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# FLOUR TRADE IN ANTIGUA AND BARBUDA

AN ANALYSIS OF THE IMPACT ON THE ECONOMY  
OF ANTIGUA AND BARBUDA IN SUBJECTING  
WHEAT AND MESLIN FLOUR

TO ARTICLE 164 TREATMENT

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# INTRODUCTION

This report is intended to assist the Government of Antigua and Barbuda to formulate a position as to whether or not to support the inclusion of wheat and meslin flour on a list of exceptions to intra-CARICOM free trade as permitted by Article 164 of the Revised Treaty of Chaguaramas.

This report and the economic analysis contained herein is based on interviews conducted between January 30 and February 7, 2006, and includes a representative sample of bakeries, hoteliers, importers, retail outlets, trade associations and wholesalers from throughout Antigua and Barbuda. In addition, it relies on trade statistics furnished by the CARICOM Secretariat and the Statistics Division of the Antigua and Barbuda Ministry of Finance and Economy. It provides an example of the type of economic analysis that should accompany the decision to include any type of product on an Article 164 exceptions list. All such decisions should only be undertaken after a thorough review has been completed that determines the economic impact that such an action is likely to cause throughout the domestic economy, including cascading economic effects that eventually trickle down to consumers, and affect the country's ability to effectively compete in the global marketplace.

## OVERVIEW OF ARTICLE 56/164

Article 56 of the Treaty of Chaguaramas that brought CARICOM into existence in 1973 allowed CARICOM's Less Developed Countries or LDC's (i.e., namely the member states of the Organization of Eastern Caribbean States (OECS) and Belize) to exempt from free trade goods imported from CARICOM's More Developed Countries or MDC's (i.e., Barbados, Guyana, Jamaica, and Trinidad & Tobago). In particular, the LDC's were allowed to charge an import duty on the product as if imported from a non-CARICOM country, or impose a quantitative restriction through the issuance of import licenses. Once one LDC asked for a product to be exempt from free trade treatment, all the other LDC's were expected to impose a similar restriction on its importation of this product from an MDC. Approval of what products could be exempt from intra-CARICOM free trade first had to be approved by CARICOM's Council for Trade and Development (COTED)<sup>1</sup> upon an affirmative vote of all the LDC's and at least two MDC's.

Article 56 was enacted in the 1970's at a time when the now thoroughly discredited import substitution economic model of development was in vogue. The basic rationale was that LDC markets had to be temporarily protected from competition from the MDC's in order to allow infant industries to develop or, alternatively, to allow existing industry to restructure so to more effectively compete with their MDC peers.

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<sup>1</sup> When the Treaty of Chaguaramas initially came into force in the 1970's, authority to include products on an Article 56 list of exceptions was entrusted to the Common Market Council of Ministers. That authority was subsequently transferred to COTED.

A July 1997 Commonwealth Secretariat study commissioned by the CARICOM Secretariat noted that Article 56 had not been used as a “temporary measure” as required, and had not led to sustainable industrial development in the LDC’s. Instead “it tends to shelter inefficient enterprises, and it results in higher costs and less choice to consumers”. Furthermore, the report noted that aspects of Article 56 violated basic principles of the World Trade Organization (i.e., it does not use tariffs as a means of protecting domestic industry, and it conflicts with the principle of the Most Favored Nation (MFN) clause by discriminating between imports from LDC’s, MDC’s, and extra-regional sources). The report recommended that Article 56 be phased out no later than 2001.

Antigua and Barbuda removed its sole product---paint---from an Article 56 exceptions list in 1995 at the request of the principal manufacturer, Lee Wind Paints.

On January 1, 2006 the revised Treaty of Chaguaramas came into force. The provisions of Article 164 of the revised Treaty are similar to those found in the Article 56 of the previous version. The major difference is that for any exempt product, COTED may now “establish terms and conditions including a phasing-out period during which Member States and the Community shall provide support measures and the industry implement the necessary programmes for achieving competitiveness.” Prior to entry into force of the revised Treaty of Chaguaramas, COTED was entrusted with the task of determining what products should be included in the new Article 164 list of exceptions.

At the COTED meeting held in Georgetown, Guyana from January 9-13, 2006, perennial Article 56 favorites (*i.e.*, aerated beverages, candles, curry powder, industrial gases, pasta, solar water heaters, and wooden furniture) were carried over onto the new Article 164 list of exceptions for periods ranging from 5 to 10 years. In addition, animal feeds, beer, bottled water, coconut water, and malt were also added to the new Article 164 list for up to 10 years. It was further agreed that tariffs, instead of quantitative restrictions, will be the principal instrument for implementing Article 164 and that there will be a mandatory review of the included items after 5 years.

## BACKGROUND ON WHEAT AND MESLIN FLOUR DISPUTE

Since at least 2001, the Government of Antigua and Barbuda has issued licenses for the importation of considerably cheaper wheat flour from Barbados, as well as Trinidad and Tobago, despite its inclusion on an Article 56 list of exceptions for almost three decades.

In May 2005, the Prime Minister of St. Vincent & the Grenadines publicly criticized Antigua and Barbuda for allegedly violating Article 56 by allowing the importation of flour from outside the OECS. According to his government’s interpretation of the provision, Antigua and Barbuda was completely prohibited from importing any Article 56 item from anywhere but the OECS. In a written response, the Prime Minister of Antigua and Barbuda, the Honorable Baldwin Spencer, noted that importers in Antigua and Barbuda had no option but to source flour from other CARICOM countries outside the OECS because of the negative impact of Hurricane Ivan on producers in Grenada and St. Vincent & the Grenadines that made it impossible for them to meet Antiguan demand. In addition, Prime Minister Spencer pointed out that a two kilogram package of all purpose flour from Trinidad and Tobago retailed for almost half the price of a similar sized package of equivalent flour from St. Vincent & the Grenadines. Therefore, the impact on Antiguan and Barbudan consumers of the prices of food staples, such as flour, was a matter of serious concern that he could not ignore.

A legal opinion from CARICOM’s Office of the General Counsel dated May 27, 2005, suggested that while Antigua and Barbuda had the right to import flour from an MDC if the production of flour made within the OECS did not satisfy national demand, the Antiguan government should have first sought COTED’s approval before acting unilaterally.

At the January 9-13, 2006 COTED meeting in Georgetown, Guyana, the Government of Antigua and Barbuda sought to remove wheat and meslin flour from the list of approved Article 164 items exempt from intra-CARICOM free trade. The issue of flour was deferred, however, for consideration at a later date. Both during the January 2006 COTED meeting, and subsequently, the Government of Antigua and Barbuda has attempted to negotiate an agreement with the Governments of Grenada and St. Vincent & the Grenadines whereby it could import a certain percentage of 100 pound sacks, and 1, 2 and 5 pound packages of wheat flour from non-OECS sources. In order to monitor the percentage imported into the country, the Government of Antigua and Barbuda has promised to use a licensing regime. In addition, Antigua and Barbuda reserves the right to import a higher percentage of non-OECS flour if OECS suppliers are unable to meet national demand. The Government of St. Vincent & the Grenadines has, to date, refused to enter into any type of compromised settlement.

# SOURCES OF FLOUR IMPORTED BY ANTIGUA AND BARBUDA

Antigua and Barbuda imports flour primarily from two OECS countries: Grenada and Saint Vincent & the Grenadines. East Caribbean Flour Mills, part of the East Caribbean Group of Companies (ECGC) of St. Vincent and the Grenadines controls approximately 65 percent of the Antiguan flour market. Meanwhile, Grenada-based Caribbean Agro Industries Ltd. accounts for approximately 25 percent, while Trinidad & Tobago's publicly-owned<sup>2</sup> National Flour Mills Ltd. accounts for 10 percent of the flour sold in Antigua and Barbuda.

ECGC was established in 1977 in St. Vincent & the Grenadines as a private limited liability company. Maple Leaf Foods of Canada controls 40 percent of the company, while another 40 percent is owned by a local private company, and the remaining 20 percent belongs to the Government of St. Vincent & the Grenadines.

Caribbean Agro Industries was incorporated under the laws of Grenada in 1978 as a private limited company.

Both ECGC and Caribbean Agro Industries utilize inputs imported from the United States, Europe, Trinidad & Tobago, and Guyana to produce wheat flour, animal and poultry feed, rice and wheat middling. Export destinations consist of Antigua and Barbuda, Barbados, Dominica, Grenada, Montserrat, St. Kitts and Nevis, and St. Lucia.

National Flour Mills Ltd. (NFM) of Trinidad & Tobago began operations in 1966 as Trinidad Flour Mills Limited. NFM was incorporated in 1972. Headquartered in Port of Spain, NFM became a public limited company in 1995 when 20 percent of the state's shareholding interests were divested to the public. Since then, the Government of Trinidad & Tobago has continued to divest its shareholding interests in NFM, to the point that the company is today fully in private hands. 51 percent of the shares are currently held by National Enterprises Limited (NEL). It primarily utilizes a variety of wheat varieties imported from the United States.

In order to understand the distribution channels of wheat flour in Antigua and Barbuda, twelve companies were interviewed that act as importers, distributors, wholesalers and/or retailers. In addition, five retail bakeries and three hotels that use flour in their products were interviewed.

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<sup>2</sup> As used here, publicly owned means shares that are owned and traded in the private market place, and not 'state owned'.

# MARKET SHARE AND CONSUMER PREFERENCES

As mentioned above, Saint Vincent and the Grenadines dominates approximately 65 percent of the flour market in Antigua and Barbuda, while Grenada’s flour share represents 25 percent, and Trinidad and Tobago’s flour has 10 percent of the market. In order to get inputs from key flour consumers in Antigua, interviews were conducted with bakeries and hotels.

The following table summarizes the country of origin of the flour used by the bakeries and hotels that were interviewed:

	SVG	GRENADA	T&T	USA
<b>Bakery 1</b>				
<b>Bakery 2</b>				
<b>Hotel 1</b>				
<b>Hotel 2</b>				
<b>Hotel 3</b>				
<b>Bakery 3</b>				
<b>Bakery 4</b>				
<b>Bakery 5</b>				

This table shows the different preferences of the interviewed bakeries and hotels for sourcing flour. There is no correlation between the country of origin of the flour used and the final consumers these establishments serve. Given that bakeries and hotels (and not final customers) are experts in dealing with flour, there also appears to be no verifiable connection between quality and the differentiated demands of final consumers of flour-based products.

Final consumers in Antigua appear accustomed to Purity flour from St. Vincent & the Grenadines. For many years, Purity flour from St. Vincent & the Grenadines was the only flour available in the Antiguan market and this gave time for it to emerge as the most accepted and known product. This appears to be the primary reason for the company’s large market share in the Antiguan market.

# RETAILER CHOICES AND PRICES

The following table summarizes flour being sold by the different supermarkets and wholesalers in Antigua, according to country of origin<sup>3</sup>:

	SVG	GRENADA	T&T	USA
<b>Bargain Centre Supermarket</b>				
<b>Food City</b>				
<b>Food Emporium</b>				
<b>Island Provision</b>				
<b>Market Point</b>				
<b>Miami Supermarket</b>				
<b>The Epicurean Fine Foods</b>				

In this case, there is a correlation between flour sold and income level of final consumers served. The Epicurean, which targets the highest-income consumers, does not sell flour from Trinidad & Tobago. Market Point, which sells only to low-income purchasers, exclusively sells Trinidadian flour.

This correlation illustrates two facts:

- First, low-income Antiguan consumers are price sensitive and purchase flour from Trinidad & Tobago, mainly at Bargain Centre, Food City, Food Emporium, Market Point, and Miami supermarkets. According to one supermarket, Trinidadian Lotus flour sells quickly due to its price. The difference in price between Purity from St. Vincent and Lotus is more than 85% for white flour, and more than 75% for the wheat flour: EC\$ 7.05 for the Purity White 2K flour, EC\$ 3.80 for the Lotus White 2K flour, EC\$ 6.85 for the Purity Wheat 2K flour, EC\$ 3.91 for the Lotus Wheat 2K flour.
- Second, the flour from Trinidad & Tobago is not well accepted among mid and high-income final consumers. However, Trinidadian flour is accepted by some bakeries and hotels serving mid and high-income final consumers. As an example, one retailer does not sell flour from Trinidad & Tobago, but does stock bread from one local bakery---some of which is made with Trinidadian flour---in the same aisle that it sells American and Canadian bread.

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<sup>3</sup> This information was garnered by visits to these retail centers to see what existed on their shelves.

The following table illustrates retail prices at the various supermarkets visited:

COUNTRY	FLOUR BRAND	FLOUR TYPE	COMPANY	UNIT	LBS.	Kg.	Price
<b>Grenada</b>	Good Life	White	Caribbean Agro Industries	bag	2.20	1.00	2.96
<b>Grenada</b>	Sunshine	White	Caribbean Agro Industries	bag	2.20	1.00	2.96
<b>SVG</b>	Purity	White	East Caribbean Flour Mills	bag	2.20	1.00	<b>3.90</b>
<b>Trinidad</b>	Lotus	White	National Flour Mills	bag	4.41	2.00	3.80
<b>Grenada</b>	Sunshine	White	Caribbean Agro Industries	bag	4.41	2.00	5.38
<b>SVG</b>	Purity	White	East Caribbean Flour Mills	bag	4.41	2.00	<b>7.05</b>
<b>Grenada</b>	Good Life	Wheat	Caribbean Agro Industries	bag	2.20	1.00	2.96
<b>SVG</b>	Purity	Wheat	East Caribbean Flour Mills	bag	2.20	1.00	<b>4.02</b>
<b>Trinidad</b>	Lotus	Wheat	National Flour Mills	bag	4.41	2.00	3.91
<b>Grenada</b>	Good Life	Wheat	Caribbean Agro Industries	bag	4.41	2.00	6.18
<b>SVG</b>	Purity	Wheat	East Caribbean Flour Mills	bag	4.41	2.00	<b>6.85</b>
<b>USA</b>	Pillsbury	White	The JM Smucker Company	bag	2.00	0.91	4.95
<b>USA</b>	Gold Medal	White	Betty Crocker	bag	4.98	2.26	8.35
<b>USA</b>	Gold Medal	Whole Wheat	Betty Crocker	bag	4.98	2.26	10.15
<b>USA</b>	Martha White	All Purpose	Martha White Foods	bag	5.00	2.27	8.40
<b>USA</b>	Gold Medal	Better 4 Bread	Betty Crocker	bag	4.98	2.26	8.45
<b>USA</b>	Gold Medal	Self Rising	Betty Crocker	bag	4.98	2.26	8.15
<b>USA</b>	Martha White	Self Rising	Martha White Foods	bag	5.00	2.27	5.86

*Source: Food City, Food Emporium, The Epicurean, Market Point, and Miami Supermarkets (Feb 2006).*

White and wheat flour from St. Vincent & the Grenadines is always the most expensive flour sold in the Antiguan market. However, the white flour price per Kg. is lower when compared to flour imported from the United States (which can be attributed, in part, to the CARICOM Common External Tariff (CET) for white flour). For the 1 Kg. bag, the price per Kg. is EC\$ 3.90 for Vincentian flour compared to EC\$ 5.44 for the comparable 2 pound bag from the US. For the 2 Kg. bag, the price per Kg. is EC\$ 3.53 per Kg. for Vincentian flour compared to EC\$ 3.69 for the comparable 2 pound bag from the US.

As for the bread market, the following data represent current bread prices (in EC Dollars):

<b>COUNTRY</b>	<b>BREAD BRAND</b>	<b>BREAD TYPE</b>	<b>UNIT</b>	<b>LBS.</b>	<b>KG.</b>	<b>PRICE</b>
<b>Antigua</b>	Aubrey's	White	Bag	1.19	0.54	3.25
<b>Antigua</b>	Brownies	White	Bag	1.49	0.68	4.00
<b>Antigua</b>	N/A	White	Bag	1.49	0.68	4.50
<b>Canada</b>	Weston	Enriched White	Bag	1.49	0.68	7.95
<b>Canada</b>	Country Harvest	Seven Grain	Bag	1.49	0.68	8.99
<b>Canada</b>	Country Harvest	Sun Flower Flax	Bag	1.49	0.68	8.99
<b>Canada</b>	Country Harvest	Twelve Grain	Bag	1.49	0.68	8.99
<b>Canada</b>	Family	White	Bag	1.49	0.68	7.95
<b>Canada</b>	Country Harvest	Whole Grain	Bag	1.49	0.68	8.99
<b>USA</b>	European Bakers	Jewish Rye	Bag	1.25	0.57	9.59
<b>USA</b>	European Bakers	Sour Dough	Bag	1.25	0.57	9.59
<b>USA</b>	European Bakers	Wheat Berry	Bag	1.25	0.57	9.45

*Source: The Epicurean, Feb 2006 (This supermarket was chosen for its variety. Prices in the other stores are approximately the same due to price controls)*

Local breads are definitely less expensive than the imported ones. Again, this can be partially explained by the CARICOM CET which is 20 percent, as well as a 10 percent Customs Service Tax levied on all imported bread regardless of origin. Bakeries and supermarkets say bread retail prices have not changed in recent years. According to one supermarket, the government controls the retail price on certain food items, which is supposed to include a 15 percent markup for the retailer. For certain non-food products, the markup included within the price controlled items is 25 percent, while it is 15 percent for toilet paper, tooth paste, soap, disinfectants, and insect sprays. This means that the whole price structure in Antigua and Barbuda is not based on market forces.

# FEW PLAYERS AND GOVERNMENT CONTROLS

The flour trade in Antigua and Barbuda is controlled by a very few businesses. There are three foreign mills that are responsible for almost 100 percent of the flour sold in the country: ECGC (St. Vincent & the Grenadines), Caribbean Agro Industries Ltd. (Grenada), and NFM (Trinidad & Tobago).

In addition, certain food prices in Antigua and Barbuda, as well as in prime OECS markets (i.e., Dominica, St. Kitts & Nevis, St. Lucia, and St. Vincent & the Grenadines) are controlled by the government. This contributes to the distortion in the allocation of resources and paves the way to shortages when demand exceeds supply. Despite the increasing number of supermarkets in the country, Antiguan pay almost the same price for flour and bread no matter where they shop. This leads to two conclusions:

- Solving flour shortages requires a combined effort by the different OECS countries. As long as price controls continue in place, shortages will continue not only in Antigua and Barbuda, but in the rest of the OECS sub-region as well.<sup>4</sup>
- Antigua and Barbuda can improve its situation by unilaterally removing price controls. However, if it does not open its market to the importation of flour from other countries (including non-CARICOM sources), the price of flour could increase and leave low-income local citizens without the possibility of buying it.

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<sup>4</sup> For an in depth discussion of the history of price controls and their effects, See *Forty Centuries of Wage & Price Controls*, by Robert Schuettinger and Eamonn Butler. This 1979 book shows the lack of success price controls have had over the last 4,000 years.

The following table shows how distribution prices are determined in five OECS countries and Barbados for the 100 lbs. white flour bags imported from St. Vincent & the Grenadines:

	ANTIGUA	BARBADOS	DOMINICA	GRENADA	ST LUCIA	ST KITTS
<b>F.O.B.</b>	52.25	53.55	50.48	58.49	55.92	53.77
<b>Insurance &amp; Freight</b>	5.20	5.65	8.52	8.01	3.08	10.23
<b>C.I.F.</b>	57.45	59.00	59.00	66.50	59.00	64.00
<b>Charges</b>	6.97	2.06	2.15	3.33	5.90	2.25
<b>Markup</b>	6.44	6.10	4.78	6.98	1.55	4.75
<b>Distribution</b>	70.86	67.16	65.93	76.81	66.45	71.00

*Source: ECGC. Flour in St. Lucia and St. Kitts is distributed by Government. The St. Lucia prices are based on Ex. Ship and Ex. Warehouse. All the others are CIF prices and based on containerized shipping.*

According to this table, the Antiguan distribution price is lower than in Grenada and St. Kitts, and higher than in Barbados, Dominica and St. Lucia. However, retailers and wholesalers in Antigua and Barbuda claim they pay between EC\$ 71 and EC\$ 73 wholesale for a 100 pound sack of flour, a cost that is higher than any other OECS country but for Grenada. It is worth noting that, according to one local company, prices of US flour have recently increased as a result of price increases of fuel and freight.

After 28 years of operation, ECGC of St. Vincent & the Grenadines sold 98.45 percent of its production within the OECS in 2005. St. Vincent, the domestic market, ranked first and was responsible for 34.88 percent of ECGC's overall sales. St. Lucia followed with 28.16 percent, and Antigua came in third with 15.37 percent. Barbados, the only non-OECS target market, accounted for 1.55 percent of ECGC's sales in 2005. The small remainder was shared by Dominica, Grenada and St. Kitts. The absence of exports to more competitive markets outside of the OECS, or CARICOM for that matter, demonstrates a clear failure of the import substitution model supported by Article 56 in the older version of the Treaty of Chaguaramas and now Article 164 of the revised version of the Treaty.

ECGC's domination of the OECS markets provides an unambiguous example of a lack of structural competitiveness. High production costs are the result of higher prices for electricity, transportation, and a lack of economies of scale when buying wheat.<sup>5</sup> At the other end, Antiguan and other OECS consumers pay high prices and, on top of that, face shortages due to price controls.<sup>6</sup>

<sup>5</sup> A study prepared by the CARICOM Secretariat for the January 9-13, 2006 COTED meeting in Georgetown, Guyana indicates that St. Vincent and the Grenadines confront costs per Kilowatt 10 times that of Trinidad and Tobago, while Grenada's cost is 9 times that of Trinidad and Tobago.

<sup>6</sup> This information was gathered at a meeting with a representative from one of the foreign suppliers who happened to be at the office of one of its customers in Antigua when that company was visited for an interview on February 7, 2006.

The next table illustrates how prices are determined in Antigua for different kinds of flour bought from the Caribbean Agro Industries Ltd. located in Grenada:

FLOUR BRAND	FLOUR TYPE	UNIT	LBS.	KG.	FOB COST	WHOLE SALE	RETAIL	PER BAG
<b>Baker's Choice</b>	White	1 bag	100.00	45.36	54.49	73.55	80.00	80.00
<b>Baker's Choice</b>	White	1 bag	25.00	11.34	13.37	21.00	22.00	22.00
<b>Sunshine</b>	White	1 case, 10 bags	5.00	2.27	30.00	42.12	46.80	4.68
<b>Sunshine</b>	White	1 case, 12 bags	2.00	0.91	19.00	27.77	30.85	2.57
<b>Baker's Choice</b>	Wheat	1 bag	100.00	45.36	57.49	81.90	91.00	91.00
<b>Baker's Choice</b>	Wheat	1 bag	25.00	11.34	15.25	23.00	25.00	25.00
<b>Good Life</b>	Wheat	1 case, 10 bags	5.00	2.27	30.00	42.12	46.80	4.68
<b>Good Life</b>	Wheat	1 case, 12 bags	2.00	0.91	19.00	27.77	30.85	2.57
<b>N/A</b>	5 Grain	1 case, 12 bags	0.45	1.00	N/A	N/A	65.86	6.31
<b>N/A</b>	10 Gr.	1 case, 12 bags	0.45	1.00	N/A	N/A	68.22	6.54

*Note: Prices (in EC Dollars) per bag for the 5 and 2 lbs. bags are estimates.*

The following data indicates one firm's determination of prices based on a recently ordered container with 465 one hundred pound bags of white flour from Grenada.

- 1) FOB Cost per bag is multiplied by the quantity of bags being ordered:  
 $EC\$ 54.49 \times 465 = EC\$ 25,337.85$
- 2) FOB prices are then multiplied by a percentage that represents freight costs:  
 $EC\$ 25,337.85 \times 14.26\% = EC\$ 28,952.13$
- 3) The total CIF price is then multiplied by a 5 percent Customs Service Tax levied by the Antigua and Barbuda Customs Service:  
 $EC\$ 28,952.13 \times 5.00\% = EC\$ 1,447.61$
- 4) EC\$ 2.65 is charged per bag as a brokerage and haulage fee  
 $EC\$ 2.65 \times 465 = EC\$ 1,232.25$
- 5) The total cost: EC\$ 31,631.98
- 6) When the total cost is divided by the number of bags (in this case 465) the cost for each bag at the port becomes EC\$ 68.03
- 7) If a 13.5% wholesale markup is added, then the price for each bag is EC\$ 77.21
- 8) If a 10% retail markup is added, then the final price at which the 100 lbs, sack of Grenadian white flour should be a grand total of EC\$ 84.93

The actual wholesale price charged is EC\$ 73.55 per 100 lb. bag, and a wholesale price of EC\$ 80 per 100 pound bag of Grenadian white flour. This means that the company in question only levies an 8.11% and 8.77% markup respectively. These percentages are considered low and not sufficient to support the costs associated with running a medium-sized enterprise. A possible solution would be to increase the profit

margin by reducing the FOB cost of the white flour, as well as eliminating the 5 percent Customs Service Tax (which is illegal under World Trade Organization rules anyway), thus allowing for a better distribution of profits. This could be complemented by access to additional sources of duty free flour, and the adoption of a market-based price system.

# FLOUR AVAILABILITY

According to various sources, flour shortages occurred in 2005. The interviewed companies also recalled anywhere from one to four different occasions when this occurred in 2005. Some of these businesses also recall experiencing a lack of flour in 2004 and 2003.

Several sources also recall that transportation problems affected flour deliveries on two occasions in 2005, one due to simple delays and another one due to a reported shipping accident.

Several sources reported no shortages in flour shipments over the last few years.

One source reported never experiencing any shortages in bringing in flour from the United States.

# QUALITY CONCERNS

Among members of the Antiguan business community, there does not appear to be a consensus as to why consumers in Antigua and Barbuda prefer Purity flour from St. Vincent & the Grenadines over the rest. Supermarkets serving mid and high-income consumers agree that flour imported from Grenada and St. Vincent & the Grenadines is widely accepted and better in quality than the flour imported from Trinidad & Tobago. Other retailers who deal mostly with low-income consumers consider the quality of the flour from all three countries to be equally as good, although even their customers prefer Purity from St. Vincent & the Grenadines because that is the brand they are most familiar with. All the retailers agree that consistency of the flour for all three brands is adequate.

According to one retailer, Lotus Flour from Trinidad & Tobago sells quickly due to its price. However, some bakers claim that bread made with the Trinidadian flour does not come out as well as that made with Purity flour from St. Vincent & the Grenadines.

Two retailers who deal with flour from all three countries agree that all work equally well for baking needs. On the other hand, two bakeries claim that baked goods made with Trinidadian flour does not come out as well as that made with Purity flour from St. Vincent & the Grenadines.

One supermarket points out there are few differences in packaging among the different brands of flour sold in Antigua and Barbuda, indicating that this is not a factor explaining market share. With the exception of one bakery, all the interviewed companies considered packaging to be acceptable. Sacks and packages were reported to be well sealed and adequate for protecting flour from moisture. One bakery did mention the need to improve the 100 pound sacks since these were previously woven and have now been replaced by plastic bags that, given their weight, are much more difficult to manage. One importer also complains that flour dust escapes more easily from the woven propylene 100 lbs. sacks being used by Grenada-based Caribbean Agro Industries Ltd, thereby creating a health hazard and facilitating weevil infestation, and vehicle corrosion.

None of the interviewed supermarkets claims to have ever received complaints from customers regarding the packaging of flour.

One supermarket sells Purity flour from St. Vincent & the Grenadines and Lotus flour from Trinidad & Tobago. It is worth noting that, according to the owner, his store has never received any complaints from customers regarding packaging and has never detected any moisture problems. However, a visit to the supermarket's shelves indicated that the supermarket was selling flour with damaged packaging. Some 30 unidentified nylon bags reputedly containing Trinidadian Lotus White Flour were for sale on the day the establishment was visited to interview its owner. These bags neither specified the product they contained nor their weight. Each 4 lb bag<sup>7</sup> was priced at EC\$ 3.50 as compared to a 2 Kg. (4.26 lbs.)

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<sup>7</sup> The actual weight was determined by the author who interviewed the owner of this store and used the store's scale.

Lotus White Flour sold at EC\$ 3.81 per bag. Since the price per pound was being respected, the loss of flour from faulty packaging was slightly below 10%. The owner confirmed repacked flour comes both from St. Vincent & the Grenadines as well as Trinidad & Tobago. This is an interesting case due to the following:

- The business owner does not appear to have a clear view of the importance of upholding standards of quality. Even though many flour bags break, he claims to be satisfied with the packaging and presumably has never complained to the importer or wholesaler. The ideal would be for the owner to return the faulty packages to the party from which he bought it and not sell it to the public.
- In addition, low-income customers do not appear to be conscious of their rights. Buying repacked flour with no specification whatsoever as to origin or weight on the bags, seems to be customary and well accepted. This situation underscores the urgent need for an active and efficient consumer watchdog group.

# LINKAGES WITH THE TOURISM VALUE CHAIN

There appears to be little connection between the hotel industry and local bakeries. Hotels generally have their own pastry shops and buy imported or local bread from supermarkets. Unfortunately, the supermarkets interviewed could not provide estimates as to their sales to hotels as they do not receive separate requests from them. Only one bakery interviewed confirmed that it sells bread and other products directly to two hotels on the island.

One company sells American gluten flour to the three hotels, as well as a local restaurant.

This leads to the following conclusion: hotels in Antigua and Barbuda consume local bread, but there appears to be little communication between hotels and bakeries. This implies that new business opportunities could arise if local bread producers are better able to ascertain the tastes of visiting tourists. It also underscores the need of local bakers to have access to a wider pool of flour sources in order to offer a more varied range of flour based products that are in demand from international visitors.

# ANTIGUAN CONSUMPTION HABITS

There is a broad consensus among bakers and retailers that flour and bread are essential staples for Antiguans & Barbudans. Local people buy bread both in the morning and in the afternoon. As they become more health-conscious, Antiguans in recent years started to eat more bread made with whole durum wheat (and this appears to be supported by import data, when available, over the last few years showing significant increases in the importation of durum wheat flour). Demand for bread appears to be price inelastic; accordingly, restricting the importation of flour and not offering consumers market based choices has a direct and negative impact on low-income consumers.

According to two supermarkets, they cannot sell enough bread. However, they do not sell as much flour today as in years past. This could be due to a change in habits ---less home baking---, the presence of new competing supermarkets, and/or the high price of flour.

According to another retailer, rice consumption in Antigua has grown in recent years due to increased immigration by Guyanese, along with Jamaican and Spanish speaking immigrants, all of whom consume large quantities of rice. It is worth noting that rice is a considerably less expensive staple than bread. This phenomenon was also noted by one of the importers.

# OPINIONS

The following summarizes the opinions of the companies interviewed concerning the Antiguan and Barbudan Government proposal to open the market for the importation of more wheat and meslin flour from LDCs:

- For:
  - One bakery is not against protection as long as prices are kept reasonable. The company supports the Government's initiative on Article 164 provided that it helps to reduce the price of flour.
  - One supermarket supports openness as long as flour comes from within CARICOM.
  - Another supermarket considers that competition is good and allowing extra-CARICOM competition would be even better.
  - A third supermarket supports opening the flour market to reduce prices and enable more variety.
  - A different supermarket supports opening the markets to lower prices and to be able to provide greater variety. The more open the market, the better. Opening the market to other CARICOM countries is considered to be good, but opening to flour producers from outside CARICOM would be even better.
  - Another retailer supports openness to lower prices and enable variety.
  - Two hotels support the opening of flour imports from other countries.
  - One bakery supports openness as long as the bakery can continue buying the products that have served the company well.
  
- Against:
  - One bakery does not support opening the market to other sources of flour due to possible job losses in Grenada and St. Vincent & the Grenadines. The owner suggests focusing on the costs of salt, sugar, yeast, shortening, additives, electricity, water, propane gas, and diesel.

- According to one importer, flour producers in Grenada and St. Vincent & the Grenadines need assistance to be more efficient and competitive. The firm suggested that analyzing how producers in Trinidad became so efficient and price competitive would be a helpful exercise.

# CONCLUSIONS & RECOMMENDATIONS

The current dispute between Antigua and Barbuda, on the one hand, and Grenada as well as St. Vincent & the Grenadines, on the other hand, over wheat and meslin flour underscores why the entire concept of Article 164 has no place in any process to create a genuine free trade area. Article 164 is being used by vocal special interest groups who want to protect their monopolies at the expense of the region's consumers. These monopolies also harm the region's ability to compete in a global economy by artificially increasing the cost of living and making the region less attractive for foreign direct investment, including the important tourism and hospitality sector. As hoteliers in the Eastern Caribbean often point out, their profit margins are already stretched thin by ferocious competition coming not only from Southeast Asia, but also nearby locales such as Cuba and the Dominican Republic. The last thing they need is to absorb higher costs incurred by the purchase of products included on an Article 164 list of protection.

The argument that industries whose products are placed on Article 164 lists of exception require time and capital to restructure is, at best, specious.<sup>8</sup> For one thing, most of the products now protected under Article 164 of the revised Treaty of Chaguaramas are the same ones that received protection under Article 56 of the former Treaty for up to three decades. This is the case of wheat and meslin flour. Furthermore, no amount of operational assistance will ever make the flour industry in Grenada or St. Vincent and the Grenadines price competitive with that in Trinidad & Tobago, given the clear advantage that country offers in terms of considerably lower energy costs. Although it is understandable that the Governments of Grenada as well as St. Vincent & the Grenadines would want to save local jobs and preserve tax revenue, it is inappropriate that they do so at the expense of the most vulnerable sectors of society in Antigua and Barbuda and throughout the OECS. The amount of jobs at stake---in neither country surpassing 200 persons---does not compensate for the tens of thousands of poor persons forced to pay higher prices for basic staples, let alone the incalculable injury inflicted from the loss of potential new employment opportunities.

In light of the findings of this report, the Government of Antigua and Barbuda is in a strong position to advocate and pursue the following course of action at the specially convened COTED meeting to be held on the margins of the Conference of Heads of State and Government at their inter-session Meeting on February 9 and 10, 2006 in Trinidad:

- 1) Advocate for the removal of wheat or meslin flour from the approved list of goods subject to Article 164 treatment;

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<sup>8</sup> As was noted in the 2005 World Bank Report on the OECS region entitled *Towards a New Agenda of Growth*, "invariably these transition periods are extended giving the impression to private operators that the status quo will be maintained overtime regardless of the initial agreement. The time and resources provided are spent in an effort to maintain the status quo rather than undertaking the adjustment that is an essential part of achieving the gains of trade liberalization."

- 2) As a second best measure, if exclusion from Article 164 treatment can not be secured, significantly increase the percentage of wheat or meslin flour that Antigua and Barbuda can import from non-OECS sources.

In conjunction with an increased opening to non-OECS sources of flour, it is recommended that the Government of Antigua and Barbuda also pursue the following measures:

- 1) Eliminate all price controls on flour and flour based products which only serve to distort prices and contribute to shortages when demand exceeds supply.
- 2) Eliminate the non-WTO compliant Customs Service Tax on the importation of all varieties of flour and bread into Antigua and Barbuda.
- 3) Open the Antigua and Barbuda market to flour imports from outside CARICOM. In addition to broadening the pool of flour to higher quality, lower priced non-traditional sources, it would give bakers in Antigua and Barbuda increased access to high gluten and cake flour with which to offer a wider variety of locally made value-added products. In this regard, it is interesting to note that at the last COTED meeting in January 2006, the LDC's were authorized to suspend the CARICOM Common External Tariff for goods placed on the Article 164 lists of exceptions. A similar waiver for wheat and meslin flour could be used by Antigua and Barbuda to import non-CARICOM flour duty-free.