDS ($ '000)				
	MFN	GSP	LDC	ACP	Total	Dutiable	Covered by preferences	GSP pref. received	ACP pref. received
ANTIGUA AND BARBUDA									
Rock lobster and other sea crawfish (excl. frozen)	12.5	4.33	0	0	815	815	815	0	812
Sails made of synthetic fibres	12.4	9.87	0	0	572	572	572	0	0
Sails made of other textiles (excl. synthetic fibres)	12.4	9.87	0	0	517	517	517	0	0
Total	.	.	.	.	220 372	3 241	3 241	139	996
BAHAMAS									
Rum and tafia - Of a value exceeding 2 ecu per litre of pure alcohol	0.6 eur/ % vol/hl	.	0	0	315 828	315 828	315 828	0	315 828
Frozen rock lobster and other sea crawfish -- Crawfish tails	12.5	4.33	0	0	31 077	31 077	31 077	0	29 817
Raw cane sugar, in solid form -- For refining	33.9 eur/ 100 kg	.	0*	.	5 497	5 497	5 497	0	5 497
Expansible polystyrene, in primary forms	7.7	4.2	0	0	2 239	2 239	2 239	0	2 239
Frozen rock lobster and other sea crawfish -- Other	12.5	4.33	0	0	734	734	734	0	734
Other vegetable saps and extracts, nes -- Medicinal	0	.	0	0	217	0	0	0	0
Total	.	.	.	.	561 509	389 821	389 821	628	359 527
BARBADOS									
Raw cane sugar, in solid form -- For refining**	33.9 eur/ 100 kg	.	0*	.	17 925	17 925	17 925	0	17 925
Rum and tafia -- Other	0.6 eur/ % vol/hl	.	0	0	2 763	2 763	2 763	0	2 546
Raw cane sugar, in solid form – Other**	41.9 eur/ 100 kg	.	.	.	1 479	1 479	1 479	0	1 479
Rum and tafia -- Of a value exceeding 2 ecu per litre of pure alcohol	0.6 eur/ % vol/hl	.	0	0	1 373	1 373	1 373	0	1 373
Wrenches, hand-operated, with non-adjustable jaws	1.7	0	0	0	756	756	756	26	686
Total	.	.	.	.	42 896	29 187	29 187	40	26 175
DOMINICA									
Bananas, including plantains, fresh or dried -- Other***	680 eur/ 1000 kg	.	272 eur/ 1000 kg	380 eur/ 1000 kg	11 680	11 680	11 680	0	11 680
Electric sound or visual signalling apparatus, nes -- Indicator lamp, consisting of 4 light-emitting diodes	2.2	0	0	0	4 035	4 035	4 035	0	4 035
Burglar or fire alarms and similar apparatus -- Other	2.2	0	0	0	2 484	2 484	2 484	0	2 484

* 0% under preferential tariff quota

** 0% under preferential tariff quota (Sugar Protocol)

*** 0% under preferential tariff quota (Banana Protocol)

Product	Rates of duty (%)				Value of imports from SIDS ($ '000)				
	MFN	GSP	LDC	ACP	Total	Dutiable	Covered by preferences	GSP pref. received	ACP pref. received
Sauces and sauce preparations; mixed condiments and seasonings, nes -- Containing tomato	7.7	4.2	0	0	1 211	1 211	1 211	0	1 210
Total	.	.	.	.	25 932	20 559	20 559	31	20 379
GRENADA									
Other salt water fish – Fresh or chilled	15	5.2	0	0	1 043	1 043	1 043	6	1 022
Nutmeg	0	.	0	0	7 704	0	0	0	575
Bananas, including plantains, fresh or dried -- Other	680 eur/ 1000 kg	.	272 eur/ 1000 kg	380 eur/ 1000 kg	373	373	373	0	373
Other vegetables, fresh or chilled, nes -- Pumpkins and courges	12.8	8.91	0	0	196	196	196	0	196
Total	.	.	.	.	13 088	2 912	2 912	34	2 279
JAMAICA									
Aluminium oxide (excl. artificial corundum)	4	0	0	0	253 413	253 413	253 413	0	172 562
Raw cane sugar, in solid form -- For refining	33.9 eur/ 100 kg	.	.	.	68 082	68 082	68 082	0	68 082
Bananas, including plantains, fresh or dried -- Other	680 eur/ 1000 kg	.	272 eur/ 1000 kg	380 eur/ 1000 kg	28 114	28 114	28 114	0	27 897
Jerseys, pullovers, etc. of other textile materials, knitted or crocheted -- Men's or boys'	12.4	9.87	0	0	17 503	17 503	17 503	353	16 244
Jerseys, pullovers, etc. of cotton, knitted or crocheted – Men's or boys'	12.4	9.87	0	0	14 770	14 770	14 770	16	14 080
Jerseys, pullovers, etc. of cotton, knitted or crocheted – Women's or girls'	12.4	9.87	0	0	18 950	18 950	18 950	152	10 706
Jerseys, pullovers, etc. of other textile materials, knitted or crocheted – Women's or girls'	12.4	9.87	0	0	8 426	8 426	8 426	0	5 236
Jerseys, pullovers, etc. of man-made fibres, knitted or crocheted -- Women's or girls'	12.4	9.87	0	0	7 001	7 001	7 001	47	3 843
Rum and tafia -- Rum with a content of volatile substances other than ethyl and methyl alcohol	0.6 eur/ % vol/hl	.	0	0	3 789	3 789	3 789	0	2 740
Rum and tafia -- Other	0.6 eur/ % vol/hl	.	0	0	2 665	2 665	2 665	62	2 443
Roots and tubers with high starch content, fresh or dried, nes -- Arrowroot	9.5 eur/ 100 kg	.	0	0	2 211	2 211	2 211	0	2 208
Rum and tafia -- Of a value exceeding 2 ecu per litre of pure alcohol	0.6 eur/ % vol/hl	.	0	0	2 150	2 150	2 150	0	1 988
Other food preparations, nes -- Compound alcoholic preparations, other than those based on odoriferous substances	17.3% min. 1 eur/ % vol/hl	12.1	0	.	1 872	1 872	1 872	0	1 872
Vegetables preserved other than by vinegar, etc. not frozen, nes -- Okra, celeriac, cabbage (excluding cauliflower)	17.6	12.27	0	0	1 850	1 850	1 850	0	1 793
Jerseys, pullovers, etc. of Kashmir goats, knitted or crocheted – Women's or girls'	12.4	9.87	0	0	1 284	1 284	1 284	0	1 284
Jerseys, pullovers, etc. of wool, knitted or crocheted – Weighing 600g or more	10.5	8.35	0	0	1 194	1 194	1 194	0	1 194
Aquatic invertebrates, nes (excl. live, fresh or chilled) -- Other	11	3.8	0	0	1 140	1 140	1 140	0	1 037
Total	.	.	.	.	462 423	453 607	453 607	877	348 112

Product	Rates of duty (%)				Value of imports from SIDS ($ '000)				
	MFN	GSP	LDC	ACP	Total	Dutiable	Covered by preferences	GSP pref. received	ACP pref. received
TRINIDAD AND TOBAGO									
Petroleum oils					235 940	161 056	161 056	11 251	105 286
Methanol (methyl alcohol)	7	3.5	0	0	103 826	103 826	103 826	0	35 574
Raw cane sugar, in solid form -- For refining	33.9 eur/ 100 kg	.	.	.	26 245	26 245	26 245	0	22 996
Anhydrous ammonia	6.6	3.1	0	0	16 827	16 827	16 827	0	16 827
Bars and rods of iron/non-alloy steel, hot-rolled, in irregulary wound coils	1	0	0	0	8 007	8 007	8 007	0	7 775
Urea -- Urea containing more than 45% by weight of nitrogen on the dry anhydrous product	7.9	4.4	0	0	1 853	1 853	1 853	0	1 843
Methanal (formaldehyde)	5.5	0	0	0	1 229	1 229	1 229	0	1 229
Waters (incl. mineral and aerated), with added sugar, sweetener, etc.	9.6	6.1	0	0	1 134	1 134	1 134	0	1 110
Beer made from malt -- Other	3	0	0	0	896	896	896	0	805
Beer made from malt -- In bottles	3	0	0	0	1 007	1 007	1 007	30	719
Bars and rods of iron/non-alloy steel, hot-rolled, in irregulary wound coils	1	0	0	0	1 570	1 570	1 570	1 570	0
Total	.	.	.	.	416 194	332 022	332 022	13 031	196 826
CAPE VERDE									
Uppers and parts thereof (excl. stiffeners) -- Hand-made	3	0	0	0	3 762	3 762	3 762	0	3 762
Men's or boys' underpants and briefs of cotton, knitted or crocheted	12	9.55	0	0	1 393	1 393	1 393	0	1 393
Men's or boys' shirts of cotton	12	9.55	0	0	1 247	1 247	1 247	0	1 224
Men's or boys' trousers, breeches, etc. of cotton – Other	12.4	9.87	0	0	630	630	630	0	630
Jerseys, pullovers, etc. of cotton, knitted or crocheted -- Women’s or girls’	12.4	9.87	0	0	113	113	113	0	113
Total	.	.	.	.	14 701	8 518	8 518	0	7 904
COMOROS									
Vanilla	6	2.05	0	0	9 628	9 628	9 628	0	6 311
Cloves (whole fruit, cloves and stems)	8	2.75	0	0	3 900	3 900	3 900	125	1 580
Essential oils (incl. concretes and absolutes), nes	2.3	0	0	0	122	122	122	0	122
Total	.	.	.	.	17 761	13 849	13 849	125	8 093
MAURITIUS									
Garments –Knitted or crocheted	.	.	0	0	423 483	423 483	423 483	776	403 978
Raw cane sugar, in solid form -- For refining	33.9 eur/ 100 kg	.	0	0	258 352	258 352	258 352	0	256 433
Garments – not knitted or crocheted					152 033	152 033	152 033	310	133 517
Prepared or preserved tuna, skipjack and Atlantic bonito – Preserved	24	.	0	0	61 474	61 474	61 474	0	58 840
Raw cane sugar, in solid form – Other	41 eur/ 100 kg	.	0	0	33 478	33 478	33 478	56	32 348
Art. of jewellery and parts thereof of precious metal	2.5	0	0	0	6 543	6 543	6 543	391	5 251
Art. of jewellery and parts thereof of silver	2.5	0	0	0	3 284	3 284	3 284	29	3 011
Denim, with >=85% cotton, >=200g/m2	8.4	6.67	0	0	5 636	5 636	5 636	0	2 447
Parachutes and parts and accessories thereof	2.7	0	0	0	2 032	2 032	2 032	0	2 028
Prepared or preserved tuna, skipjack and Atlantic bonito – Preserved	24	.	0	0	4 522	4 522	4 522	0	1 925

Product	Rates of duty (%)				Value of imports from SIDS ($ '000)				
	MFN	GSP	LDC	ACP	Total	Dutiable	Covered by preferences	GSP pref. received	ACP pref. received
Fresh cut flowers and buds (*Proteas*)	9.67	6.17	0	0	1 539	1 539	1 539	5	1 489
Pigments and preparations based on titanium dioxide	6.5	3	0	0	1 112	1 112	1 112	0	1 050
Doors, windows and their frames and thresholds for doors, of aluminium	6.2	2.7	0	0	1 127	1 127	1 127	0	1 047
Pineapples, fresh or dried	5.8	2.3	0	0	698	698	698	1	683
Other salt water fish – Fresh or chilled	15	5.2	0	0	465	465	465	0	465
Total	.	.	.	.	1 109 875	1 010 029	1 010 029	2 788	943 079
SAO TOME AND PRINCIPE									
Fresh or chilled fish, nes (excl. livers and roes) -- Swordfish (*Xiphias gladius*)	15	.	0	0	154	154	154	0	154
Crude coconut (copra) oil and fractions – Other	6.4	2.19	0	0	142	142	142	0	142
Total	.	.	.	.	5 312	1 369	1 369	0	642
SEYCHELLES									
Prepared or preserved tuna, skipjack and Atlantic bonito – Preserved	24	.	0	0	129 178	129 178	129 178	0	119 837
Prepared or preserved tuna, skipjack and Atlantic bonito – Preserved	24	.	0	0	34 981	34 981	34 981	0	26 189
Prepared or preserved tuna, skipjack and Atlantic bonito -- For industrial manufacture	24	.	0	0	9 095	9 095	9 095	0	9 095
Other prepared or preserved fish, nes – Preserved	24	.	0	0	3 003	3 003	3 003	0	3 003
Fresh or chilled fish fillets -- Of haddock (*Melanogrammus aeglefinus*)	18	.	0	0	1 927	1 927	1 927	0	1 845
Frozen fish, nes (excl. livers and roes) -- Swordfish (*Xiphias gladius*)	7.5	4	0	0	1 774	1 774	1 774	0	1 774
Other salt water fish – Fresh or chilled	15	5.2	0	0	902	902	902	0	865
Other salt water fish – Frozen	15	11.5	0	0	6 907	6 907	6 907	6 067	841
Frozen yellowfin tunas (excl. livers and roes) – Other	22	.	0	0	501	501	501	0	501
Total	.	.	.	.	242 336	198 840	198 840	7 723	178 149
SOLOMON ISLANDS									
Frozen yellowfin tunas (excl. livers and roes) -- Other	0	.	0	0	277	0	0	0	0
Frozen skipjack or stripe-bellied bonito (excl. livers and roes) – Whole	0	.	0	0	466	0	0	0	0
Total	.	.	.	.	992	21	21	0	0
FIJI									
Raw cane sugar, in solid form -- For refining	33.9 eur/ 100 kg	.	0	0	79 039	79 039	79 039	0	79 039
Fresh or chilled fish fillets -- Of haddock (*Melanogrammus aeglefinus*)	18	.	0	0	333	333	333	0	333
Frozen yellowfin tunas (excl. livers and roes) -- Other	22	.	0	0	247	247	247	0	247
Women's or girls' jackets of synthetic fibres -- Other	12.4	9.87	0	0	169	169	169	5	163
Crude coconut (copra) oil and fractions -- Other	6.4	2.19	0	0	2 811	2 811	2 811	0	24
Total	.	.	.	.	86 037	84 199	84 199	282	80 500

Product	Rates of duty (%)				Value of imports from SIDS ($ '000)				
	MFN	GSP	LDC	ACP	Total	Dutiable	Covered by preferences	GSP pref. received	ACP pref. received
KIRIBATI									
Chromium trioxide	7.1	3.6	0	0	21	21	21	21	0
Total	.	.	.	.	955	833	833	21	0
VANUATU									
Crude coconut (copra) oil and fractions -- Other	6.4	2.19	0	0	1 805	1 805	1 805	0	1 326
Crude coconut (copra) oil and fractions -- for the manufacture of industrial monocarboxylic fatty acids	2.5	0	0	0	887	887	887	0	887
Total	.	.	.	.	3 895	2 876	2 876	1	2 392
PAPUA NEW GUINEA									
Crude palm oil – Other	3.8	0	0	0	120 620	120 620	120 620	0	113 470
Crude palm kernel or babassu oil and fractions -- Other	6.4	2.19	0	0	9 497	9 497	9 497	0	9 393
Crude coconut (copra) oil and fractions -- Other	6.4	2.19	0	0	11 256	11 256	11 256	0	5 658
Prepared or preserved tuna, skipjack and Atlantic bonito -- Preserved	24	.	0	0	7 210	7 210	7 210	0	4 450
Prepared or preserved tuna, skipjack and Atlantic bonito -- Preserved	24	.	0	0	5 096	5 096	5 096	0	3 313
Vanilla	6	2.05	0	0	2 151	2 151	2 151	560	918
Total	.	.	.	.	243 935	157 372	157 372	654	138 051
TONGA									
Vanilla	6	2.05	0	0	759	759	759	0	0
Cocoa beans, whole or broken, raw or roasted	0	.	0	0	233	0	0	0	0
Total	.	.	.	.	2 264	949	949	0	75
SAMOA									
Jerseys, pullovers, etc. of Kashmir goats, knitted or crocheted – Women's or girls'	12.4	9.87	0	0	1 915	1 915	1 915	146	1 506
Total	.	.	.	.	2 414	2 350	2 350	146	1573

Annex 3. **Main merchandise imports from CARIBCAN beneficiaries into Canada under CARIBCAN duty-free tariff treatment in 2002**

(in Canadian dollars)

HS tariff	Description	Imports under CARIBCAN treatment
72031000	Ferrous products obtained by direct reduction of iron ore	95,226,039
29051100	Methanol (methyl alcohol)	18,591,748
72139190	Other [Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel, of a circular cross-section measuring less than 14 mm in diameter]	8,069,327
03061100	Rock lobster and other sea crawfish (*Palinurus spp.*, *Panulirus spp.*, *Jasus spp.*)	7,598,224
72139110	Of a diameter not exceding 9.525 mm, for use in the manufacture of wire	3,526,356
07149090	Other [Arrowroot, salep, Jerusalem artichokes and similar roots and tubers with high starch or inulin content, fresh, chilled or dried, whether or not sliced or in the form of pellets; sago pith]	1,938,397
72072090	Other [Containing by weight 0.25% or more of carbon, other than blooms, billets, rounds, slabs and sheet bars]	1,703,045
22084010	Rum	1,620,713
20059090	Other [Other vegetables and mixtures of vegetables]	1,390,189
20089930	Akalas, akees, anchovy pears, apple-pears, avocados, bananas, banana chips (thin banana slices fried or otherwise prepared whether or not salted, sweetened or otherwise flavoured), bread fruit, carambolas, chayotes, cherimoyas (Jamaica apples)….	1,208,693
85369091	Other: Junction boxes; Receptacle boxes of metal	1,205,457
22021000	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured	1,059,060
07142000	Sweet potatoes	1,010,592
21039020	Mixed condiments and mixed seasonings	790,736
19019020	Food preparations of flour, meal, starch or malt extract	668,280
04063010	Within access commitment [Process cheese, not grated or powdered]	490,388
19059049	Other biscuits [Containing less than 25% by weight of wheat]	449,680

HS tariff	Description	Imports under CARIBCAN treatment
19053192	Other: Wafers and frozen waffles containing 25% or more by weight of wheat, in packages of a weight not exceeding 454 g each, and sweet biscuits containing 25% or more by weight of wheat, in packages of a weight not exceeding 1.36 kg each, over access	446,697
21039090	Other [Sauces and preparations]	362,811
19059020	Bread, leavened with yeast; Unleavened bread for sacramental purposes and communion wafers	332,217
09109990	Other spices	284,101
07099090	Other [Vegetables, fresh or chilled, not including: glove artichokes, asparagus, aubergines (egg-plants), celery, mushrooms and truffles, fruits of the genus *Capsicum* or the genus *Pimenta*, spinach, New Zealand spinach and orche spinach (garden spinach)]	250,276
08129010	Akalas, akees, anchovy pears, apple-pears, avocados, bananas, bread fruit, carambolas, chayotes, cherimoyas (Jamaica apples), citrus fruit, dates, durians, feijoas, figs, fu quas (alsam pears) genipes, guavas, imbus, jujubes, kiwi fruit	248,132
17049090	Other [Sugar confectionery (including white chocolate), not containing cocoa, not including chewing gum, whether or not sugar-coated]	246,406
20089210	Mixtures of akalas, akees, anchovy pears, apple-pears, avocados, bananas, bread fruit, carambolas, chayotes, cherimoyas (Jamaica apples), citrus fruit, dates, durians, feijoas, figs, fu quas (alsam pears) genipes, guavas, imbus, jujubes, kiwi fruit	245,445

Source: Statistics Canada import data

Chapter 3

Trade and the environment: an important relationship for SIDS

René Vossenaar[*]

The 1994 Programme of Action for the Sustainable Development of Small Island Developing States (SIDS), known as the Barbados Programme of Action (BPoA), recognizes that development issues and the natural environment, in SIDS, are closely inter-related and interdependent. The BPoA identifies 14 priority areas, mostly concerning environmental issues, and indicates specific action relevant to the special challenges faced by SIDS. It also identifies several areas of cross-sectoral action, in particular, to support economic diversification. This chapter examines the nexus of trade and environment issues from the perspective of SIDS, taking into account the outcome of the fourth Ministerial Conference of the World Trade Organization (Doha, 2001) and of the World Summit on Sustainable Development (Johannesburg, 2002).

Section 1 focuses on negotiations on environmental issues in the Doha Work Programme; environmental requirements and market access; biodiversity and traditional knowledge; fisheries subsidies; and trade and environment policy coordination. Section 2 then examines relevant issues in the Johannesburg Plan of Implementation.

The rest of the chapter deals with supply factors. The BPoA recommends that, in order to achieve sustained economic growth and sustainable development, SIDS need to develop overseas markets for value-added exports in areas in which they are internationally competitive.

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[*] René Vossenaar is the Chief of the Trade, Environment and Development Branch in the UNCTAD secretariat.

However, the fact remains that SIDS face serious problems with regard to export competitiveness, essentially because of their small size[1]. These problems include a lack of economies of scale; the narrowness of the resource base of islands; the smallness of export volumes, moreover, often from remote locations involving high transport and communication costs; and the lack of infrastructure. Preferential access to the markets of developed countries, and special and differential treatment in the multilateral trading system are of vital importance to SIDS, considering their need to overcome disadvantages in terms of international competitiveness. Yet, many SIDS are seriously threatened by the phasing-out of market access preferences, in particular for sugar and bananas. In this context, and in order to promote export diversification, SIDS are generally interested in exploring niche markets for value-added products, including environmentally preferable products, as well as ecotourism[2]. Section 3 focuses on the experience of SIDS in the areas of organic agricultural products, certified timber and non-timber wood products, products based on traditional knowledge, and "fair-trade" products. Section 4 examines sustainable tourism development and niche markets for ecotourism. Finally, section 5 presents conclusions relevant to capacity-building activities under the UNEP-UNCTAD Capacity-Building Task Force on Trade, Environment and Development.

1. Trade and the environment in the Doha Work Programme

Currently, 14 small island developing States are members[3] of, and seven are observers[4] in, the World Trade Organization (WTO). To place

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1 These problems are magnified by the fact that several SIDS are themselves made up of many small islands.

2 See UNCTAD, Environmentally Preferable Goods and Services: Opportunities and Challenges for Caribbean Countries, Concept Note prepared for the UNEP-UNCTAD Capacity Building Task Force (CBTF) Workshop for Caribbean Countries, Kingston, Jamaica, 27-28 November 2003. UNCTAD/DITC/TED/MISC/2003/6, November 2003.

3 Antigua and Barbuda, Barbados, Dominica, Fiji, Grenada, Jamaica, Maldives, Mauritius, Papua New Guinea, Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

development at the heart of the Doha Work Programme (DWP), the Doha Ministerial Declaration (DMD) integrated the needs and interests of developing countries into the negotiations and their outcome. SIDS are particularly vulnerable to the impact of trade liberalization on relevant trade preferences. The DMD, in paragraph 35, called for the establishment of a work programme on small economies to examine trade issues in the context of small and vulnerable economies. The objective of this work was to frame responses to identified trade-related issues, with a view to obtaining a fuller integration of small and vulnerable economies into the multilateral trading system[5]. The DMD also reaffirmed the commitment of WTO members to the objective of sustainable development, and included environmental issues among issues for immediate negotiations or further analysis. This section deals with environment-related issues the DWP deals with[6].

Negotiating issues

The DMD, for the first time in WTO negotiations, called (in paragraph 31) for immediate negotiations on a number of environmental issues[7], in particular, those relevant to: (i) the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements (MEAs); (ii) the procedures for regular exchange of information between MEA secretariats and relevant WTO committees, and the criteria for granting observer status; and (iii) the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.

4 Bahamas, Cape Verde, Samoa, Sao Tome and Principe, Seychelles, Tonga, and Vanuatu.

5 The DMD instructed the General Council to review the Work Programme on Small Economies and make recommendations for action to the fifth Ministerial Conference of the WTO.

6 An assessment of general developments under the DWP and the fifth Ministerial Conference of the WTO (Cancún, September 2003) can be found in: UNCTAD, Trade and Development Board, 50th Session, 6-18 October 2003. Review of Developments and Issues in the Post-Doha Work Programme of Particular Concern to Developing Countries: the Outcome of the Fifth Ministerial Conference TD/B/50/8, Note by the UNCTAD secretariat. 29 September 2003 and Chairman's Summary TD/B/50/L.7

7 These issues are analysed in: UNCTAD, Trade and Environment Review, 2003.

Because of their vulnerability to the impact of most global environmental phenomena, SIDS have played an active role in promoting MEAs to answer global environmental problems through multilateral cooperation. For example, SIDS were instrumental in bringing about the Kyoto Protocol, and championed a strong Biosafety Protocol. SIDS have also had a special interest in ensuring that the multilateral trading system has the ability to accommodate the further development of MEAs. The BPOA encourages SIDS to ratify and implement MEAs, but it also calls on the international community to provide SIDS with access to finance and technology in relation to sustainable development, and to support capacity-building in these countries. From a development perspective, discussions on specific trade obligations in the WTO should not lose sight of the fact that trade measures, when considered necessary to serve the objectives of MEAs[8], tend to be part of packages that also include enabling measures. Because of their weak institutional capacities and geographical conditions, SIDS face difficulties in implementing certain MEA obligations, and are sometimes exposed to trade measures[9]. Such issues are best resolved in the context of MEAs, and in particular, through capacity-building efforts. Given their limited capacities in applying more sophisticated instruments based on risk assessment, SIDS tend to prefer instruments that put responsibilities on exporting countries, such as prior informed consent and liability[10].

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8 The BPOA, in paragraph 45 C(iv), explicitly calls on the international community to "[m]ake greater use of import restrictions, under the Convention on International Trade in Endangered Species of Wild Fauna and Flora, on products from endangered species endemic to small island developing States".

9 The International Commission for the Conservation of Atlantic Tuna (ICCAT) has banned imports of bigeye tuna from non-members, including Belize and St. Vincent and the Grenadines because these countries failed to control illegal harvests in the Atlantic by fishing boats registered by them. Illegal, Unreported and Unregulated (IUU) fishing is an issue of concern to SIDS. These countries need assistance in strengthening legislative and monitoring capacities.

10 See the discussion on biosafety in section 2 below.

The CITES review of significant trade process

The Review of Significant Trade process is a CITES mechanism used for remedial action when there is reason to believe that Appendix II species are being traded at significant levels without adequate implementation of CITES provisions. If implemented correctly, the process acts as a safety net for the Convention by ensuring that species are harvested sustainably. The mandate for this process is implemented by the Animals and Plants Committees.

The queen conch *Strombus gigas* is one of the most important fishing resources in the Caribbean[11]. The CITES Animals Committee carried out a first Review of Significant Trade in 1995. It concluded that the commercial fishing of queen conch was threatened by over-harvesting. This conclusion, along with evidence of illegal trade, required more effective management programmes and trade control. The Review also resulted in a recommendation in 1999 to suspend imports of queen conch from Antigua and Barbuda, Barbados, Dominica, St. Lucia and Trinidad and Tobago because these Parties failed to respond to earlier recommendations from the Animals Committee. The recommendation was withdrawn for St. Lucia in March 2002. In 2001, the Animals Committee had decided to reintroduce the queen conch into the Review of Significant Trade. The CITES secretariat initiated a project to assist range States in achieving a regional management strategy. TRAFFIC Europe, in cooperation with the World Conservation Union Species Survival Commission (IUCN/SSC) prepared a report to assist the Animals Committee in formulating recommendations to help a number of States to improve the management of their species and comply with Article IV of CITES.

As regards paragraph 31(ii) of the DMD, cooperation and information exchanges between the WTO, the United Nations Environment Programme and MEAs have made MEA information sessions possible in the Committee on Trade and Environment (CTE), and in WTO-related side events at the Conferences of Parties (COP) of MEAs[12]. WTO-related side events provide useful opportunities for SIDS to obtain information on MEA-WTO linkages.

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11 CITES Secretariat, *CITES World - Official Newsletter of the Parties*, Issue 10, December 2002, pp. 3-4.

12 Side events in 2002/2003 included, for example, UNFF2 (New York, March 2002); CBD COP-6 (The Hague, April 2002); CITES COP12 (Santiago, November 2002); COP-6 to the Vienna Convention for the Protection of the Ozone Layer and MOP-14 to the Montreal Protocol (Rome, November 2002); Basel Convention COP-6 (Geneva, December 2002) and 34th Session of the International Tropical Timber Council (Panama City, May 2003). WTO, Report to the 5th Session of the WTO Ministerial Conference in Cancún, Paragraphs 32 and 33 of the Doha Ministerial Declaration, WT/CTE/8, Annex III. The CTESS has invited the secretariats of certain MEAs, UNEP and UNCTAD to participate in its meetings as observers on an *ad hoc* basis.

The Biosafety Protocol

SIDS have advocated a strong Protocol to provide an adequate level of safety for the transfer, handling and use of genetically modified organisms (GMOs). The Biosafety Protocol entered into force on 11 September 2003. Under the Protocol, the transboundary movements of living modified organisms (LMOs) must be accompanied by appropriate documentation. The Advanced Informed Agreement (AIA) procedure ensures that countries can make informed decisions on whether to import GMOs intended for introduction into the environment. Importing countries have the right to decide whether or not to accept imports of GMOs on the basis of risk assessments[13]. SIDS have very limited capacity to carry out risk assessments[14]. The importing country, however, has the right to require that the exporter country carries out the risk assessment and bears the cost. The inclusion of precautionary language in the operational part of the treaty means that a Government may decide not to permit a particular GMO to be imported, even if there is insufficient scientific evidence about its potential adverse effects. The Protocol also applies the precautionary approach with regard to potential risk to human health and gives importing countries the right to take into account socio-economic concerns, provided their actions are “consistent with their international obligations”.

SIDS have also strongly emphasized their capacity building needs[15], in particular for the establishment of a national biosafety framework consisting of a policy; a regulatory regime; a system to handle notifications; systems for monitoring and inspection; and systems for public information and participation[16].

As regards paragraph 31(iii) of the DMD, issues relevant to environmental goods and services are negotiated in different WTO bodies. Negotiations on environmental services are conducted in special sessions of the Council for Trade in Services, whereas negotiations on environmental goods take place in the Negotiations Group on Market Access for Non-

13 Risk assessments are to be undertaken in a scientific manner, using recognized risk assessment techniques.

14 Shipments of LMO commodities intended for direct use for food, feed or processing will have to be identified in accompanying documentation as "may contain" LMOs and as “not intended for intentional introduction into the environment”.

15 Report on the first AOSIS Workshop on the Cartagena Protocol on Biosafety and Small Island Developing States, Saint Kitts and Nevis, 4-6 December 2000.

16 Pier van der Meer, Building Capacities for the Effective Implementation of the Biosafety Protocol, Challenges and Opportunities, in: Secretariat of the Convention on Biological Diversity, Cartagena Protocol on Biosafety: From Negotiation to Implementation. Historical and New Perspectives as the World marks the Entry-into-force of the Protocol, CBD News, Special Edition.

Agricultural Products. The CTE, in special sessions, plays a role in clarifying the concept of environmental goods.

Environmental services have played an important part in the ongoing negotiations under the General Agreement on Trade in Services (GATS). Developing countries, including SIDS, can derive benefits from liberalization in trade in environmental goods and services, access to environmentally sound technology and know-how, greater efficiency in resource management, and an enhanced capacity to comply with environmental requirements in domestic and international markets. For example, environmental goods and services play an important role in the sustainable development of the tourism sector (see section 4 below), and in promoting the use of renewable energy technology. Some SIDS, however, have expressed the view that a cautious and gradual approach to liberalization commitments under the GATS are needed when there are insufficient regulatory frameworks and institutional capacities[17]. Before the Doha Ministerial Conference, few developing countries (and only one SIDS, Papua New Guinea[18]) had made liberalization commitments regarding environmental services.

Some lists of "environmental goods" have been circulated, in particular, those prepared by the secretariats of the Organization for Economic Cooperation and Development (OECD) and Asia-Pacific Economic Cooperation (APEC). They include, *inter alia*, equipment relating to particular environmental problems such as water filtering or purifying. As shown in Annex 2, SIDS are net importers of products on these lists[19]. They can benefit from imports of such products, for example

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17 See Catherin Cattafesta, Diagnóstico preliminar, República Dominicana. Study on environmental goods and services prepared under the UNCTAD project Building Capacity for Improved Policy Making and Negotiation on Key Trade and Environment Issues, funded by the UK Department for International Development (DFID), 2003.

18 Papua New Guinea's liberalization commitment was related to its sewage services and sanitation and similar services.

19 Trinidad and Tobago, however, shows a surplus if the OECD list (which includes chemical products) is considered, as a result of its exports of anhydrous ammonia (HS 281410) and methanol (290511). Trade statistics at the six-digit level of the Harmonized System tend to significantly overestimate trade flows, as many "environmental goods" are "ex-" items.

in the tourism sector. Trade liberalization in renewable energy products can also result in environmental benefits[20]. From an export perspective, SIDS may be interested in the inclusion of certain categories of environmentally preferable products in the scope of paragraph 31(iii) negotiations, as such products often face non-tariff barriers. In this context, most WTO members have argued against the use of criteria based on non-product-related processes and production methods to define environmental goods.

The Committee on Trade and Environment

The Doha Ministerial Declaration, in paragraph 32, instructed the CTE to pay particular attention to the following three issues and make recommendations, as appropriate, with respect to future action, including the desirability of negotiations: (i) the effects of environmental measures on market access, especially in relation to developing countries (particularly in LDCs), notably when the elimination or reduction of trade restrictions and distortions may stimulate trade and development; (ii) the relevant provisions of the TRIPS Agreement; and (iii) labelling requirements for environmental purposes.

The discussion on these issues, after Doha, has not advanced a great deal. These questions, however, remain issues of concern for developing countries, particularly the effects of environmental requirements on market access.

Environmental requirements and market access

In recent years, environment-related requirements, be they governmental regulations or voluntary private sector or NGO-induced standards, have become more frequent, stringent and complex. SIDS often lack the technical infrastructure and expertise to implement new environment and health-related standards and regulations. Environment-related requirements, particularly those implying high costs of compliance, entail problems for small and medium-sized enterprises, and have the effect

[20] See Section 2 on "The Johannesburg Plan of Implementation".

of crowding out small producers. Environmental requirements with potential implications for SIDS are found mainly in the fisheries, forestry and food sectors. Certification-related issues have become particularly important to these sectors.

Unilateral trade measures: shrimp/turtle

The United States prohibits importation of shrimp and shrimp products harvested in a manner that may adversely affect sea turtle species[21]. This prohibition does not apply in cases where the Department of State certifies annually that: (a) the government of the harvesting nation has taken specific measures to reduce the accidental taking of sea turtles in its shrimp trawl fisheries; or (b) that the fishing environment of the harvesting nation does not pose a threat to sea turtle species. With regard to (a), the US sea turtle conservation programme requires that commercial shrimp boats use sea turtle excluder devices (TEDs) to prevent the accidental killing of sea turtles. The 17 States meeting this standard (2003) include four countries of the Caribbean region: Belize, Guyana, Suriname and Trinidad and Tobago. Guyana had lost certification for a brief period in 1999[22]. With regard to (b), States certified as having fishing environments that do not pose a danger to sea turtles include the Bahamas, the Dominican Republic, Fiji and Jamaica. These countries harvest shrimp using manual rather than mechanical means to retrieve nets, or other fishing methods that are not harmful to sea turtles. Haiti had previously been included in this list. However, in May 2002, the State Department withdrew certification because Haiti was allowing foreign-flag shrimp trawling boats to operate in its waters without TEDs.

In October 2002, an UNCTAD expert meeting on environmental requirements and international trade elaborated on specific ways to mitigate the potentially negative effects of environmental measures on market access for developing countries. These include the involvement, at an early stage, of developing countries in the design of environmental measures; longer timeframes for compliance; better dissemination of information; well-focused technical assistance (including support through Article 11 of the Agreement on Technical Barriers to Trade); and the need to recognize the equivalence of environment-related measures in developing countries.

[21] Section 609 of Public Law 101-162 relating to the Protection of Sea Turtles in Shrimp Trawl-Fishing Operations

[22] Guyana has implemented the "Guiana Shield Marine Turtle Conservation Programme" sponsored by several corporations and NGOs, such as the WWF.

Biodiversity and traditional knowledge

Paragraph 19 of the Doha Ministerial Declaration deals with issues related to the review of Article 27.3(b) of the TRIPS Agreement, biodiversity, and traditional knowledge. The latter subject, in recent years, received increased attention on the international agenda. This is due to a number of factors, including: the recognition of its importance in the lives of a significant segment of the world's population; the conservation of biodiversity; concerns about the rapid loss of traditional knowledge and cultural diversity; concerns about unauthorized or inappropriate patenting or the use of traditional knowledge with little or no benefit to the original holders of such knowledge; a growing interest in harnessing traditional knowledge as a factor of local sustainable development; and growing world attention to, and interest in, the rights of indigenous peoples.

In the WTO, many developing countries have expressed concern that genetic resources and traditional knowledge in developing countries are sometimes appropriated and used without the consent of, and compensation to, their owners. Several developing countries have suggested that the TRIPS Agreement be amended so that applications for patents relating to biological materials or traditional knowledge will provide, as a condition for acquiring patent rights: (i) disclosure of the source and country of origin; (ii) evidence of prior informed consent through approval of authorities under the relevant regimes; and (iii) evidence of fair and equitable benefit-sharing under the national regime of the country of origin. These issues have also been studied from an environmental perspective in the context of the Convention on Biological Diversity, and from an intellectual property perspective in the Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore of the World Intellectual Property Organization (established in 2001). Protection of traditional knowledge is also a requirement in FAO's International Treaty on Plant Genetic Resources for Food and Agriculture, adopted in November 2001.

Fisheries subsidies

Discussions on fisheries subsidies are of relevance to most SIDS. In recent years, proposals were made to reduce or eliminate subsidies that contributed to over-capacity in the fisheries sector. In the Doha Ministerial Declaration, WTO members agreed to take steps to clarify and improve WTO disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries (paragraphs 28 and 31)[23].

While the elimination of certain trade-distorting subsidies may bring long-term benefits, some SIDS derive important economic benefits, including technical cooperation, from existing arrangements in the fisheries sector. Currently, Cape Verde, Comoros, Kiribati, Mauritius, Sao Tome and Principe and Seychelles have bilateral fisheries agreements with the European Union. It is important that the specific interests of small island economies be taken into account in the process of reducing subsidies.

Six small island and coastal developing States (Antigua and Barbuda, Belize, Fiji, Guyana, Maldives, Papua New Guinea, the Solomon Islands, and St. Kitts and Nevis) submitted a proposal on fisheries subsidies to the relevant negotiating group in the WTO. The proposal outlines three types of activities relevant to small coastal States, that should be exempted from subsidy-related obligations: (i) revenue generation from access fees for distant water fleets; (ii) domestic and foreign fishing for export in national waters (coastal States have developed this sector, often through incentives and partnership with distant water nations); and (iii) artisan fisheries operations for domestic and export markets.

Environmental impact assessments

The Doha Ministerial Declaration and Johannesburg Plan of Implementation have underlined the usefulness of environmental impact assessments or reviews in relation to trade policies at the national level.

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[23] In the initial phase of the negotiations, WTO members would indicate the provisions, including disciplines on the trade-distorting practices (including fisheries subsidies) they seek to clarify and improve in the subsequent phase.

This usefulness is particularly strong in SIDS, but the scope and methodology of such reviews should take into account the particular needs of each country[24].

Conclusion

SIDS need to participate effectively in relevant WTO negotiations to defend their legitimate interests, in particular, with regard to the impact of trade liberalization on trade preferences. The inclusion of environment-related issues in WTO negotiations through the Doha Ministerial Declaration required increased attention on the part of SIDS negotiators from trade and environment ministries, especially in meetings of the Committee on Trade and Environment[25]. Although the negotiating mandate on trade and the environment, as contained in paragraph 31 of the Doha Ministerial Declaration, is relatively limited, it involves a series of complex issues that have been discussed in different fora. It should also be noted that trade and environment-related issues are negotiated in several WTO bodies. Indeed, negotiations in special sessions of the CTE are practically confined to MEA-related issues, which increasingly require national and regional coordination. SIDS are generally very interested in capacity-building activities in this regard.

2. The Johannesburg Plan of Implementation

The Johannesburg Plan of Implementation (JPoI) resulting from the World Summit on Sustainable Development (Johannesburg, August-

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[24] UNEP, under the joint UNEP-UNCTAD Capacity-Building Task Force on Trade, Environment and Development, commissioned an integrated assessment study of the tourism sector in Jamaica: see A. Clayton, N. Duncan, C. Hayle, Tourism and Trade in Jamaica and the Caribbean: an Integrated Assessment Study, Sir Arthur Lewis Institute of Social and Economic Studies.

[25] A 2001 AOSIS workshop on trade and the environment, and the BPoA + 10 preparatory meeting for Caribbean SIDS (Port of Spain, Trinidad and Tobago, 6-10 October 2003) called for an increased participation of SIDS representatives in meetings such as those of the Committee on Trade and Environment. See: Report of the Caribbean regional preparatory meeting to review the Programme of Action for the Sustainable Development of Small Island Developing States.

September 2002) contains a specific chapter on the sustainable development of SIDS[26]. It touches on sustainable fisheries management; climate change; waste management; water and sanitation services; and sustainable tourism. It also asks that due account be taken of the severe problems faced by SIDS in the multilateral trading system, especially in the context of the WTO's Work Programme on Small Economies. The JPoI calls for a full and comprehensive decennial review of the implementation of the BPoA. Accordingly, the General Assembly, at its fifty-seventh session, decided to convene an international meeting for a comprehensive 10-year review of the BPoA, to be held in Mauritius.

SIDS and climate change

As recognized in the BPoA, SIDS and certain low-lying countries are particularly vulnerable to global climate change, climate variability and sea-level rise. Indeed the very survival of certain low-lying countries will be threatened. One of the main concerns of AOSIS has been the adaptation to climate change. SIDS, under the leadership of AOSIS have played a key role in bringing about the Kyoto Protocol to the Climate Change Convention[27]. The Clean Development Mechanism (CDM) may create opportunities for SIDS, although it may be difficult to attract large investment because developed countries seeking to reduce emissions are likely to look for regions with larger emission-reduction potential. However, given the small size of many SIDS, even small CDM projects could have profound impacts and SIDS could become demonstration countries. AOSIS could play a key role in developing common guidelines and criteria for CDM projects.

Tourism development, in SIDS, contributes to high per capita consumption of energy. SIDS are typically heavily dependent on imported petroleum products for their energy needs. CDM projects could therefore contribute to the increased use of Renewable Energy Technologies (RETs). Although the situation differs significantly across islands, biomass, solar and, to some extent, wind energy have the highest potential.

Some of the targets and deadlines agreed upon in the JPoI also have implications for SIDS, for example, the targets in the area of water and sanitation, and the desirable efforts to restore fish stocks for maximum sustainable yields by 2015, significantly reduce the losses of biological diversity by 2010, and promote renewable energy and efficient uses of energy by 2010. Implementation of the JPoI is of great importance to SIDS,

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[26] Chapter VII, paragraphs 52-55

[27] See: Norbert Wohlgemut, Renewable Energy for a Climate-Friendly Island Development

as the Plan recognizes the major role trade can play in support of sustainable development and in poverty reduction.

3. Markets for environmentally preferable products

As noted earlier, SIDS face a number of constraints in achieving export diversification. Structural factors related to "small-islandness", such as the lack of economies of scale and geographic remoteness, affect the price competitiveness of products from SIDS. Competitiveness is also affected by high production costs. For example, in Barbados, production costs in the agricultural sector, the cost and lack of availability of credit, and the relatively high costs of services affect the competitiveness of relevant products. The key thrust of the Ministry of Agriculture and Rural Development, as articulated in the Strategic Plan for the Agricultural Sector (2001-2010), is to enhance competitiveness through a focus on non-price factors such as product quality and niche marketing[28]. The Agricultural Incentives Programme, aimed at increasing production, lowering costs and improving product quality, includes incentives for initiatives in organic farming.

Recent intergovernmental meetings, in particular, the Third United Nations Conference on the Least Developed Countries (Brussels, 2001)[29] and the World Summit on Sustainable Development (Johannesburg, 2002)[30] have recognized that markets for environmentally preferable products (EPPs) may provide opportunities for diversification and

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28 Consequently, emphasis has been placed on value-added and brand products such as the blackbelly sheep from Barbados and West Indian Sea Island cotton. See Gregg C.E. Rawlins, Case study on Barbados, in: UNCTAD, Turning Losses into Gains, SIDS (Small Island Developing States) and Multilateral Trade Liberalization in Agriculture, New York and Geneva, July 2003.

29 The Programme of Action for the LDCs for the Decade 2001-2010 recommends that full attention should be paid to "supporting LDCs' efforts to develop and take advantage of niche markets for organic products and handicrafts, as well as cultural products", paragraph 68(bb).

30 The JPoI calls for voluntary market-based initiatives for the creation and expansion of domestic and international markets for environmentally friendly goods and services, including organic products (paragraph 93(b)).

development. Promoting the production and exportation of EPPs may help SIDS to seize such opportunities through specialization in value-added products. There is no internationally agreed definition of an EPP. In many areas of production, environmental and social considerations play an increasingly important role in the market place, even for conventional products. This section examines opportunities and challenges for SIDS in relation to EPPs[31].

Selected categories of EPPs

Organic products

The Codex Alimentarius Guidelines define as “organic” the products that have been produced in accordance with organic production standards, and are certified by a duly constituted certification body or authority. According to the International Federation of Organic Agriculture Movements, organic agriculture involves agricultural systems that promote environmentally, economically and socially sound production of food and fibres. Organic agriculture dramatically reduces the need for external inputs by ruling out the use of synthetic fertilizers, pesticides, or pharmaceuticals. Potential benefits include income effects (reduced expenditure on external inputs; saleability of products and possible price premium), as well as environmental, health-related and social effects.

In 2000, the global market for organic produce in developed countries was estimated at about US $16 billion at the retail level. On several national markets, the demand for such products has been growing at the rate of 15 to 20% per annum. For 2003, the world market for organic food and beverages was forecast to be valued at US $23 to 25 billion.

[31] More information is available in: UNCTAD, Environmentally preferable products and the tourism sector in the Caribbean, UNCTAD/DITC/TED/MISC/2003/7, November 2003.

Organic agriculture in the Dominican Republic

The Dominican Republic is the world's largest exporter of organic bananas and cocoa, accounting for about 60% of relevant world exports. Its total exports of these products rose from US $9.6 million in 1999 to $24.9 in 2002. In 2001, bananas represented 82% of total organic export earnings, with cocoa earning 14% and coffee 2%.

Almost 10% of the 42,000 hectares under organic production was devoted to bananas in 2002. Most of it (80%) was situated in the northern region, where large companies have produced 90% of the organic bananas. In the south, approximately 1,000 small farmers produce 10% of the crop, and 20% of the cultivated land is under organic bananas.

A very large proportion (90%) of the 16,000 organic farmers in the country are small farmers. They dominate the production of cocoa, coffee, coconuts, sugar cane and vegetables, while large farmers dominate the mango and pineapple production.

The Dominican Republic does not have government-regulated organic standards or an organic certification office. Most of the production is exported (for example, 70% of the organic bananas), and farmers or groups of farmers are certified by foreign offices. The small banana farmers in the south are mainly organized in groups, and the marketing firm that exports their products also looks after the certification.

Some Caribbean countries, such as the Dominican Republic, have already gained experience in organic agricultural production. Shipments of organic products from the Dominican Republic (mainly bananas and coffee beans) amounted to nearly US $21 million in 2000[32]. The Windward Islands (Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines) have been highly dependent on banana exports and are now interested in diversifying into organic and fair-trade bananas and other value-added products[33] to cushion the adverse impact of the erosion of market access preferences on the European single market by 2006[34]. St. Lucia is in the

32 International Trade Centre (UNCTAD/WTO) and Technical Centre for Agricultural and Rural Development of the Food and Agricultural Organization of the United Nations (FAO), World Markets for Organic Fruits and Vegetables: Opportunities for Developing Countries in the Production and Export of Organic Horticultural Products, Rome, 2001.

33 The Windward Island Banana Development and Export Company (WIBDECO), which is owned by the governments and banana producers in the four islands, has been exploring opportunities for exports of organic and fair-trade bananas to the United Kingdom. WIBDECO is also promoting the development of high-value products such as mango, passion fruit, avocado, chili and sweet potato.

34 The EU introduced the common organization of the market for bananas in July 1993 providing separate arrangements for imports from the various suppliers including a tariff

process of drafting regulations on organic standards and conformity assessment[35]. As mentioned earlier, Barbados provides incentives to organic farmers through its Agricultural Incentives Programme. In Jamaica, the Jamaica Organic Agriculture Movement, which was established in 2001, has been working on organic standards and a domestic certification scheme, which it expected to become operational in 2004.

Several SIDS in the South Pacific are also interested in organic agriculture, notably because of the reduced need to import chemical fertilizers and pesticides. For example, the Cook Islands, which was once a relatively large importer of pesticides, has been turning to organic cultivation, and the territory of Niue intends to become an entirely organic farming nation. Fiji is looking into organic production as a possible means to counterbalance the serious problems facing its sugar industry. Sugar has traditionally been Fiji's largest source of foreign exchange earnings (25%)[36], thereby providing an income to some 20,000 families[37], but local problems and the phasing out of preferential access to the EU market, which absorbs a third of Fiji's sugar exports in value terms, are a serious threat to the nation's future stability. One option under consideration by the Fiji Sugar Corporation is to produce high-quality organic sugar, based on small-scale farming. It has been reported that small-scale Fijian producers are interested in converting to organic farming[38]. Samoa has been pursuing efforts to regain its banana market in New Zealand, with a view to

quota system and special arrangements for imports from traditional African Caribbean and Pacific (ACP) suppliers. However, various elements of the regime were successfully challenged in the WTO and the EU banana regime was revised to take their findings into account. On 1 January 2006 at the latest, a tariff-only regime will be introduced.

35 Ken Commins, Overview of Current Status of Standards and Conformity Assessment Systems, Discussion Paper for the FAO-UNCTAD-IFOAM International Task Force on Harmonization and Equivalence in Organic Agriculture, October 2003.

36 Sugar accounts currently for 7% of Fiji's GDP, with export sales normally exceeding F $200 million, or 18.5% of foreign exchange earnings.

37 UNCTAD 2003, Turning Losses Into Gains: SIDS and Multilateral Trade Liberalization in Agriculture, UNCTAD/DITC/TNCD/2003/1.

38 http://www.unescap.org/drpad/vc/conference/bg_fj_3_tgb.htm

exporting organic bananas[39]. Exporting bananas in general has not been easy, because of the strict quarantine rules protecting New Zealand against the possible spread of the fruit fly[40]. Tonga is exporting certified organic vanilla, reportedly at a significant price premium, and is also beginning to export organic squash pumpkin.

There is little information on organic agriculture in SIDS near the African continent. Mauritius has promoted organic agriculture on the island of Rodrigues, which has a rich heritage of traditional food that can be marketed with an organic label, including for the export market[41]. In 1996, the government of Cape Verde, with support from the European Union, established a Programme for the Re-launch of the Banana Export Industry, with a view to promoting exports of organic bananas to Europe[42]. However, this initiative failed because of transport problems and difficulties in meeting standards in the quality of Cape Verde bananas. The government has since favoured producing bananas for the domestic market.

Certified timber products

Timber certification provides information to consumers and institutional buyers that relevant forest products have met certain criteria for sustainable forest management. Certified products are generally identified by an eco-label. The International Tropical Timber Organization was the first organization to elaborate agreed guidelines for sustainable management of natural tropical forests. The International Standards Organization and the Forest Stewardship Council (FSC) have also

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39 Samoa used to be an important exporter of bananas to New Zealand but has been seriously affected by competition from large-scale plantation growers from countries such as Ecuador.

40 New Zealand requires fumigation for milibugs that may be present on bananas. However, fumigation takes away the organic nature of the product. The exporters have refused to allow fumigation and are still lobbying with New Zealand Quarantine authorities.

41 Government of Mauritius, Ministry of Agriculture, Food Technology and Natural Resources, Non-Sugar Sector Strategic Plan 2003-2007 (http://agriculture.gov.mu/)

42 For a long time Cape Verde exported small quantities of bananas to Portugal, placing it among the traditional ACP suppliers. These sales completely stopped in 1993, partly due to the poor quality of the produce.

elaborated international certification systems. The FSC certificate is internationally recognized and generally supported by environmental and consumer organizations.

Certified timber and timber products occupy a small but growing segment of the global market. Certification is used primarily as a marketing tool to increase or maintain market shares. There has been concern that certification requirements would tend to act as trade barriers to those unable to become certified. Certification obstacles could penalize small forest owners in developing countries as certification is likely to be disproportionately costly for them.

Forests and forest issues in SIDS

According to FAO estimates (2000), forests cover 76 to 96% of the total land area in the Bahamas, the Cook Islands, Palau, and the Solomon Islands. Many SIDS, however, have a limited forest coverage.

Fiji, Papua New Guinea, Samoa, the Solomon Islands and Vanuatu report wood processing as one of their main industries. Papua New Guinea is the world's third largest exporter of tropical hardwood logs, with an annual trade valued at more than US $220 million (FAO, 2000). However, in proportion to their actual land or forest area, countries such as Fiji, Samoa and the Solomon Islands have a higher rate of production of industrial roundwood than Papua New Guinea. The Solomon Islands was the world's fifth largest exporter of tropical hardwood logs in 1997, when forestry accounted for more than 50% of the country's export earnings. Although the annual volume of hardwood exported as logs had been reduced to less than half of the 1996 volume by 2000, the Solomon Islands was still among the top ten exporting countries by the end of the 1990s (FAO, 2000). Sandalwood has been a notable export from Vanuatu for more than a century.

Although the overall rate of deforestation appears to have slowed down in the 1990s, the average annual deforestation rate is still high in many SIDS. Four of the 10 countries with the highest annual deforestation rates between 1990 and 2000 (3% or more per annum) are island developing countries: Haiti, St. Lucia, the Federated States of Micronesia and Comoros. The main cause of deforestation appears to be the conversion of forested land for agricultural use and for infrastructure development (roads, ports, housing, tourism development). In addition to deforestation, forest degradation also takes place in some SIDS. According to the FAO, Samoa, the Solomon Islands and Tonga have high rates of forest degradation due to overexploitation of tradable timber resources. Forest degradation due to natural causes (e.g. cyclones and forest fires) is also common in some SIDS. On the other hand, Cape Verde, Grenada and Vanuatu have demonstrated positive changes in their forest coverage between 1990 and 2000, mainly as a result of forestation efforts.

In Trinidad and Tobago, a forest certification process is currently underway. In the Pacific, several donors support forest certification projects[43]. In Papua New Guinea, there has been support for forest certification since the mid-1990s. The total certified forest area amounted to 177,000 hectares in 1998. While progress has been relatively slow, the development of national forest management standards and certification of forests managed through community-based projects are noteworthy. Although little progress has been observed in the Solomon Islands, some eco-timber operations have been initiated, largely through the action of non-governmental organizations. An example is Village Eco-timber Exporters, a programme initiated by Greenpeace in cooperation with the Solomon Islands Development Trust, which promotes exports, principally to New Zealand. Similarly, the South Pacific Community Eco-Forestry project is supporting community-based timber production and marketing. In Fiji, the Forestry Department has been promoting exports of value-added products based on quality and certification.

Non-wood forest products

As defined by the FAO, non-wood forest products (NWFPs) are "goods of biological origin other than wood, derived from forests, other wooded land and trees outside the forest"[44]. NWFPs are primarily consumed domestically. They can be of crucial importance for the poor, both for the material needs of the family and as a source of income. About 80% of the people in developing countries use NWFP to meet nutrition and health needs. NWFPs include many food items such as honey, nuts, berries, mushrooms; essential oils; spices; animal fodder; construction materials;

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[43] Examples are the EU-funded South Pacific Community Eco-Forestry (SPCEF) project, the German Technical Cooperation Agency (GTZ) Pacific Regional German Forestry Project, and the South Pacific Forest and Tree Support Programme (PIF&TSP) established in 1997 by UNDP and AusAid. All the information provided in this section (except otherwise indicated) was obtained from the European Forest Institute, Country Reports (see http://www.efi.fi/cis/english/).

[44] Several terms are used to describe products other than industrially produced timber or wood gathered from the wild and in forests. These include non-timber forest products (NTFPs), biodiversity products, wild-crafted products, minor forest products, etc.

medicinal plants and other health-related and cosmetic products; and items of cultural or spiritual significance.

Developing commercial extraction of NWFPs is often seen as a way to generate income while preserving the biodiversity in local communities. Exports of NWFPs are a sizeable source of foreign exchange earnings in several developing countries, but statistical data on the production and trade of such products is indicative at best. World trade in NWFPs has been estimated at US $11 billion.

According to the FAO, the most important NWFPs in the Caribbean are aromatic and medicinal plants, edible products (mainly fruits, mushrooms and bee products), construction materials, utensils, and handicraft[45]. Grenada is the world's second largest producer of essential oils derived from the seeds of the nutmeg tree. Until hurricane Ivan destroyed the agricultural assets of that country in 2004, some 25% of the world output of nutmeg products came from the island, representing approximately 40% of Grenada's income. Nutmeg exports declined by 50% between 1986 and 1993 as a result of the significant decrease in worldwide demand and competition from other producing countries.

In the Pacific, commercially important NWFPs include kava (*Piper methysticum*), noni juice (*Morinda citrifolia*), rattan (*Calamus* spp.), sandalwood oil (*Santalum* spp.) and canarium nuts (*Canarium indicum*). In SIDS of the Indian Ocean, important NWFPs include ornamental plants, such as *Trochetia boutoniana* in Mauritius, and cinnamon in Seychelles. Nuts of the indigenous "coco-de-mer" are also an important source of revenue for the Government of Seychelles.

The most promising NWFPs for commercial development are those with a high-yielding resource base that can be exploited in a sustainable manner. Promoting local or regional processing of such products can enhance the value-added accruing to local communities. However, adequate control mechanisms are necessary if one is to ensure that the harvesting of NWFPs will not deplete resources. To this end, the FAO is

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[45] FAO, Global Forest Resources Assessment, Main Report 2000; Chapter 10, Non-wood Forest Products, *Forestry Paper,* 140, ISSN 0258 6150.

assisting the Papua New Guinea Forest Authority in the sustainable management and commercialization of eaglewood through its "Eaglewood Management Project"[46].

Products based on traditional knowledge

Products based on traditional knowledge (such as kava and noni) offer trading opportunities to several SIDS, but much remains to be done if these countries are to fully benefit from exports of such products. Kava is indigenous to the South Pacific. Over centuries, Pacific farmers developed some 118 cultivars of kava, which they grew in agricultural systems that were refined over generations. Admittedly, if kava is traded only as a commodity and not as a distinctive product resulting from a long history of Pacific know-how, it will be grown in plantations outside the region, driving down prices and dampening the region’s claim to, and control over, the species[47]. To answer these concerns, SIDS should seek to develop trademarks.

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[46] Eaglewood (*Gyrinops ledermanii*) is a valuable NWFP that has been commercially exploited in Papua New Guinea for approximately ten years. The objectives of the 20-month project, which started in October 2003, are: (a) to strengthen institutional capacities and the management capacities of local resource owners and producers at the grassroots level; and (b) to assist the governmental organizations concerned in the elaboration of a national eaglewood conservation and management strategy. High external demand combined with low national capacities with regard to eaglewood production and commercialization had resulted in uncontrolled exploitation and marginalization of local producers.

[47] Ten Kate, Kerry and Laird, Sarah A. (1999), The Commercial Use of Biodiversity, London: Earthscan Publications.

The kava ban

In late 2001, German health authorities declared that products containing kava could cause severe liver damage. This led to a collapse of the kava market in Europe and other countries, previously worth at least US $50 million a year to growers in mainly Vanuatu, Samoa and Fiji.

Kava was banned in Germany in June 2002 and other countries (e.g. Switzerland, France and Singapore) have since restricted the use of kava or issued health warnings[48]. In the United Kingdom, a voluntary withdrawal of all kava-containing products by UK companies was followed by a ban, effective January 2003, prohibiting the sale of kava in any form. The annual UK market for products containing kava is estimated to have been worth up to £7.5 million in 2001.

From the outset, kava-producing countries and the International Kava Executive Committee (IKEC) have contested the scientific justification of the kava restrictions. On behalf of adversely affected Pacific countries, the Pacific Islands Forum Secretariat requested the Brussels-based Centre for Development of Enterprise (CDE) for assistance. This resulted in the commissioning of a study entitled "*In-depth Evaluation of the EU Member States Market Restrictions on Kava Products*". The report, prepared by Phytopharm Consulting (Berlin), came to the conclusion that kava can be regarded as a safe and effective herbal medicinal product if used in accordance with medical guidance. It proposed a strategy to rebut kava bans and restore confidence on the kava market.

As the result of a court case brought against the British Government by the UK's National Association of Health Food Stores, the Wales National Assembly lifted the ban as of October 2003.

The World Health Organization (WHO) has decided to re-evaluate kava. The Advisory Committee on Safety of Medicinal Products (Geneva, October 2003) endorsed a recommendation to obtain data from countries where adverse reaction reports relating to kava were available. The WHO has involved two of their pharmaco-vigilance centres in the evaluation process, one in Europe and one in the Pacific.

Fair trade products

The "fair trade" movement also provides valuable economic opportunities to small and disadvantaged producers in SIDS. Fair trade can improve market access, strengthen producers' organizations, generate better prices and provide continuity or steadiness in trading relationships, especially because it raises awareness among consumers. In 2003, there

48 The US Federal Drugs Administration issued a consumer advisory bulletin warning about the potential of liver injury with the use of kava-containing products.

were 17 fair-trade labelling organizations in 14 European countries, the United States and Japan[49]. There were also 360 fair-trade certified producer groups (including many umbrella organizations) representing 550,000 small-scale producers in 40 countries.

Fair-trade coffee

There is always a risk of oversupply of products targeting niche markets for EPPs and fair-trade products. Coffee producers registered under Fair-trade Labelling Organizations International (FLO) currently sell only 20% of their coffee with fair-trade labels, while the rest is sold at conventional market prices. This excess capacity raises questions as to whether new producers can join and benefit from fair-trade markets.

Prospects seem favourable. The market for fair-trade coffee is expanding rapidly, especially in the United States where consumption increased by 79% between 2000 and 2001. The United States may become the world's largest fair-trade coffee market once fair-trade brands become more widely available. In addition, NGOs such as the Rainforest Alliance, Oxfam and FLO have been pushing large companies to sell fair-trade products and several transnational corporations have announced their intention to launch fair-trade coffee brands and to buy fair-trade coffee from small producers.

Fair-trade coffee is moving towards the premium segments of the coffee market. In the United States, for example, 80% of the traded fair-trade coffee is also certified organic, and the largest part of it is considered gourmet coffee. Producers can receive up to double the price that conventional producers receive, especially if the coffee is certified to be both organic and fair-trade produce[50].

Fair-trade coffee production is highly concentrated in Latin America and the Caribbean. In 2000, more than 180 FLO producers associations located in 14 countries in the region together exported 84% of the world's fair-trade coffee. Production comes mainly from Mexico, Peru and Colombia, but Haiti and the Dominican Republic have started to export small quantities of fair-trade coffee.

The world market for fair-trade products is valued at only US $400 million. However, it is growing at a rate of almost 30% per year, and expected to expand further as labelled commodities become more widely available. Bananas, cocoa and coffee account for more than 80% of fair-

[49] The efforts of these organizations are coordinated by the Fairtrade Labeling Organizations International (FLO), which was founded in 1997 to coordinate efforts, and to ensure the audit of all fair-trade-labelled products from the producer to the supermarket shelf. It also aims at the introduction of a single international fair-trade label. For more information, see the FLO website at http://www.fairtrade.net.

[50] ITC (2002), Coffee: An Exporter's Guide, International Trade Centre, Geneva.

trade sales[51], but significant market opportunities exist for other commodities such as sugar, honey, nuts, spices, fruits, preserves, snacks and juices[52]. Certain products have gained sizeable market shares. Fair-trade roasted and ground coffee, for example, enjoys 2.7, 3.3 and 14% market shares in the Netherlands, Switzerland and the United Kingdom, respectively. Fair-trade-labelled bananas capture 15% of the Swiss market and 4.3% of the Dutch market. The market share of fair-trade tea is 4% in Switzerland and 2.5% in Germany. The US market is less developed than the European market, but is also growing rapidly. Efforts are underway to increase the availability of fair-trade products in major outlets, in particular supermarkets, and convince major food companies to buy and sell fair-trade products.

Small-scale production conditions in SIDS are often conducive to fair-trade certification, as small producers tend to represent a large part of the economically active population. In the volcanic Windward Islands, for example, the steep hillsides and narrow valleys make smallholding the only possible farming mode: a five-acre banana plantation can meet a family's needs on a year-round basis.

A number of non-governmental organizations, including Oxfam, support fair trade in Caribbean countries, particularly for the banana industry in the Windward Islands. The Dominican Republic exports fair-trade sugar, coffee and cocoa. It would be in the interest of many SIDS in all relevant regions to explore the potential benefits fair trade can generate.

Constraints faced by SIDS and relevant supportive action

The anecdotal evidence presented in this section shows that producing and exporting EPPs, though often viable, remains relatively difficult in SIDS. The development of a certified organic sector can be

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51 Raynolds et al., 2002, Poverty Alleviation Through Participation in Fairtrade Coffee Networks: Existing Research and Critical Issues, Background paper, Colorado State University

52 See: http://www.Fairtrade.net/

slow, even with donor support, as seen in Papua New Guinea[53]. The unsuccessful attempts by Cape Verde to export organic bananas illustrate the difficulties faced by SIDS in relation to quality standards and sea transport. The difficulties faced by Samoa in exporting organic bananas to New Zealand show that sanitary measures and strict quarantine rules may constitute serious constraints on island trade. Also, over-exploitation may result in the depletion of non-wood forest products, as illustrated by the case of eaglewood in Papua New Guinea[54]. There are also numerous examples of constraints on SIDS with regard to certification and expected market prices.

The main constraints on the production and exportation of EPPs, in SIDS, are the following.

- *Mode of exploitation:* trade in environmentally preferable products can lead to depletion of relevant resources if the latter are over-exploited.
- *Quality:* exporting fresh products from islands and guaranteeing their final quality may be difficult, because of transport distances involved.
- *Information:* producers often lack information on market opportunities, standards, environmentally sound practices, and new uses of traditional products.

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53 Between 1994 and 1996, the GTZ/Protrade's trade promotion project supported the development of an organic sector, including the introduction of certified organic products in international markets. In 1994, three coffee and one fruit producer (pineapples) were certified organically, while in 2000 six producers were certified organically; four coffee producers, one tea producer and one producer of pineapples (including juice) and peanuts. The development of the organic sector, however, was hindered by various constraining factors, including: (a) absence of technical information, extension services and expertise on organic methods; (b) lack of information on international standards and requirements for organic certification and exports; and (c) lack of information on organic markets.

54 One of the objectives of the Eaglewood Management Project in Papua New Guinea is to prevent this. It was estimated that unsustainable harvesting methods could result in a total depletion of the resource by 2050.

- *Marketing:* environmentally preferable products often are "new" products, and introducing them into a market may be costly and time-consuming.
- *Market saturation:* a risk of market saturation may arise in the absence of continuous marketing efforts.
- *Standards and procedures:* a proliferation of public and private standards and complex government regulations regarding import procedures can present obstacles to island producers.
- *Non-tariff barriers:* meeting stringent sanitary and phytosanitary measures in the marketplace may also be difficult to SIDS exporters of environmentally preferable products.
- *Local competition:* preferences for local or regional over imported products, and pressure to reduce "food miles" –on economic and environmental grounds— may have adverse implications for certain organic products originating in islands.

National and international supportive action, particularly towards capacity-building, is often necessary to SIDS if these countries are to overcome the constraints described above. To this end, the following lines of action are generally deemed important:

- raising awareness of market opportunities and related benefits among producers and industry associations;
- understanding international market trends;
- identifying actual or potential supply capacities for specific categories of environmentally preferable products;
- developing or strengthening domestic facilities to meet requirements relevant to standards, certification and other market regulations;
- alleviating market-related and technical obstacles such as the lack of information and the lack of technical capacity;
- identifying policies and measures to make certification affordable to small producers (for example, by facilitating certification of products through mechanisms such as group certification);

- building partnerships between producers and exporters in SIDS and importers and consumer groups in developed countries;
- promoting relevant regional cooperation; and
- helping SIDS participate in relevant international debates effectively, for example, through regional cooperation.

4. Sustainable tourism

The BPoA identifies tourism as one of the key development options for SIDS[55], but recognizes that tourism could also degrade the environment. According to UNEP, tourism can affect the environment in three main areas, namely, through damage to relevant natural resources; direct pollution of tourism-related sites; and other forms of physical impact[56]. Among all natural resources, water (especially fresh water) is of paramount importance to most SIDS. Tourism can also entail pressure on land resources (such as fertile soil and forests) and wildlife. Pollution through solid waste and littering is also a common problem among SIDS. For example, cruise ships in the Caribbean are estimated to produce over 70,000 tons of waste every year[57]. Construction of hotels and other tourism facilities often increases sewage pollution, which may affect coral reefs and have a wide-ranging impact on the coastal environment. Among the island eco-systems most threatened with degradation are the ecologically fragile mangroves and coral reefs.

Subject to careful planning for controlled development, which implies analysing the environmental resources at stake, tourism activities can be conducive to sound environmental management and planning. Pollution prevention and waste minimization are important tools for

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[55] The World Tourism Organization, jointly with UNEP held an International Conference on Sustainable Tourism in SIDS and other islands in Spain in 1998. This conference was followed by regional meetings for the islands in the Mediterranean and for those in the Asia and Pacific regions, both in 2000.

[56] See: http://www.uneptie.org/pc/tourism/sust-tourism/env-3main.htm

[57] Some cruise lines are actively working to reduce waste-related impacts of their activities.

planning and operating tourism facilities in accordance with sustainable development principles. At the same time, niche markets for eco-tourism products may provide SIDS with precious economic opportunities, particularly when linkages with environmentally preferable products exist. Environmental management practices and certification can also play an important role in this sphere of activities. One of the important development objectives of many SIDS is to integrate environmental, economic and social considerations in a sustainable tourism development strategy.

Certification issues

The obvious dependence of island-based tourism on the natural environment, the scarcity or high cost of key inputs such as fresh water and energy, and the environmental concerns of tourists and international tour operators have generated an interest in environmental management practices and environmental certification in the tourism industry.

Resorts in several SIDS (mostly in the Caribbean: Antigua and Barbuda, the Bahamas, Barbados, Dominica, Jamaica, St. Lucia) have obtained the Green Globe 21 environmental certification label. The investment and training needed to comply with commercial environmental certification has meant that only large hotel chains have so far been able to obtain this certification. However, organizations such as the Caribbean Alliance for Sustainable Tourism are actively helping small and medium-sized tourism enterprises and tour operators to obtain internationally recognized environmental certification. A number of hotels in Maldives and Mauritius have also obtained certification. The Government of Fiji endorsed the Green Globe 21 programme in early 2003. The Fiji Hotels Association has enrolled all of its 81 members in the programme, and at least four Fijian tourism operators have already gained Green Globe 21 certification.

Some Caribbean countries are also seeking certification of beaches, based on criteria covering sewage treatment and bathing water quality. In 2002-2003, the Bahamas, Barbados, the Dominican Republic and Jamaica ran the “Blue Flag” pilot phase, under which Caribbean beach criteria were tested and implemented at selected pilot beaches[58].

Certification programmes play a positive role in promoting sustainable tourism. However, the multiplicity of programmes tends to confuse tourists. Currently, there is a large number[59] of voluntary certification schemes awarding eco-labels for sustainable tourism practices. The World Tourism Organization, the Rainforest Alliance, the International Ecotourism Society, and the Centre for Ecotourism and Sustainable Development are currently in the process of trying to harmonize the criteria of "green certification” programmes for the tourism industry, with a view to gradually creating an international tourism accreditation body or "stewardship council" to ensure that certification systems will comply with agreed environmental and social standards.

Eco-tourism

Eco-tourism can contribute to sustainable development and poverty alleviation in SIDS. The fragility of island eco-systems, however, justifies very careful planning of eco-tourism activities[60]. The International Eco-tourism Society defines eco-tourism as "responsible travel to natural areas that conserves the environment and improves the well-being of local people"[61]. The United Nations designated 2002 as the "International Year of Eco-tourism" in order to bring relevant stakeholders worldwide to share the eco-tourism experience and maximize the environmental, economic and social benefits from eco-tourism. The first World Eco-tourism Summit, in May 2002 in Québec City, adopted the Québec Declaration on Eco-

58 The Blue Flag label was established in France in 1985. The initiative became global in 2001. The Foundation for Environmental Education (FEE) has made the overall decision that the beach criteria within a region should be similar. The beach criteria can, however, vary from region to region, reflecting the specific environmental conditions of the region.

59 There are probably between 60 and 100.

60 Report of the Conference on Sustainable Development of Ecotourism in Small Island Developing States (SIDS) and Other Small Islands (Preparatory Conference for the International Year of Ecotourism), Mahé, Seychelles, 8-10 December 2001.

61 See: http://www.ecotourism.org/

tourism. According to the World Tourism Organization, the International Year of Eco-tourism "served to stimulate the replication of good practices among governments and private companies, and as a strong engine for innovative programmes and projects"[62].

There has been increasing interest, among SIDS, in developing eco-tourism products to protect the biodiversity and diversify tourism activities. Eco-tourism can make an important contribution toward the target of the World Summit on Sustainable Development regarding community-based initiatives for sustainable tourism by 2004. Support from local governments and local communities' involvement have been recognized as essential to the success of eco-tourism initiatives.

Linkages with environmentally preferable products

International tourism can generate a demand for environmentally preferable products in SIDS. Organic products are often popular in hotels, and there are natural linkages between organic farming and eco-tourism. Some SIDS are interested in promoting a clean and green image of their tourism base, and organic products are commonly portrayed as an integral part of the tourism product. According to the FAO, tourism expansion has, for example, generated a demand for palm leaves for thatch-making in the Dominican Republic and Trinidad and Tobago.

A recent FAO report[63] underlined the "synergic linkages" between tourism, agriculture, forestry and fisheries in SIDS. It argued that in these countries, the tourism sector, which presently imports 50 to 95% of all needed food products and beverages, offers potential outlets for local organic products and other items based on traditional production systems. Tourism can indeed be a catalyst for diversifying agricultural production into organic commodities, for local consumption and exportation.

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62 See: http://www.world-tourism.org/sustainable/IYE-Main-Menu.htm
63 FAO, The situation of Small Island Developing States, Rome, December 2003.

5. Conclusion

Trade and environment linkages are of vital interest to SIDS. It is therefore important that SIDS be assisted in channeling their environmental expertise and development-related concerns into multilateral negotiations, with a view to ensuring that their specific conditions and needs are appropriately taken into account[64]. Strengthening the institutional capacity of SIDS to participate in relevant multilateral negotiations is highly desirable, and the need to be able to carry out national impact assessments and improve national resource management is important. Regional cooperation has an important role to play here.

SIDS should be assisted in exploring niche markets for environmentally preferable products and eco-tourism, which can be two precious diversification avenues for island economies. At the same time, national and international efforts should be pursued to support SIDS in dealing with the numerous constraints they face in the sphere of trade and the environment, in particular, their lack of access to relevant information sources; their lack of knowledge and experience in the export business; the lack of government support for product promotion and the dissemination of environmentally sound technology; and the high costs of certification. Coordinated efforts are needed to remove these constraints and create markets for environmentally preferable products and environment-friendly tourism products.

The UNCTAD and UNEP secretariats have launched a joint Capacity-Building Task Force (CBTF) on Trade, Environment and Development to assist developing countries, in particular SIDS, to enhance their participation in trade and environment negotiations, and to strengthen their national and regional capacities to deal with trade and environment issues. The CBTF organized capacity-building workshops back-to-back with WTO regional trade and environment seminars in the Pacific (Suva,

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64 Environment-related issues outside the Committee on Trade and Environment in the WTO involve negotiations on fisheries subsidies in the Negotiating Group on Trade Rules, and on biodiversity issues and traditional knowledge in the TRIPS Council.

Fiji, November 2002) and the Caribbean (Kingston, Jamaica, November 2003)[65]. Both workshops revealed a strong interest, among islanders, in capacity-building activities aimed at enhancing national coordination on trade and environment issues; strengthening national research and policy-making capacities; and promoting sub-regional coordination. Participants identified as priority issues the need: (i) for integrated assessments of trade and environment policies at national levels; (ii) to assist small and medium-sized enterprises in meeting national and international environmental standards and dealing with certification issues; (iii) to develop institutional capacities to meet WTO obligations related to environmental issues, including the question of fisheries subsidies; and (iv) to make regional certification of fisheries products possible. Pacific SIDS also called for support in developing a plurilateral legal instrument for the protection of traditional knowledge[66].

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65 The Caribbean workshop was part of a project for Caribbean countries, funded by the Ministry of Spatial Planning, Housing and the Environment of the Netherlands, as a follow-up to the World Summit on Sustainable Development. The following countries participated in this event: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

66 The SPC, PIF and the World Wide Fund for Nature (WWF), South Pacific Office, have been carrying out work in this area.

Annex

Participation of 28 SIDS in selected multilateral environmental agreements

	LDC	WTO	UNFCCC	KYOTO	CBD	Cartagena
CARIBBEAN						
Antigua and Barbuda		1 Jan 1995	02/02/93 **R**	03/11/98 **R**	09/03/93 **R**	10/09/03 **R**
Bahamas		**Ac**	29/03/94 **R**	09/04/99 **Ac**	02/09/03 **R**	24/05/00 **S**
Barbados		1 Jan 1995	23/03/94 **R**	07/08/00 **Ac**	10/12/93 **R**	06/09/02 **Ac**
Dominica		1 Jan 1995	21/06/93 **R**		06/04/94 **R**	
Grenada		22 Feb 1996	11/08/94 **R**	06/08/02 **Ac**	11/08/94 **R**	24/05/00 **S**
Jamaica		9 Mar 1995	06/01/95 **R**	28/06/99 **Ac**	06/01/95 **R**	04/06/01 **S**
St. Kitts and Nevis		21 Feb 1996	07/01/93 **R**		07/01/93 **R**	23/05/01 **Ac**
St. Lucia		1 Jan 1995	14/06/93 **R**	20/08/03 **Ac**	28/07/93 **Ac**	
St. Vincent and the Gr.		1 Jan 1995	02/12/96 **R**	19/03/98 **S**	03/06/96 **Ac**	27/08/03 **Ac**
Trinidad and Tobago		1 Jan 1995	24/06/94 **R**	28/01/99 **R**	01/08/96 **R**	05/10/00 **Ac**
ATLANTIC AND INDIAN OCEAN						
Cape Verde	x	**Ac**	29/03/95 **R**		29/03/95 **R**	
Comoros	x		31/10/94 **R**		29/09/94 **R**	
Mauritius		1 Jan 1995	04/09/92 **R**	09/05/01 **Ac**	04/09/92 **R**	11/04/02 **Ac**
Sao Tome and Principe	x	Observer	29/09/99 **R**		29/09/99 **R**	
Seychelles		**Ac**	22/09/92 **R**	22/07/02 **R**	22/09/92 **R**	23/01/01 **S**
ASIA AND THE PACIFIC						
Fiji		14 Jan 1996	25/02/93 **R**	17/09/98 **R**	25/02/93 **R**	05/06/01 **R**
Kiribati	x		07/02/95 **R**	07/09/00 **Ac**	16/08/94 **R**	07/09/00 **S**
Maldives	x	31 May 1995	09/11/92 **R**	30/12/98 **R**	09/11/92 **R**	02/09/02 **Ac**
Marshall Islands			08/10/92 **R**	11/08/03 **R**	08/10/92 **R**	27/01/03 **Ac**
Micronesia (Fed. St. of)			18/11/93 **R**	21/06/99 **R**	20/06/94 **R**	
Nauru				16/08/01 **R**	11/11/93 **R**	11/12/01 **Ac**
Palau			10/12/99 **Ac**	10/12/99 **Ac**	06/01/99 **R**	13/06/03 **R**
Papua New Guinea		9 Jun 1996	16/03/93 **R**	28/03/02 **R**	16/03/93 **R**	
Samoa	x	**Ac**	29/11/94 **R**	27/11/00 **R**	09/02/94 **R**	30/05/02 **R**
Solomon Islands	x	26 Jul 1996	28/12/94 **R**	13/03/03 **Ac**	13/10/95 **R**	
Tonga		**Ac**	20/07/98 **Ac**		19/05/98 **Ac**	18/09/03 **Ac**
Tuvalu	x		26/10/93 **R**	16/11/98 **R**	20/12/02 **R**	
Vanuatu	x	**Ac**	25/03/93 **R**	17/07/01 **Ac**	25/03/93 **R**	

R = Ratified, **Ac** = Accession, **S** = Signed

WTO: World Trade Organization (Member or Observer)
UNFCCC: United Nations Framework Convention on Climate Change (Party to the)
KYOTO: Kyoto Protocol to the UNFCCC
CBD: Convention on Biological Diversity (Party to the)
Cartagena: Cartagena Protocol on Biosafety to the Convention on Biological Diversity

Chapter 4

SIDS as a category: adopting criteria would enhance credibility

Pierre Encontre[*]

Ever since the United Nations began to pay attention to the special disadvantages faced by certain categories of countries, the *raison d'être* of this attention has been the link between the recognized problems and the desirability of responses to these problems. Admittedly, recognizing the reality of special handicaps and failing to envisage measures to –at least partly— compensate or remedy these handicaps would be departing from the spirit of fairness that ought to underlie international cooperation.

If the link between special problems and relevant responses is effectively to be brought to fruition, and therefore amenable to appropriate support measures, a prerequisite is that the beneficiaries be systematically defined, on the basis of criteria. Indeed, without a proper definition of the group of countries in question, one should anticipate development partners to be reluctant to extend concessions, by virtue of recognition of the relevant category, to any of the countries that might claim to belong to that category.

This rationale underpinned the establishment of the Least Developed Countries (LDCs) category in 1971. The category was defined –and immediately earned credibility— on the basis of explicit criteria, as a result of which the official list of LDCs was internationally accepted. Though negotiations for LDC-specific concessions were never easy, they generated

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[*] Pierre Encontre is an Economist in the Special Programme on the Least Developed Countries, Land-locked Developing Countries and Small Island Developing States in the UNCTAD secretariat.

results, as development partners were able to understand the target group and issues at stake, and the grounds on which the advocacy was taking place.

The absence of a definition of the SIDS category has been the most fundamental reason for which countries that claimed to fall in that category were not able to gain special treatment on grounds of "small islandness". Historically, there has been external support to most SIDS in the framework of international cooperation, essentially by virtue of North-South arrangements such as those maintained by the European Union to benefit ACP countries, or by the United States in favour of specific regions involving island States (e.g. through the Caribbean Basin Initiative). However, little has been done by development partners to translate the recognition of SIDS-specific issues into genuine SIDS-specific concessions, although this specificity has been advocated and sought by SIDS. Considering the exceptional economic disadvantages faced by most small island developing economies as a result of their permanent handicaps, the notion of special treatment by virtue of SIDS status is important to genuine SIDS in the multilateral trading system and in the area of development financing.

The credibility of the SIDS denomination seems to be dependent on the emotional connotation the acronym carries. As observed earlier by Philippe Hein, islandness is generally appreciated by the international community as an economic disadvantage, and most SIDS do enjoy external support. However, little special treatment by virtue of SIDS status (other than the World Bank's "small island exception") is granted to these countries, although such treatment would be highly justified.

This chapter examines the question of the UN list of SIDS, underlines the desirability of criteria for defining the SIDS category, and points to UNCTAD's pragmatic approach to this issue. It stresses two basic conditions for genuine SIDS to escape the paradox they have been trapped into, for 30 years, as a virtual, and therefore sterile category.

1. The question of the United Nations list of SIDS

The website of the United Nations Secretariat presents a list of SIDS comprising 46 countries and territories. This list incorporates 42 members and observers of the Alliance of Small island States (the entire list of AOSIS members and all AOSIS observers except Puerto Rico), as well as two additional countries (the Kingdom of Bahrain and the Dominican Republic) and two non-self-governing territories (Aruba and Tokelau).

The membership of the AOSIS (members and observers), as of 19 November 2004, consisted of 43 countries and territories, four of which were non-island States (Belize, Guineau-Bissau, Guyana, and Suriname). The AOSIS describes its membership as incorporating two distinct sub-groups, namely, "SIDS and low-lying coastal countries"[1]. This distinction indicates that the AOSIS does not assume that the UN list of SIDS ought to be equated with the overall AOSIS membership, contrary to common belief.

Also notable is the fact that the SIDS sub-group of AOSIS members and observers (39 island countries and territories) constitutes a smaller population of SIDS than the overall population of countries and territories recognized by the United Nations as genuine SIDS. The latter consist of 34 small island developing countries and 14 small island developing territories (thus a total of 48 SIDS) that make up what can be regarded as the ultimate UN list of SIDS, although this list is not based on any definition[2].

Overall, the international community is *de facto* confronted with a choice between three different lists of SIDS, though only one of these lists is publicly known. These three lists, which are detailed in Table 1, are summarized as follows:

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1 Source: Permanent Mission of Mauritius to the United Nations in New York, 3 February 2004.

2 The AOSIS listed 11 other non-self-governing territories that "could also be considered as SIDS", but are apparently not considered as full-fledged SIDS because they are not members of a UN regional economic commission.

(i) an *economic list* of 48 SIDS: 34 countries and 14 territories implicitly "recognized as SIDS"[3] by the United Nations, according to the AOSIS. This list, the widest circle of UN-recognized island entities, comprises several non-self-governing territories that are associate members of a UN regional economic commission. It is an "economic list" in the sense that it encompasses all (self-governing or non-self-governing) small island developing economies that receive practical attention from the United Nations system, either internationally or regionally, specifically because they are all members or associate members of a UN regional economic commission;

(ii) a *political list* of 39 SIDS: 32 countries and 7 territories recognized as SIDS by the AOSIS, of which they are members or observers. This list, which includes a number of non-self-governing territories that are associate members of a UN regional economic commission, is a "political list" in the sense that it involves all genuine (self-governing or non-self-governing) island entities that are within the membership of AOSIS, and as such, collectively enjoying special political recognition within the United Nations;

(iii) an *institutional list* of 46 SIDS: 34 genuine island States, 4 continental States and 8 non-self-governing territories that together make up the list of SIDS according to the UN Secretariat[4]. The fact that four continental States and three States with populations greater than seven million are on this list has not escaped the international community's attention. One also notes the presence, on the same list, of a number of non-self-governing island territories that are different from the sets of dependent territories to be found in the previous two lists. This heterogeneous list of small and not so small island and non-island States and non-States has generally not been questioned as the United Nations list of SIDS, since it is the only publicly available list of this kind.

[3] Source: Permanent Mission of Mauritius to the United Nations in New York, 3 February 2004.

[4] The 34 genuine island countries among the 46 entities within this list are the same as the 34 independent States among the 48 entities implicitly recognized as SIDS by the United Nations.

Table 1 presents the three above-described lists in its first, second and fourth columns, while the complete membership (members and observers) of the AOSIS appears in the third column. One is struck by the resemblance between the apparently official UN list of SIDS (the "institutional list") and the AOSIS membership list (fourth and third columns of Table 1, respectively).

All three lists raise serious conceptual and methodological issues. The "institutional list" is an informal list that has not been reviewed or validated by any United Nations body, not even in the context of preparations for the Mauritius International Meeting ("Barbados + 10"). Between May 2003 and August 2004, three additions were made to this list (American Samoa, Guam, Timor-Leste), while Cyprus and Malta, which had been AOSIS members and became members of the European Union, quietly pulled out of the SIDS nebula.

Raising the question of the list of SIDS has always been considered politically difficult and unnecessarily controversial. Yet, it would be in the interest of SIDS and their development partners, for the sake of effectiveness in their cooperation, that there be an authentic list of SIDS based on relevant criteria. Some take the view that, in the absence of criteria, there is no such thing as a SIDS category in the United Nations system, despite the existence of an apparently official list of SIDS.

Table 1. Three lists of SIDS and the membership of AOSIS

SIDS implicitly recognized by the UN (48) **The economic list**	SIDS within the membership of AOSIS (39) **The political list**	Members and observers of AOSIS (43)	SIDS according to the UN Secretariat (46) **The institutional list**
American Samoa	*American Samoa*	*American Samoa*	*American Samoa*
Anguilla	Antigua and Barbuda	Antigua and Barbuda	Antigua and Barbuda
Antigua and Barbuda	Bahamas	Bahamas	*Aruba*
Aruba	Barbados	Barbados	Bahamas
Bahamas	Cape Verde	Belize	Bahrain
Bahrain	Comoros	Cape Verde	Barbados
Barbados	*Cook Islands*	Comoros	Belize
British Virgin Islands	Cuba	*Cook Islands*	Cape Verde
Cape Verde	Dominica	Cuba	Comoros
Comoros	Fiji	Dominica	*Cook Islands*
Cook Islands	*Guam*	Fiji	Cuba
Cuba	Grenada	*Guam*	Dominica
Dominica	Haiti	Grenada	Dominican Republic
Dominican Republic	Jamaica	Guinea-Bissau	Fiji
Fiji	Kiribati	Guyana	*Guam*
French Polynesia	Maldives	Haiti	Grenada
Guam	Marshall Islands	Jamaica	Guinea-Bissau
Grenada	Mauritius	Kiribati	Guyana
Haiti	Micronesia (F. States of)	Maldives	Haiti
Jamaica	Nauru	Marshall Islands	Jamaica
Kiribati	*Netherlands Antilles*	Mauritius	Kiribati
Maldives	*Niue*	Micronesia (F. States of)	Maldives
Marshall Islands	Palau	Nauru	Marshall Islands
Mauritius	Papua New Guinea	*Netherlands Antilles*	Mauritius
Micronesia (F. States of)	*Puerto Rico*	*Niue*	Micronesia (F. States of)
Montserrat	Samoa	Palau	Nauru
Nauru	Sao Tome and Principe	Papua New Guinea	*Netherlands Antilles*
Netherlands Antilles	St. Kitts and Nevis	*Puerto Rico*	*Niue*
New Caledonia	St. Lucia	Samoa	Palau
Northern Mariana Is.	St. Vincent and the Gr.	Sao Tome and Principe	Papua New Guinea
Niue	Seychelles	St. Kitts and Nevis	Samoa
Palau	Singapore	St. Lucia	Sao Tome and Principe
Papua New Guinea	Solomon Islands	St. Vincent and the Gr.	St. Kitts and Nevis
Puerto Rico	Timor-Leste	Seychelles	St. Lucia
Samoa	Tonga	Singapore	St. Vincent and the Gr.
Sao Tome and Principe	Trinidad and Tobago	Solomon Islands	Seychelles
St. Kitts and Nevis	Tuvalu	Suriname	Singapore
St. Lucia	*United States Virgin Is.*	Timor-Leste	Solomon Islands
St. Vincent and the Gr.	Vanuatu	Tonga	Suriname
Seychelles		Trinidad and Tobago	Timor-Leste
Singapore		Tuvalu	*Tokelau*
Solomon Islands		*United States Virgin Is.*	Tonga
Timor-Leste		Vanuatu	Trinidad and Tobago
Tonga			Tuvalu
Trinidad and Tobago			*United States Virgin Is.*
Tuvalu			Vanuatu
United States Virgin Is.			
Vanuatu			

Non-independent territories are in *italics*

Sources: Permanent Mission of Mauritius to the United Nations in New York, 3 February 2004
www.sidsnet.org/aosis/members.html (AOSIS)
www.un.org/special-rep/ohrlls/sid/list.htm (Office of the High Representative)

2. The desirability of criteria

No category of countries will enjoy credibility, as a platform for advocacy, unless it is systematically defined. This necessarily implies the use of established criteria. The “SIDS” acronym provides a natural basis for adopting criteria. The natural sympathy that emanates from the international recognition of the problems faced by SIDS is instilled by the emotional content of the first three of the four letters of this acronym. One feels that something ought to be done in favour of these countries on grounds of *smallness* (a competitive disadvantage in the context of globalization), “*islandness*” (combining insularity and remoteness, two of the most important economic handicaps), and poverty or related characteristics of *developing* countries associated with island-specific factors, such as natural disasters.

This section touches on the implicit criteria dictated by the SIDS denomination, without quantifying these criteria or proposing a firm methodology to define the SIDS category.

Only island States should be considered

The inclusion of four continental States in the apparently official UN list of SIDS dampens the credibility of the United Nations in its effort to foster a special treatment of SIDS by the international community. While the solidarity of genuine SIDS vis-à-vis “low-lying coastal States” in the context of global environmental issues of common concern is well understood and legitimate, modeling a geographically specific category on the membership of an alliance that was shaped by political circumstances, is an anomaly.

The list of SIDS according to the UN Secretariat comprises eight island territories: American Samoa, Aruba, the Cook Islands, Guam, the Netherlands Antilles, Niue, Tokelau, and the United States Virgin Islands. The AOSIS does not include Tokelau among its members or observers, and seven non-self-governing territories that are among the SIDS implicitly recognized by the United Nations (the “economic list”) are neither members nor observers of the AOSIS. The Alliance further takes the view that another 11 non-self-governing territories that are not members or associate members of a UN regional economic commission "could also be considered as SIDS". These include Mayotte, la Réunion and St. Helena (Atlantic and Indian Ocean); Pitcairn, Tokelau and Wallis and Futuna (Pacific); and Bermuda, the Cayman Islands, Guadeloupe, Martinique and the Turks and Caicos Islands (Caribbean).

The General Assembly, deciding in 2002 on the international meeting to review the implementation of the Barbados Programme of Action, called for the "participation of associate members of regional commissions" as observers in the meeting. Whether this involves only the eight territories on the "institutional list", or the 14 territories on the "economic list", is unclear.

In the absence of clarity on which territories should be regarded as SIDS and which should not, the overall impression is that the fourth letter of the SIDS acronym ("States") is used as a generic notion that has no precise implication in terms of who should receive special attention from the international community. One fails to see on what grounds territories that are not associated with a regional economic commission, such as the Cayman Islands or the Turks and Caicos Islands, would be in lesser need of attention than other territories that are affiliated to a regional commission, such as the British Virgin Islands or Montserrat.

In the context of efforts to enhance the credibility of the UN about the SIDS category through the use of criteria, "statehood", like "insularity", should be a straightforward dual criterion. Limiting the SIDS category to a group of full-fledged (self-governing) States would facilitate the plea for a special treatment of SIDS by their development partners in the framework of international cooperation, along the same political lines as those prevailing for LDCs, which are all independent States. Non-self-governing island territories, which are naturally supported by their colonial partners, are less eligible targets for special treatment (several of them demonstrate enviable standards of living). However, most small island territories face economic and environmental challenges that are not different from those observed in genuine SIDS. It is therefore highly desirable that these territories continue to benefit from relevant regional or international initiatives (including relevant UN programmes), in particular, technical assistance to remedy shortages of skilled human resources.

A size threshold should be applied

Unlike the straightforward criteria of “islandness” and “statehood”, the size criterion opens the door to a potentially complex debate, as reflected in the deadlock, in the World Trade Organization, on the question of “small economies”.

Following different schools of thought, one could point to the importance of geographical smallness (especially for archipelagoes), or demographic “smallness” as a factor of limitations in skilled human resources or the domestic market. The notion of economic “smallness” could also be regarded as a useful criterion insofar as it explains the narrowness of the domestic financial base, and therefore the need for external financial assistance to implement costly public sector investment programmes, no matter how high the per capita income may be. Considering the methodological difficulties a combination of size variables would entail, using a single size criterion seems more advisable. This makes the population criterion an inevitable option.

The approach taken by the Commonwealth Secretariat to this question is generally deemed reasonable. It could be adopted by the United Nations in a criterion-based definition of SIDS. The Commonwealth considers 1.5 million as a suitable population threshold, and at the same time, accepts four exceptions to this ceiling, thereby raising the borderline to 5 million. Subject to an additional margin of tolerance, this exception allows the Commonwealth to recognize Papua New Guinea (population 5.6 million) as a small State. If transposed to a hypothetical SIDS definition in the United Nations, under this pragmatic rule, Trinidad and Tobago (population 1.3 million) would be the largest SIDS *stricto sensu*, while Jamaica (2.6 million) and Papua New Guinea would be accepted as the upper end of the category. It is interesting to note that Haiti (7.5 million), though a member of AOSIS, is not regarded as a “small State” by its representatives in the WTO, while the Dominican Republic (8.7 million) is not even a member of AOSIS, which nevertheless recognizes it as a SIDS.

UNCTAD's pragmatic approach to the question of the definition of SIDS

UNCTAD, for analytical purposes only and for the sake of credibility in substantively advocating — through research and analysis — the case for a special treatment of SIDS, uses a non-official list of 29 SIDS, all of which are deemed consistent with the above-described criteria ("islandness", "Stateness", and "smallness"). These 29 countries, which appear in Table 2, are all self-governing, genuine island States with a population not exceeding five million (except for Papua New Guinea) and socio-economic characteristics, in terms of national income and/or income distribution, that leave no doubt about their developing country status.

Table 2. **UNCTAD's analytical (non-official) list of SIDS**

Antigua and Barbuda	Palau
Bahamas	Papua New Guinea
Barbados	Samoa
Cape Verde	Sao Tome and Principe
Comoros	Seychelles
Dominica	Solomon Islands
Fiji	St. Kitts and Nevis
Grenada	St. Lucia
Jamaica	St. Vincent and the Grenadines
Kiribati	Timor-Leste
Maldives	Tonga
Marshall Islands	Trinidad and Tobago
Micronesia (Fed. States of)	Tuvalu
Mauritius	Vanuatu
Nauru	

3. Two necessary conditions for enhancing credibility

There is a growing aspiration, among SIDS, to rationalize the category with a view to creating scope for international action toward a more differentiated treatment of these countries in response to the unique disadvantages they face. To this end, it seems highly advisable that the following two conditions be met.

Firstly, **the United Nations system should seek to adopt an internationally agreed list of SIDS based on sound criteria, with a view to gaining credibility in its support to this category of countries**.

Recommendations on this matter could be sought by the Economic and Social Council from the Committee for Development Policy. The latter has been the architect of the conceptual, methodological and statistical definition of a recognized category, the Least Developed Countries. As such, it has considerable experience in analyzing issues of structural disadvantages (such as economic vulnerability) that are relevant to SIDS. The Committee could advise relevant intergovernmental bodies, not only on the most desirable list of SIDS, but also on the range of special treatment modalities the list ought to suggest. The systemic move toward an internationally accepted list would by no means imply that changes should take place in the membership of the sovereign Alliance of Small Island States (AOSIS). The AOSIS would be expected to continue to be the main political voice of SIDS internationally, but it could also pursue its natural lobbying role on issues that are not exclusively SIDS-related, for the benefits of those, among AOSIS members and observers, that would not be on the internationally accepted list of SIDS[5].

Secondly, **SIDS should have a pragmatic (issue-specific) approach to the question of special treatment**, irrespective of the arena in which they are pursuing their interests.

UN support to SIDS in the economic sphere —essentially to send signals to the international community— should be issue-specific, preferably focused on a small number of key issues, and articulated in the light of SIDS-specific issues. However, any attempt by SIDS to promote an official recognition of the SIDS category among all relevant international

[5] The distinction between the UN list of SIDS and the membership of AOSIS should be as natural as the distinction between the UN list of Least Developed Countries and the Group of 77 has been.

organizations (particularly those outside the United Nations system) would be vain. Instead, SIDS should seek to take advantage of the framework each of these organizations offers, be it as a forum to discuss burning issues or as a platform for access to research and analysis.

The very stretched diplomatic resources of SIDS and the generally limited interest shown toward SIDS and their concerns by the international community have added to the inevitable inertia in the international bureaucracy, and are likely to make the realization of the above conditions a long process. Meanwhile, SIDS ought to continue to struggle to gain special recognition. Ultimately, the most promising policy, for them, is one of individual self-reliance — with regional support — and adaptation to the changing economic and technological environment, on which they have little or no influence.