SUMMARY

1. Trinidad and Tobago is a high income developing country with a GDP per capita of over US$15,500. It has the largest economy in the CARICOM group and, with a population of about 1.3 million, is the third most populous country. Trade is very important to the economy, with the value of imports and exports of goods equivalent to about 78% of GDP.

2. The economy is dominated by oil and gas, which account for three quarters of exports and half of government revenue. Therefore, the economy is sensitive to changes in oil and gas prices, and the fall in prices following the 2008 global financial crises led to a drop in GDP per capita from nearly US$21,000 in 2008 to US$15,000 in 2009 before growth resumed in 2010. The financial crises also hastened the collapse of an insurance company, the CL Financial Group, which had two subsidiaries based in Trinidad and Tobago. The government bailout of the two subsidiaries is expected to cost over 10% of GDP and resulted in relatively large fiscal deficits in 2009 and 2010. Trinidad and Tobago has been able to weather these events because it has low public-sector debt, adequate foreign exchange reserves and, up to 2009, it had been running large fiscal surpluses.

3. Government policy has been, and remains, to encourage diversification away from dependence on the oil and gas sector. Declining oil production and the low reserves-to-production ratio for both oil and gas make this policy essential and it is a central thrust of the Medium-Term Policy Framework 2011-14 (MTPF), which was issued in October 2011. The policy focuses on the promotion of an environment for growth and competitiveness on a foundation of macroeconomic stability, strengthening the functioning of the legal system, providing stable government, promoting savings and investment, making strategic interventions with public-sector spending (especially in social infrastructure projects), and high impact interventions in communities and job creation.

4. However, the pace of reform in many areas has been slow. At the time of the last Trade Policy Review of Trinidad and Tobago in 2005, anti-dumping legislation was under review and safeguard legislation was being drafted but the new legislation has still not been enacted. A review of government procurement policy started in 2004 and legislation is before parliament. Although the Copyright (Amendment) Act was passed in 2008, legislation in other intellectual property related areas has yet to be implemented. New investment legislation, which was also being prepared at the time of the last Review, has yet to be enacted, although Trinidad and Tobago encourages foreign direct investment in all sectors and there are no restrictions or disincentives to investment. In the absence of a legislative and regulatory framework to attract investment outside the oil and gas sector is likely to be difficult.

5. Other trade-related areas have seen some reform over the past few years. Customs procedures have been improved with the adoption of ASYCUDA World and should coninue to improve with the introduction of electronic documentatin and a single electronic window in 2012. The Caribbean Community Act of 2005, which provided for the implementation of the CARICOM Single Market, became operational in January 2006 and allowed for the free movement of people, capital, services, and goods as well as the right of establishment between member states. The single economy, which provides for harmonization of economic, investment, fiscal, and monetary policies, is expected to be fully implemented by 2015. Furthermore, as a member of CARICOM, Trinidad and Tobago has signed bilateral agreements with Venezuela, Colombia, the Dominican Republic, Costa Rica, and Cuba. Trinidad and Tobago also participates in the Cariforum-EU Partnership Agreement, and benefits from the Caribbean Basin Initiative with the United States, CARIBCAN with Canada, the Generalized System of Preferences provided by some developed countries, and the Global System of Trade Preferences.

6. Trinidad and Tobago applies the CARICOM common external tariff to all imports of goods except to some items on List A, where tariffs may be below the CET, (mainly agriculture and petroleum products and some household goods) and some on List C, where tariffs may be above the CET (mainly automobiles, some electrical appliances, precious metals, and some alcoholic beverages). In general, tariffs are well below the bound rates but, for 50 tariff lines in 2011 (up from 44 in 2004), applied tariffs exceed the bound rates. Specific duties are applied for another 27 tariff lines (mainly alcoholic beverages), although they are bound in *ad valorem* terms, which means it is possible that on some occasions the applied tariff may exceed the bound rate. On the other hand, the list of products subject to surcharges has been reduced and, in 2011, the only remaining surcharges were at 86% on fatty livers of geese or ducks, at 60% on beet, flavoured and coloured sugar,and 75% for icing sugar.

7. In addition to VAT, which is applied on most goods and services at a rate of 15%, excise duties are applied on alcoholic beverages, tobacco products, petrol, and diesel. Excise duties are applied at specific rates that vary from one product to another and, in some cases, at rates that discrimate between substitutable goods, for example sparkling wine has a higher duty than other wine, and rum has a lower rate of duty than other distilled beverages.

8. Agriculture remains a small and declining part of the economiy despite relatively high levels of support and the Government's emphasis on the sector to help diversifythe economy away from oil and gas. Support is provided through a wide variety of measures, including border measures to maintain higher domestic prices; guaranteed prices for some products; input subsidies; investment subsidies; and low interest loans. To some extent the decline, at least since 2003, can be attributed to the reduction in the value of preferential access to traditional markets, but the small size of farms, uncertain tenure for many farmers, the small domestic market, and the decline in production of higher value crops like cocoa and coffee have also contributed. Whether changes to policy, such as higher subsidies through the new Agricultural Incentive Programme and measures to address land tenure problems, succeed remains to be seen.

9. The energy sector is responsible for nearly 90% of foreign investmentThe greatest challenge facing the oil and gas industry is the low level of reserves compared with production. Current policy is focused on encouraging exploration and developing down-stream processing of oil and gas and petrochemicals. Local participation in the oil and gas industry is officially encouraged. The Permanent Local Content Committee was established in April 2004 and a policy framework published in October 2004. The issue was also one of the main themes for the public consultations on energy policy held in early 2011.

10. The services sector accounted for over 46% of GDP in 2010 and for 70% of employment, depicting low labour productivity. Services exports have declined in recent years and stood at US$436 million in 2010.

11. Commercial banks are well capitalized and have conservative lending practices with little or no exposure to high-risk debt while operating a high interest rate spread. Thus, banks having remained profitable, albeit at a declining rate, and emerged relatively unscathed and stable in the post-2008 financial crisis environment and the subsequent economic downturn. New legislation enacted with respect to commercial banks has increased the regulatory and supervisory powers of the Central Bank, which may now conduct consolidated supervision of all domestic banking groups as well as those with cross-border operations. The legislation also required the restructuring of "mixed groups" (i.e. banking groups that offer commercial banking and other financial services) through the creation of a financial holding company, which would ring-fence each type of financial service in the group and would also be regulated by the Central Bank. The Act also allows for information-sharing

between the Central Bank and other domestic and international regulatory bodies. The commercial banking sector has also become more liberal, allowing foreign financial institutions to conduct business in Trinidad and Tobago through licensed branches.

12. On the other hand, Trinidad and Tobago was affected by the collapse of the CL Financial Group and its two subsidiaries, CLICO and BAT. An amendment to the Insurance Act, made in 2009 following the collapse, addressed shortcomings in the legal framework by increasing reporting and statutory fund requirements. The amendment also gave the Central Bank authority to implement timely corrective action as well as authorizing information-sharing among regulators. Another new Insurance Bill is expected to be enacted shortly and, according to the authorities, is based on international best practice for insurance regulation and supervision.

13. Tourism is an important sector of the economy although the number of visitors has declined since 2005, probably due to the economic slowdown in the source countries of most tourists. Tax-based measures, such as accelerated capital allowances, are the main measures used to encourage investment in tourism and are mostly open to foreigners and Trinidad and Tobago nationals. Tourism has been identified as an avenue for diversification of the economy, as set out in 2010 in the National Tourism Polcy.

14. As a small island state, transport services, particularly maritime transport and related services, are important to Trinidad and Tobago, and the authorities have identified this as a high growth industry. The Port Authority of Trinidad and Tobago has been resructured and its operations commercialized by setting up separate entities for cargo handling in Port of Spain and infrastructure and inter-island ferry services. The Ministry of Works and Industry is currently working on amendments to existing legislation to improve the legal framework.

15. Trinidad and Tobago faces several challenges to its continued development, and its main priorities are diversification and managing the decline in oil and gas production and exports. Although successive Governments have recognized the need to diversify the economy, and several initiatives have been taken, the low level of reserves relative to current production of oil and gas, and the increase in gas production in some countries means significant diversification is needed in the medium to short-term. On the other hand, Trinidad and Tobago has many advantages, such as reasonably well developed infrastructure and efficient government services. Taking advantage of these and accelerating the pace of legal and institutational reform would help to achieve the goal of diversifcation to reduce dependence on production of oil and gas.