
SUMMARY

1. Barbados was severely affected by the global economic crisis, which resulted in a sharp decline in tourism receipts on which it is highly dependent. GDP contracted sharply in 2009, and has been growing at very moderate rates since 2010. GDP is expected to contract by some 1% in 2014, before recovering slightly in 2015. Reflecting weak economic activity, inflation has been falling in recent years, from some 9.4% in 2011 to less than 2% in 2013 and 2014.

2. The Barbados dollar continues to be pegged to the U.S. dollar, at a rate of 2 to 1. Despite the apparent overvaluation of the currency, the authorities consider that the peg is a pillar for macroeconomic stability. Investment transfers and capital remittances are regulated by the Central Bank under the Exchange Control Act. Foreign or non-resident investors must register all funds brought into Barbados with the Central Bank. Foreign currency funds may generally be freely repatriated for current transactions. However, if substantial capital gains have been realized, repatriation must generally be phased over a period which can be of up to five years.

3. Barbados' fiscal position remains precarious. Since its last Trade Policy Review in 2008, Barbados has registered mounting fiscal deficits resulting in rising public debt. The deficits have reduced the Government's fiscal capacity to respond to exogenous shocks and crises. The fiscal deficit rose from 3.4% of GDP in 2007/08 to 12.7% of GDP in 2013/14, after briefly declining to 4.4% of GDP in 2011/12 due mainly to the increase in the VAT rate from 15% to 17.5%. Although expenditure has remained steady during the review period at around 33-35% of GDP, there has been a decline in revenue as a share of GDP, from 30% of GDP in 2008/09 to 24% of GDP in 2013/14. This decline can be attributed to a number of factors such as the slowdown in the economy brought about by the financial crisis, which resulted in lower collection of corporate and income tax, as well as significant prevalence of tax exemptions, concessions and ad-hoc waivers (estimated at over 5% of GDP) to help sectors weather the crisis. Although granting of these concessions has decreased recently, it did contribute to an erosion of the tax base. The mounting fiscal deficit led to an increase in the debt-to-GDP ratio over 126%.

4. The fiscal consolidation programme is expected to lead to a decline in the deficit this year and in the medium term, and to restore fiscal sustainability. However, fiscal reform falls short of addressing certain structural issues. Barbados needs to make further efforts to streamline the continuing large number of tariff and tax concessions to investors. Although the authorities consider that granting these benefits is necessary to attract investment due to stark regional competition, they have not undertaken a full cost-benefit analysis in this respect. The main issue remains enhancing competitiveness in the provision of goods and services, since Barbados already offers investors a stable business climate, good infrastructure and an educated workforce.

5. Barbados has been running persistent external current account deficits during the review period. In 2013, the deficit reached 11.6% of GDP, up from 9.6% in 2008. The deterioration of the deficit has reflected falling service exports (mainly tourism receipts) and an increasingly negative investment income balance. Barbados runs a considerable merchandise trade deficit, as imports of goods are double its exports. Barbados' main merchandise export products are fuels, foods and chemicals. Its main trading partners are the United States, the EU, and Trinidad and Tobago.

6. Barbados is a founding member of the Caribbean Community and Common Market (CARICOM), and participates in the CARICOM Single Market and Economy (CSME). Through CARICOM, Barbados has bilateral trade agreements with Colombia, Cuba, Costa Rica, the Dominican Republic and Venezuela. Barbados, as a more-developed country (MDC) within CARICOM must reciprocate tariff concessions to the first four of these countries. The agreement with Venezuela is non-reciprocal.

7. Barbados is an active player in the WTO, and a supporter of the multilateral trading system. During the period under review, Barbados has continued to actively advocate the particular vulnerability of small economies to price and supply fluctuations, higher fixed costs of production and marketing, and to natural disasters. Barbados sees the WTO as providing a multilateral rules-based framework for the conduct of all trade. Barbados deems of utmost importance its participation in the CARICOM, and in the bilateral trade agreements subscribed within its framework. Of particular economic significance is the CARIFORUM-EU Economic Partnership Agreement (EPA), signed in October 2008, and ratified by Barbados in July 2014. Barbados has

established a Unit to coordinate the implementation of the EPA and is in the process of making the legal adjustments required.

8. Barbados' investment regime is open, with few restrictions except those related to the capital controls applied by the Central Bank. Liberal market access and establishment conditions prevail and there are no specific foreign investment restrictions. The Government seeks to attract foreign investment by offering a favourable business environment and a number of incentive schemes. In general, foreign investors are granted national treatment; however, exchange control permission is required for a non-resident to hold shares in a company incorporated in Barbados, except for offshore companies. Moreover, Barbados has no overall law guaranteeing market access or national treatment to foreign investors. MFN and national treatment are guaranteed for CARICOM nationals and companies, and since 2009, for EU countries under the EPA, as well as under the different bilateral investment treaties signed by Barbados. Incorporation of MFN and national treatment as well as investment guarantees in an Investment Act, to be applied to all trading partners and which could be invoked in the courts, would enhance the stability and predictability of the investment regime.

9. Barbados has made considerable progress with respect to the adoption of trade-facilitation measures. Customs clearance can be carried out electronically and mechanisms for advanced ruling are in place, as is risk assessment, with merchandise channelled through four lanes according to risk; this includes a "blue" lane, for post-clearance assessment. Currently, only about 10% of imports are subject to physical inspection. The main exception to the use of the transaction value relates to imports of used vehicles, for which a valuation method based on the depreciation of the vehicle is used.

10. Barbados applies CARICOM's Common External Tariff (CET) with a number of exceptions. The general tariff ceiling is 20% for industrial goods and 40% for agricultural goods, but as an exception to the CET, Barbados applies a 60% tariff on certain manufactured goods. Reflecting this and some tariff peaks in agriculture which can be as high as 216%, Barbados' average applied tariff in 2014, at 15.9%, was above the CARICOM average. Barbados grants duty-free treatment to imports from CARICOM countries and preferences to countries with which CARICOM has preferential trade agreements, such as Colombia, Costa Rica, Cuba and the Dominican Republic. Under the EPA, Barbados has granted tariff preferences to imports from EU countries since 2011. In 2014, the average tariff applied on EU imports was almost 30% lower than the average MFN rate. Value added tax (VAT) is applied at a general rate of 17.5%; there is a reduced rate of 7.5% for accommodation in guest-houses, hotels, inns and others. A number of goods and services considered essential are zero-rated.

11. Barbados continues to maintain a dual-licensing regime that favours imports from other CARICOM partners. Accordingly, there are two schedules listing goods for which licences must be obtained: one for imports originating outside CARICOM countries, and another for goods originating within CARICOM. The first list is the more extensive. Licences are non-automatic for imports for which concerns relate to health and safety, public morals and security. Other licences are granted automatically. Import licences are valid for three months and may be extended by renewal upon expiry but are not transferable between importers. Barbados' domestic legislation with respect to contingency measures is outdated. There is no authority in charge of conducting investigations in the area.

12. Barbados' standards body is responsible for the drafting and implementation of standards and technical regulations, in addition to certification, conformity assessment and metrology activities. There are no sunset clauses for technical regulations, but standards are generally reviewed every five years. Technical regulations are usually standards that have been made compulsory by the Minister of Commerce. A standard may be declared compulsory for human, animal or plant health or safety reasons, to ensure quality or provide adequate information to the consumer, to protect the economy, to prevent fraud or deception, or to safeguard the public interest or national security. Procedures for the adoption of a technical regulation include the publication of a notice in the *Official Gazette* and in a daily newspaper, and must allow a period of at least 60 days from the publication of the notice for comments. As at November 2014, a total of 44 technical regulations were in force in Barbados.

13. Barbados is in the process of establishing a National Agricultural Health and Food Control Agency (NAHFCA), to be responsible for sanitary and phytosanitary (SPS) issues, including review

of the existing legislation to ensure coherence with international agreements and codes of practice. This is expected to help address current shortcomings, namely fragmented and/or outdated legislation, multiple jurisdictions as well as weaknesses in surveillance, monitoring and enforcement. Sanitary restrictions are in place for the importation of animals and animal products for which importers must obtain an import permit. Meat and meat products may be imported only from approved countries. Import permits are also required for plants and plant products, which must be accompanied by a phytosanitary certificate issued by the country of export. The importation of any planting material is highly scrutinized.

14. During the period under review, Barbados continued to implement a number of incentive programmes targeted solely or partly at the promotion of exports. Five of these programmes: the Fiscal Incentive Programme; the Export Allowance Scheme; the Research and Development Allowance Schemes; the International Business Incentives Programme; and the Societies with Restricted Liability Scheme have been notified to the WTO along with the internal steps to be undertaken to bring these subsidies into conformity with the SCM Agreement by 31 December 2015. Barbados also grants a large number of other tax and tariff concessions under a number of programmes. There are also a number of credit facilities available to businesses. For instance, the Enterprise Growth Fund Ltd. (EGFL), a joint public/private sector institution, provides loans and equity-financing to small- and medium-size Barbadian companies in the production sectors with funds provided mainly by the Government. To benefit, businesses must be incorporated in Barbados and meet certain employment, assets, and annual sales parameters. Loans provided by the EGFL have preferential conditions with relatively long repayment periods. Loans outstanding under some of the main programmes totalled approximately US\$45 million at end-2013. Additionally, the Central Bank, through the Industrial Credit Fund (ICF), provides medium- and long-term credit to production enterprises. Between 2009 and 2012, disbursements totalled US\$28.3 million. A further serious reform of these programmes within Barbados' process of fiscal consolidation aimed at gradually reducing its deficit and debt may be appropriate.

15. Since its last review, Barbados has continued efforts to encourage competitive markets through competition policy and consumer protection enforcement activities, as well as utilities regulation. Considering the small size of its economy and number of suppliers of certain products and services, enforcement of competition policy rules is crucial for Barbados to enhance competitiveness and consumer welfare and attract foreign investment. The competition authority has been granted ample investigative powers and a strong enforcement mandate. During 2008-14, 78 inquiries and investigations of anti-competitive conduct were conducted, of which some 13% resulted in decisions of breaches of competition policy legislation. The investigations conducted were related to telecommunications, distribution, shipping, financial services, air transport, cement and foodstuff, mining, and waste processing/treatment, among others. Under Barbados' competition policy law, mergers likely to result in the control of in excess of 40% of any market in Barbados must be approved by the competition authority. Pre-merger notification is mandatory in these cases, and approval depends on the extent to which the proposed transaction impacts competition in the domestic market. Between 2008 and 2014, five mergers were approved for companies in the telecommunications, shipping and petroleum industries.

16. Barbados maintains a generally liberal trade regime, with few barriers to entry. However, the State intervenes in the economy, mainly through the provision of incentives and credit as stated above, but also by controlling certain prices and maintaining a stake in a range of enterprises. In late 2014, price controls at both wholesale and retail levels were applied on diesel fuel, gasoline, kerosene, liquefied petroleum gas, chicken wings, chicken backs and necks, turkey wings and regular sugar. Additionally, prices of utilities are regulated by the competition regulator. The Barbados Agricultural Development and Marketing Corporation (BADMC) as the sole state-trading enterprise for poultry meats and onions. Although it does not have statutory state-trading rights, the Barbados National Oil Company is the sole importer of gasoline and fuel oil. Also, a number of commercial companies in Barbados remain partly or totally state-owned, and the State is involved in a number of commercial activities.

17. Government procurement rules were modified in 2011, the procurement method for contracts over US\$100,000 being open tendering. Government procurement below that threshold may take place through direct offers or negotiations or through examination of written quotations from interested suppliers, depending on the amount of tendering. Procurement is generally centralized and contracts are normally awarded to the "lowest evaluated tender", considering price, guarantee of supply, completion time, and transportation costs. Barbados' legislation does

not contemplate granting preferences to domestic or regional suppliers. There are no set-asides; however, the Government has implemented a programme to facilitate participation of small businesses in the procurement process as advancing them the money needed to participate in the process at favourable conditions. A new procurement law aimed at enhancing transparency and efficiency is currently being drafted. It would raise the tendering threshold and decentralize procurement; it also deals with procurement methods and the registration and pre-qualification of suppliers.

18. There were no major changes to Barbados' intellectual property rights (IPRs) legislation during the review period. However, Barbados is currently reviewing this legislation so as to enable it to join certain WIPO agreements, such as the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedures which will require amendments to Barbados' patents law, and the Hague Agreement Concerning the International Registration of Industrial Designs, which will require changes to Barbados' Industrial Designs Act. Barbados is also giving consideration to legal changes with respect to geographical indications.

19. Agriculture generally plays a small role in the economy, except the sugar industry, which provides the raw material for Barbados' main export product, rum. A National Agricultural Strategy is currently under development, the main emphasis being on food security and boosting production and productivity. Additionally, the authorities are considering expanding the scope of sugar-related activities to include the production of ethanol and electricity-generation. The main instrument of border protection is the tariff: Barbados' average applied tariff on agricultural products was 33.9% (WTO definition) in 2014. Apart from the state-trading activities of the BADMC, the dairy market is dominated by the activities of a single company. Under the WTO Agreement on Agriculture, Barbados has reserved the right to use the special safeguard mechanism for the 36 products for which it has a tariff quota regime. However, special safeguards are currently in force for only 24 products. The agricultural sector may benefit from import duty concessions under the Agricultural Incentives Programme and also enjoys a number of specific incentive schemes.

20. Despite the numerous incentives programmes at its disposal and strong tariff protection for certain products, the manufacturing sector contracted by 30% in volume terms between 2007 and 2012. The most affected industries were textiles and apparel, non-metallic mineral products, electronic components, with declines of over 50% in volume terms, while the decline was lower (some 20%) in food, beverages and tobacco. The decline in manufacturing may reflect the global economic crisis and weak domestic demand in Barbados, but also an erosion of competitiveness, due to high costs of production and a real currency appreciation.

21. Services are the backbone of Barbados' economy with tourism and related activities being, by a large margin, the main contributors to GDP. There are important spillover effects from tourism on construction, distribution services, electricity, agriculture and manufacturing. The tourism sector was considerably affected by the global crisis which led to a significant decline in the number of visitors, from nearly 1.2 million in 2007 to approximately 1.1 million in 2013. Total expenditure by stay-over tourists declined from US\$1.14 billion in 2008 to US\$713 million in 2013. The sector may benefit from numerous incentives, including those provided by the Tourism Development Act which was amended in 2014 to widen the scope of beneficiaries and benefits. Tourism activities may also benefit from income tax concessions and exemptions from import duties and VAT. In addition, investors are eligible for an investment tax credit to be offset against tax payable.

22. Financial services are open to foreign investment: all six commercial banks operating in Barbados are foreign-owned. The offshore financial sector is large, comprising 45 banks, 228 captive insurers, 12 holding companies and 21 management companies. In addition, there are nearly 4,000 international business companies licensed in Barbados. The financial sector was impacted by the collapse of the CL Financial Group, which resulted in a liquidity shortage for its Barbadian subsidiary, CLICO International life (CIL). The Central Bank intervened to provide liquidity support to CIL, and the Supreme Court of Barbados subsequently appointed a judicial manager to oversee its affairs and several restructuring proposals were advanced. However, as at October 2014, the matter was still unresolved. Partly as a response to the crisis, during the period under review Barbados improved its legal, regulatory and supervisory framework in line with the recommendations of the 2008 Financial System Assessment Programme (FSAP). The most fundamental change was the introduction of consolidated risk-based supervision. However, many of the FSAP's recommendations await implementation.

23. Barbados' telecommunications industry has been fully liberalized and there is competition in all market segments, although a single provider still dominates the fixed telephony market. Telecommunications rates and interconnection agreements are regulated by the competition authority. Grantley Adams International Airport is the only international airport in Barbados and serves as one of the main regional hubs. However, the airport does not meet the International Civil Aviation Organization's category 1 status, which limits its potential, particularly with respect to direct flights to the United States. A government-owned limited-liability company has responsibility for managing and maintaining the airport, but private companies are allowed to provide ground-handling services. While there is no national airline, the Government has a 49.04% share in the regional airline, LIAT. Barbados-registered airlines must be majority-owned by Barbadian or CARICOM nationals. A number of bilateral air services agreements have been subscribed or initialled and are administratively applied.