

TRADE POLICY REVIEW

SURINAME

Report by the Government

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Suriname is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Suriname.

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I. INTRODUCTION

1. The Republic of Suriname is situated on the northeast coast of South America. It is the smallest independent developing nation in South America and also the only Dutch speaking country. The land area is 163,270 square kilometres, of which 90% is covered by tropical rainforest enriched with a great diversity of flora and fauna. Suriname has a relatively small population of about 450,000, residing mostly along the coastline. Suriname shares its border in the east with French Guyana, an overseas department of France. Suriname also shares its borders with Brazil in the south and Guyana in the west.

2. Suriname, a former colony of the Netherlands, gained autonomy in domestic affairs in 1954 and full political independence in 1975. In 1980, the civilian government was violently overthrown by a military coup. The military regime ruled through a succession of civilian administrations until 1987. In 1987, a democratically elected government came into power but was again overthrown by the military in 1990. Democratic rule was restored in 1991. These politically turbulent years strained economic development, especially since the country became isolated because of international pressure to end the military regime. Migration to The Netherlands increased fiercely. In 1996, Surinamese and their descendants accounted for about 300,000 people in The Netherlands. This has negatively affected economic, social and cultural development of the country. The political environment has been quite stable for some years now. The current Government is a reflection of a multi-ethnic community.

3. The Constitution of Suriname enshrines the parliamentary form of democracy based on the Dutch legal system with an incorporated French penal principle. Legislative Power resides in the 51-member Parliament. Executive power is vested in the President. The President is the Head of State of the Republic of Suriname, Head of the Government, President of the State Council and the Security Council. He is accountable to the National Assembly. The Government consists of President, Vice- President and the Council of Ministers. The Council of Ministers is the highest executive and administrative body of the Government. Judicial power is vested in the Court of Justice, consisting of the Public Prosecutors' Office, Magistrate's Court and Supreme Court.

4. Suriname inherited a classic plantation economy from the Dutch. In the early years of independence the country's main export crops included rice, bananas, palm oil, fish including shrimp, sugar and citrus, with products of the aluminium industry and to a limited extent, gold, being the mineral staples. Together they provided much of the foreign exchange available to meet import demand. Upon independence, the Dutch and Surinamese Governments signed a bilateral Treaty for development cooperation. It consisted of a fifteen-year long development plan with allocation of funds by the Dutch. The main goal of this plan was to achieve economic autonomy based on the principle of self-reliance (Frank Essed, Development History of Suriname). As a result, Suriname came to rely too strongly on Dutch aid as the only source of development funds. The Government of Suriname started execution of a comprehensive programme in the early seventies for the socio-economic development of West Suriname as one of the main sources of future developments in the country. This programme included construction of several series of power plants in the Kabalebo River, the exploitation of local bauxite resources, and the construction of an alumina refinery. However, the world-wide economic crisis, which affected the aluminium industry negatively, combined with the suspension of the Dutch-Surinamese cooperation from 1982 to 1987, and the inabilities of subsequent governments to deal with these changes, strongly effected the Surinamese economy.

5. Suriname has a typical small and open economy that poses a constant challenge to maintain stability. Suriname is highly dependent on a limited number of exports of goods and services in order

to finance its development. Suriname's tradeable sector at the beginning of the 21st century remains heavily reliant on primary production - agriculture, fishing, forestry and mining. The major export crops - rice and bananas - have been marketed traditionally under preferential arrangements, which recently have come under review. In turn, production has decreased, mainly due to the non-competitiveness of these industries in the international trading environment. Bauxite mining and refining remain a key sector of the Surinamese economy. Petroleum is also growing as part of the extractive sector. It is estimated that bauxite, petroleum and gold mining account for more than 70% of export earnings in 2002. Efforts are now being taken to further diversify the economy with more ongoing foreign investments in the gold, bauxite, palm oil, and fishery sectors. In addition, the Government is taking structural steps to transform tourism into a profitable industry in the years to come.

6. The participation in the CARICOM Single Market and Economy is primarily as a way of gradually integrating the economy regionally. Suriname is also engaged in three major external trade negotiations namely the multilateral World Trade Organization (WTO), the hemispheric Free Trade Area of the Americas, and the negotiations of Economic Partnership Agreements (EPAs) between the African, Caribbean and Pacific Group and the European Union (EU)). It has become evident that the economy should be transformed to cope with these new market developments.

II. THE REFORM PROCESS

THE ECONOMIC CLIMATE

7. After civil rule was restored in 1991, the Government embarked on an Economic Recovery Programme with the fundamental objectives of establishing internal and external equilibria, promoting greater efficiency in resource use and attaining greater international competitiveness. Major structural adjustment reforms were started in order to liberalize the exchange rate and trade regime, as well as removal of price controls and subsidies, removal of restrictions on capital flows and introduction of reforms in tax policy and administration. Since the mid 1990s, Suriname has also undertaken a series of legal, institutional and policy changes to continue the process of economic reform.

8. The 1998-2001 period showed fluctuations in economic growth. Although positive steps were taken, the fiscal balance came under great pressure because of an expansionist expenditure policy after 1998. Disproportionately high salary increases of civil servants, the construction of two bridges, the rehabilitation of roads, and subsidies led to the acceleration of expenditures. This continued against a further decline in revenues and delayed implementation of sales tax measures. In 1999 and 2000 there was a negative growth of GDP of respectively -1% and -0.3%. This decline was caused by a general decline in economic activity in almost all sectors.

9. The growth in 2001 was 2.5% and was the result of the increase in production of the agriculture, electricity and the construction sectors. The growth in GDP in 2002 was estimated at 1.5% and was caused mainly by the production increase in agriculture, lumber and transport.

10. Significant progress has been made in addressing the most pressing macro-economic issues. Between 2000 and 2002, the budget deficit was brought to manageable proportions. As a result, the exchange rate has been stabilized and inflation is well within single digits. The financing of the government budget deficit is done through financially neutral means and remains under the legal government credit ceiling. In addition, borrowing from the Central Bank has remained within the legal limits of the Bank Law. The Government decided to cease most subsidies in 2000 in an effort to introduce modern market mechanisms.

11. In 2003 the monetary authorities announced that the Surinamese guilder would be replaced by a new currency, the Surinamese dollar. Due to the heavy monetization of fiscal deficits in the last two decades, the confidence in the Surinamese guilder was heavily undermined. In this regard, the new currency must be seen as a way of restoring confidence in the Surinamese currency and having a legal tender that can perform the functions of money again. Under this climate and reinforced by legislative measures in other areas, a sound financial sector in Suriname can be developed. The new currency, the Surinamese dollar (SRD), became the new legal tender as of 1 January 2004.

12. Suriname is opening up to international trade. Reforms are improving the competitiveness of Suriname's economy and the business sector has adjusted to the competition brought forth by Suriname's membership of the CARICOM. The traditional dependence on agricultural exports to the European Union (EU) and on minerals is no longer a viable long-term strategy. Efforts are being made to develop manufacturing and service industries. Suriname became a member of CARICOM as an effort to integrate the economy into the region. Suriname still benefits from preferential access to the markets of some key trading partners. These arrangements include GSP and, in the near future, CARICOM-Dominican Republic, CARICOM-Cuba, CARICOM- Costa Rica free trade agreements.

13. After a decade of economic volatility, the macroeconomic environment has been largely stabilized. Surinamese trade policy is now seeking to open up the economy and preparing it to face the far more open global economic environment. The need to improve conditions for domestic capital formation, and to improve the environment in order to stimulate entrepreneurship while the country attracts foreign investment is also recognized. Small businesses continue to increase in number and provide an important growing source of employment.

PRIVATE SECTOR PARTICIPATION

14. In recent years, Suriname's development strategies have emphasized the critical role of the private sector as the engine of growth. The Government now recognizes the need to pursue a programme of diversifying its commercial activities. In order to achieve its policy goals, Government has sought to forge a partnership with the social partners (Social Economic Council), and the creation of a Business forum.

15. The private sector actively participates in Government's consultations on trade policy matters through the Ministry of Trade and Industry. Private sector participation is also evident through presence in the Government State Council.

16. Suriname currently provides assistance to its manufacturing and agricultural sectors to foster their growth and development, and to enable them to overcome some of the constraints they face from operating in a small developing economy. Through IFONS (Investment Fund Netherlands Suriname) development aid funding is made available to the private sector. As such, more than €50 million will become available to entrepreneurs. In addition, the improved relations with donors like the Islamic Development Bank have opened possibilities for the private sector to access funding. Given the new challenges confronting these sectors, posed by liberalization and globalization, the Government considers that continued assistance to these sectors is appropriate.

17. In order to encourage and support private investment, Suriname promulgated a new investment law in 2001. The Investment Law 2001 (*Investeringswet 2001*) provides for various kinds of fiscal and non-fiscal investment incentives while the law to set up Investsur (*Wet Investsur*) envisages the establishment of an agency responsible for granting incentives under the Investment Law. This investments law is applicable to both foreign and domestic enterprises.

III. SECTORAL PERFORMANCE

KEY SECTORS

Agriculture

18. Agriculture is very important to the Surinamese economy as a form of food supply (food security), employment in rural areas, its share of the GDP, and a way to restructure the economy. The contribution to GDP is about 11,3%, while its share in foreign currency earnings equals 15%. The agricultural sector is dominated by the production of rice, bananas, vegetables, and fishery products. From the 1.5 million hectares that can be cultivated, only a small fraction is actually in production.

19. Rice is the largest subsector and accounts for about 60% of the agricultural crop area. The use of agricultural land, approximately 55,000 hectares, consists of about 4,370 farms. In addition, the contribution to export earnings is about 3.5%. The main export market is Europe where the ACP countries have certain preferential conditions. New conditions were formulated in the Cotonou agreement. With the support of the EU, a programme is being implemented to improve the competitiveness and to diversify the markets.

20. The banana sector is mainly oriented towards exports, with a production area of 2,250 hectares divided into two plantations. The sector's contribution to employment is some 2,000 people. The sector has been negatively affected by the conflict over the European Union's banana regime where preferential treatment has been applied to ACP bananas on the European market. The ruling of the Dispute Settlement Body of the WTO against the European Union was very unfortunate for Suriname's banana sector. With technical and financial assistance from the EU, the sector is undergoing a rehabilitation process, with the ultimate goal of privatization. With the renewal of the total crop and surrounding facilities, this should lead to increased production and export contribution, which is currently about 3%.

21. The exports of bananas and rice from Suriname benefit from preferential arrangements. For rice, Suriname enjoys preferential treatment in the European Union arising from the Joint Declaration on Rice, which was signed as part of the Cotonou Agreement for ACP rice exporters. Suriname and Guyana are the only exporters of rice in the ACP and share an ACP quota of 125,000 tonnes in the EU market.

22. Suriname may also have access to an additional 35,000 tonne quota via the Overseas Countries and Territories (OCT) route. Prior to 1997, Suriname's access to the EU market via the OCT route was not limited by quota. The 35,000 tonne OCT quota of levy-free rice (shared with Guyana) was introduced as a result of a safeguard measure brought by the European producers. More recently, decisions taken by the European Union under the Mid-Term Review of their Common Agricultural Policy are likely to further erode Suriname's preferential access.

23. About 3,000 to 4,000 farmers of which more than 50% work part-time, are involved in horticulture. Vegetables are cultivated to cover both the local and export markets, the Netherlands in particular. Recent studies have shown that Suriname has ideal conditions for the cultivation of cashew nuts. With the help of the Indian Government the cultivation and production of cashews will be undertaken.

24. Suriname is relatively well endowed with fish resources. Research has shown that Suriname is very suitable for aquaculture. The farming of fish and different shrimp species have been developed successfully. The fish subsector employs about 5,000 people. Its contribution to foreign exchange earnings is 12.6% of major exports. The industry concentrates mainly on shrimp and

snapper types of fish. The export markets consist of Europe, Japan and the United States. Within the Cotonou Agreement there are rules for preferential treatment for ACP exports.

25. In order to restructure the economy for the purpose of increasing employment opportunities, reducing poverty, and ensuring food and income security, Suriname requested authorization to enter into negotiations to modify its binding concessions in accordance with Article XXVIII of GATT 1994. Suriname received responses from four WTO Members.

Services

26. Though Suriname is not as heavily dependent on the services sector as its Caribbean partners, services account for nearly half of the GDP and have been growing in value terms over the past five years. The Government is in the process of modernizing the regulatory framework of key service sectors.

Tourism

27. Tourism has emerged as an important new sector in terms of foreign exchange earnings, although at the moment it is still less significant for Suriname compared to other CARICOM countries. The Government, in its mission to diversify the economy, has sought to develop all sectors that can boost the Surinamese economy. The tourism sector provides very good growth potential. That is why, with the help of the E.U., all efforts are being made to organize the sector by putting legal and regulatory requirements in place. The first tourism development programme financed by the European Union has resulted in a revelation of the strengths and weaknesses of tourism in Suriname.

28. Suriname undertook commitments in the WTO in order to encourage foreign participation in this sector. Specific commitments were made with regard to tourism and travel services. These commitments provide for unqualified market access and national treatment with regard to the supply of services for hotels and restaurants, travel agencies and tour operators. The Government believes that there is substantial growth potential in Suriname's tourism sector and that foreign participation will boost these developments. Currently, the focus is on promoting Suriname as a tourism destination for Europe Union, the United States, the Caribbean region, and Latin America.

29. Suriname has placed itself among the nations in the world which are prepared to protect and manage a part of their national heritage of universal value in such a manner that many generations to come will enjoy and benefit from it. On 29 November 2000, the UNESCO World Heritage Committee decided in Sidney, Australia, to inscribe the Central Suriname Nature Reserve on the World Heritage List of Natural Sites. This Central Suriname Nature Reserve, which was created in 1998, comprises 1.6 million hectares of primary tropical forest of west-central Suriname. The Reserve protects the upper watershed of the Coppename River and covers a range of topography and ecosystems of notable conservation value due to their pristine state. Its mountain and lowland forests contain a high diversity of plant life with almost 6,000 vascular plant species collected to date. There are also viable populations of typical animals of the region including jaguars, giant armadillos, giant river otters, tapirs, sloths, and eight species of primates, as well as 400 bird species. The Central Suriname Nature Reserve will remain one of the most pristine nature reserves on the World Heritage List.

The financial sector

30. There are eight banks and ten insurance companies in Suriname. The financial services sector accounted for 8% of GDP in 2002. There are no restrictions to foreign participation, and foreign capital participates in both banking and insurance activities. The financial sector in Suriname is

currently under review in the legislative, regulatory, and supervisory areas. The sector has remained fundamentally sound but serious macro-economic difficulties experienced by Suriname during the last two decades have added to the challenges faced by the sector. In recognition, high priority is given to financial sector reform.

Telecommunication

31. Communication is of great importance in a society and its international relations. Telecommunication for everyone is the ultimate goal whereby the role of telecommunication in education, administration and social development is promoted. That is why the Government is concentrating heavily on the necessary activities to develop this sector. The telecommunication sector is now at a stage where liberalization is the key issue. With the approval of the new telecommunication law (*Wet Telecommunicatie Voorzieningen*), the sector will be opened for private participation with the existence of an independent regulatory body, the T.A.S. A study of the sector has shown that to operate in a commercially profitable environment (population of about 450,000), the sector can only absorb two additional operators.

32. As part of a process of gradual liberalization, foreign participation will be permitted up to 40%. The liberalization refers not only to consumer products but also to the infrastructure. As soon as the national assembly approves the new law on telecommunication, the regulatory body will have a legal basis to operate effectively, and the admission of new operators can be finalized. Suriname made WTO commitments on an autonomous basis following the conclusion of the post-Uruguay Round negotiations on telecommunications.

Transport

33. The goal of developing and maintaining an efficient, modern, reliable, secure, competitive and high quality transport system is not only formulated for the national transport system but also for international transport. With the help of EU assistance, a transport sector policy study was conducted recently to refine the already formulated transport policy. The study indicates that cross-border development of transport, and bilateral agreements with neighbouring countries are essential. In this regard, the process of integration of transport in the Caribbean and on the South-American continent is fully supported. As part of the IIRSA integration process, the Government is striving for qualitative and quantitative development of transport connections by water, air, and land with countries in the region.

34. International air transport will be liberalized to provide a wider range of air traffic routes and deliver a higher frequency of good quality transport. To organize the sector, the Government is establishing an independent air transport authority, which will have the duty to regulate air transport activities. Several private companies service the local market together with the state owned transport company Suriname Luchtvaart Maatschappij (SML). International air transport is regulated in conformity with international regulations on air transport. Suriname is interested in transforming the east of the Caribbean region into a home market for Surinamese products. To achieve this, relations on air transport with the CARICOM and ACS countries will be intensified. The participation of Suriname in the CARICOM and ACS regional air transport agreements should be seen as carefully calculated steps in this direction. Also, relations with the Americas and African regions are being intensified. The WTO commitments on aircraft repair and maintenance services, and selling and marketing of air and computer reservation system services are being currently implemented.

35. With regard to maritime transport, policy focus is on modernizing existing legislation to take current international developments into account. This sector has already established an independent

regulatory body, the M.A.S. The duty of this authority is to take care of safety and continuity in maritime transport. The authority is also responsible for pilotage services including education in pilotage. Suriname will apply rules to regulate the very active maritime trade at the borders.

36. The Canawaima Ferry service was established in 1998 to service the route between Suriname and Guyana. This service is maintained through a joint venture between Suriname and Guyana. Steps are under way to also maintain the route between Suriname and French Guyana. The port facilities will be renovated and upgraded with the assistance of the EU.

Mining

37. Mining is one of the pillars of the Surinamese economy, providing more than 70% of the country's exports. It is also one of the most promising sectors in terms of investment. The aim of recent policies has been to secure the continued production of bauxite and alumina in east and central Suriname and to promote new activities in the west of the country.

38. The annual bauxite production is around 4 million tonnes. The entire bauxite production is processed into alumina and then exported. Annual alumina production is around 1.9 million tonnes. The yearly average value is around US\$335 million (1993 prices). As a result of a project to expand the alumina production capacity, the export value will increase by approximately US\$40 million

39. The Government has recently concluded one MOU with the two bauxite companies regarding exploration activities and a feasibility study on the construction of an alumina refinery. The second MOU concerns the feasibility of constructing a hydropower facility and an aluminium smelter.

40. Suriname seeks to develop the petroleum industry by attracting foreign investment into exploration and production activities. Exploration in offshore areas is planned or in progress by a number of foreign companies. Onshore, Staatsolie, the State Oil Company, aims to increase the production of petroleum. The combined efforts of Staatsolie and third-party oil companies should guarantee long-term production of hydrocarbons at a level that allows Suriname to become a net exporter.

41. In order to create an effective environment to attract investment, the Government expects to soon submit a draft law to amend the Mining Decree 1996 to the National Assembly. A possible revision of the petroleum law is under consideration.

42. The Government is also taking steps to enhance its institutional capacity to regulate the mining sector. A new mining operation will increase gold production while also continuing exploration activities. The Government also aims to improve regulation in the area of small scale, informal gold mining.

IV. TRADE RELATIONS

43. As a member of the Caribbean Community since 1995, Suriname's policy decisions on trade take into consideration the country's obligations under the Revised Treaty of Chaguaramas that established the Caricom Single Market & Economy. The main focus of the integration arrangements is free trade in goods, persons, services, capital and the establishment of companies.

44. With respect to the free movement of skills and facilitation of travel, Suriname, like the other Member States, amended its legislation in June 2003 to allow CARICOM university graduates, sports persons, media workers, artists and musicians to move and work within the Caribbean without the requirement of a work permit.

45. In 1997, CARICOM established the Caribbean Regional Negotiating Machinery (CRNM) in order to develop and coordinate the region's positions in external negotiations. The CRNM provides political and technical support to Caribbean Member States.

46. Neither the CRNM nor the Government of Suriname has missions in Geneva. The Government of the Republic of Suriname has accredited the country's Ambassador in Brussels as the Geneva representative.

47. Suriname is an original member of the WTO, and has sought to comply with its obligations within the limits of its human, financial, and technical resources. This is witnessed by the increasing access to the Surinamese market, for example through the elimination of restrictive import and export licensing requirements in 1999. Ongoing efforts are being made for further implementation of WTO Agreements into the national legislation.

48. Suriname joined other small developing economies in requesting special and differential treatment. In this regard, the Doha Ministerial Decision to establish a Work Programme on the treatment of small economies within the multilateral trade context is especially propitious. The effective participation of these countries in the multilateral trading system should be a priority concern of the WTO.

49. Suriname is currently engaged in trade negotiations seeking to create a workable Free Trade Area of the Americas (FTAA) by 2005. As part of the African, Caribbean and Pacific Group of countries (ACP), Suriname is also actively participating in negotiations to establish trade and economic partnership agreements (EPAs) with the EU to be effective from 1 January 2008.

50. The conclusion of these negotiations will have significant impact on Suriname's trading relations, particularly in two areas. Firstly, the new trade arrangements will increase competition for the relatively small firms providing goods and services to the domestic market. Secondly, the arrangements, while promising greater export opportunities for Suriname, will erode the current preferential access. In this respect, advantages Suriname currently enjoys as a member of CARICOM will also be eroded as a result of the new negotiated arrangements.

51. The several ongoing trade negotiations offer both risks and opportunities for Suriname. Suriname is, like other CARICOM countries, not in a hurry to enter into agreements which are not favourable. The challenge in these ongoing negotiations is, as a small economy, to make sure enough measures are taken to protect its vulnerable status. From recent experiences, Suriname is aware of the economic devastation with rising unemployment, rapid depletion of foreign reserves, social and political instability.
