

EXECUTIVE SUMMARY

Globalization and trade liberalization has effected changes to the economies of small island states of the Caribbean by reducing their foreign exchange earning capacity through trade in traditional crops. Caribbean commodities enjoyed preferential access to European markets through special trade arrangements provided by former colonial powers. These measures were tolerated until the establishment of the WTO during the eighth round of the General Agreement on Tariffs and Trade (Uruguay Round 1986). During the Uruguay round it was agreed that there was a need for GATT rules to be applied to important sectors such agriculture and textiles with the implications for agriculture effective from January 1995.

The removal of preferential access resulted in increased competition for traditional commodities and subsequently the Region lost market share to larger, efficient producers because it lacked the economies of scale and technological advancements to produce competitively in these commodity areas. In the case of Dominica which traditionally exported bananas, foreign exchange earnings were reduced from \$300 million per year in 1980's to fewer than \$100 million per year by the year 2000.

However, the onslaught of globalization and trade liberalization also presented opportunities for trade in nontraditional crops since trade barriers were relaxed when WTO measures were enforced. Dominica's logical position was to embrace the opportunity to diversify its agricultural sector, in order to increase foreign exchange earnings and provide a replacement industry for unemployed workers previously engaged in the cultivation of traditional crops.

Guided by regional strategies Dominica embarked on these diversification programs establishing among others a hot pepper industry as a replacement to bananas. The industry currently supplies fresh hot pepper to local, regional and extra regional markets. While the hot pepper industry

may be lucrative, Dominica is challenged in meeting current market demands consistently and at competitive prices. Opportunities presented by liberalized trade can only be maximized if industries are competitive based on price, quality and consistency. In this regard this study seeks to assess the competitiveness of Dominica's hot pepper industry in the Miami market based on its export price and the wholesale market prices offered.

A complete competitive assessment warrants an investigation and analysis of the hot pepper value chain which would facilitate the accurate determination of industry costs and as a consequence establishes the industry's position relative to wholesale market prices.

To accomplish this, the study segments the value chain into production, marketing and freight cost. Analytical models and templates were developed to collect and analyze primary data on cost of production at the farm level and assess the impact of irrigation on productivity and profitability. The study also determines marketing and freight cost and identifies constraints throughout the hot pepper value chain. It critically analyzes hot pepper trade data in order to spot market opportunities regionally and extra regionally and lastly, it makes recommendations based on the main objective of the study.