Food Products Market Study

A study on the prices and market structure in the food sector in Aruba

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ARUBA
FAIRTRADE
AUTHORITY

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SUMMARY

This market study gives an analysis of the prices of food products in Aruba compared to Curaçao, the Netherlands and the United States and examines the structure of the food sector on the island. The purpose of the study, initiated by the Aruba Fair Trade Authority (hereinafter: the AFTA), is to confirm whether the general perception of high food prices in Aruba can be substantiated by facts and to identify the possible causes of these price levels.

The findings show that food prices in Aruba are significantly higher than those in the Netherlands and the United States, although they are currently comparable to those in Curaçao. Aruban households with minimum means of subsistence spend about 40% of their monthly income on food products, a significantly higher percentage than in the Netherlands and the United States.

The market structure in Aruba, characterized by several links in the chain, partly because of its heavy dependence on imports, contributes to the higher costs. Although some price differences with the Netherlands and the United States are caused by transportation costs because a large part of the food products must be imported, the impact of these transportation costs on final prices turns out to be relatively stable over time.

In addition, the tax burden on food products in Aruba appears to be significantly higher than in the Netherlands and the United States. This is mainly due to the cumulative taxation system of the Business Turnover Tax (abbreviated in Dutch as: "BBO"), where tax is levied in every link of the chain rather than only on the value added, as in a VAT system.

The analysis of the food products market structure leads to the following findings:

- **Competition in the area of container transportation**: Possibly insufficient competition within crucial links, such as container transportation to Aruba, can lead to higher costs.
- **Exclusive distribution**: The prevalence of exclusive distribution arrangements with importers and wholesalers can push up prices, partly because of limited competition and active opposition by parallel trade.
- **Competition among supermarkets**: No evidence was found during this study to suggest that, in general, there is insufficient competition between supermarkets in Aruba.

Based on these findings, the AFTA decided to initiate two follow-up studies. Firstly, a study on exclusive distribution arrangements and, secondly, a study on competition within container transportation to Aruba. These follow-up studies will be carried out thoroughly using the AFTA's formal powers. The aim is to identify possible competition problems in these sectors and, if necessary, take targeted measures or give advice to improve competition.

1 INTRODUCTION

1.1 REASON, PURPOSE AND SCOPE OF THE STUDY

The general perception is that food products, and brand products in particular, are expensive in Aruba, especially when compared to the United States and the Netherlands. This is partly relevant and seems to be confirmed by the fact that households with minimum means of subsistence spend about 40% of their available monthly budget on food products. About 50% of the Aruban households have incomes below this subsistence level.[1]

Many Aruban families spend a (very) large part of their income on food products, much more than families in the United States (13.8%[2]) and the Netherlands (19.2%[3]) with similar incomes. Therefore, high food prices have a direct effect on the level of prosperity of a large section of Aruban society. The fact that the prices of some (basic) food products are regulated by the Government is a further indication of the importance of food prices.

The relevance of a well-functioning and competitive food products market that ensures the lowest possible prices for all Arubans is evident. This is why the AFTA initiated this study. The purpose of this study is firstly to determine whether the general perception of high food prices in Aruba is substantiated by facts. Secondly, the purpose of this study is to analyze the food sector and to examine the possible causes of the relatively high food prices.

Obviously, it is relevant that Aruba has a small-island economy and hardly produces its own food. The vast majority of the food products has to be imported, which is logically accompanied by transportation costs that result in higher prices.

However, there may also be other causes, particularly related to competition and corporate behavior. These are also examined in this report. If relevant, conclusions will be drawn in this study about possible follow-up studies by the AFTA on potential violations of the Competition Ordinance and/or policy recommendations for the Minister of Economic Affairs.

In chapter 2 of this report, we study the development of prices in recent years and perform a brief price comparison. Chapter 3 describes and analyzes the structure of the food products market in Aruba. Chapter 4 contains our conclusions and recommendations.

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[1] Figures from the Central Bureau of Statistics (CBS) show that the subsistence level for a household of four at the end of January 2024 amounts to Afl. 5,462.- per month (01-January-2024.pdf (cbs.aw), page 7. Of this amount, food expenditure amounts to Afl. 2,295.- per month. This is about 40% of the monthly budget of a household with minimum means of subsistence. A survey carried out by the Central Bank of Aruba (CBA) shows that 50% of the population has an income below the subsistence level (Consumer Confidence Survey Report - Q2 2023 CBA).

[2] What does living at the poverty line look like in the US? (usafacts.org)

[3] What portion of income went to food in 1936? - The Netherlands in figures 2023 | CBS

The study was carried out through desk research based on public sources, a quantitative analysis of price data and interviews with public and private actors in the food sector in Aruba.

2 The prices of food products in Aruba

2.1 Previous study

This is not the first study on the prices of food products in Aruba. In December 2016, the Dutch Ministry of Economic Affairs commissioned the research-based consultancy Ecorys to carry out a thorough analysis of price developments and their underlying factors on the islands of Bonaire, Saba and Sint Eustatius. The reason for this study were the significant price increases on these islands in the period 2006-2016, especially in the food sector.

In response to ongoing concerns about increasing food prices on the Caribbean islands of the Kingdom, the Dutch Ministry of Foreign Affairs asked Ecorys in May 2017 to expand the study to the islands of Aruba, Curaçao and Sint Maarten, with a particular emphasis on the price developments on the Caribbean islands of the Kingdom, the analysis of the main price determinants and the identification and assessment of policy options in this context.

The results of this additional study carried out by Ecorys, entitled "Aruba, Curaçao and Sint Maarten - study on price developments and logistics in the region", give a comprehensive analysis of price developments and logistical challenges in the period 2010-2016. The study shows that the prices of food products increased on all islands during that period, ranging from an increase of 11.7% in Aruba to 52.8% in Sint Maarten, and an increase of 26.8% in Curaçao.[4]

According to Ecorys, these price increases were caused by several factors, including a heavy dependence on food imports, a significant decrease in global food prices in 2015 that was not followed on the islands, the loss of an important trading partner (Venezuela) in 2019 and high import duties.[5] Venezuela was an important supplier of fruit and vegetables to Aruba and Curaçao. Because of the import ban, Aruba and Curaçao temporarily faced a shortage of fruit and vegetables, forcing them to import them from the United States in particular but also from the Netherlands.

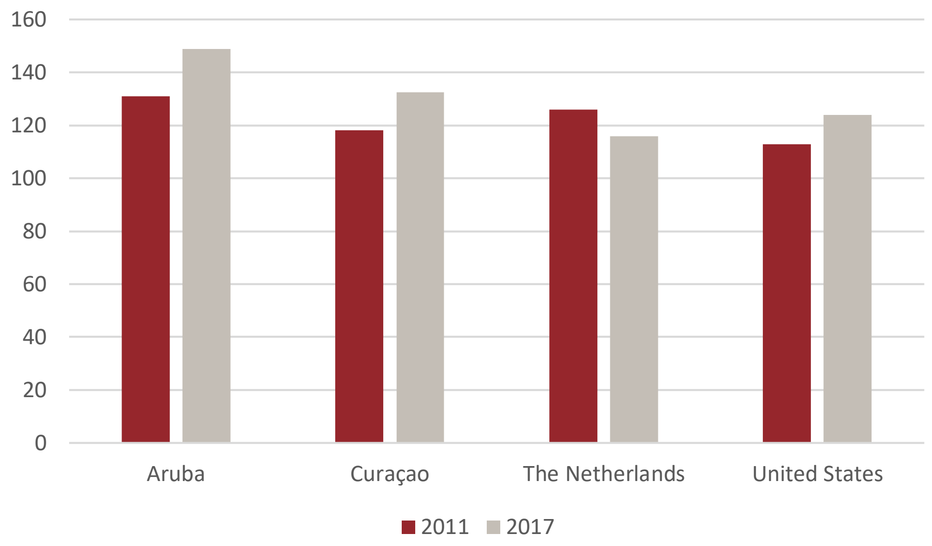
In addition to its own findings, the Ecorys report referred to study data of the World Bank to provide a broader context for price developments between 2011 and 2017. The World Bank published data from 2017 in 2020 that allow a comparison of the price levels in Aruba, the United States, the Netherlands and Curaçao.[6]

In **Figure 1**[7] below, the average world price level is set at 100. The figures presented represent the price level index for each country compared to this level. For example, a score of 110 for Aruba means that the price level in Aruba is 10% higher than the global average. If the price level in the

[4] Ecorys (2017). Aruba, Curaçao and Sint Maarten - study on price developments and logistics in the region, part 2, pages 12-18
[5] Ecorys (2017). Aruba, Curaçao and Sint Maarten - study on price developments and logistics in the region, part 1, pages 19-22
[6] https://databank.worldbank.org/source/icp-2017
[7] This ICP classification includes expenditures for rice; other cereals, flour and other cereal products; bread; other bakery products; pasta products and couscous; beef and veal; pork; lamb, mutton and goat; poultry; other meats and edible offal; fresh, chilled or frozen fish and seafood; preserved or processed fish and seafood; fresh milk; preserved milk and other milk products; cheese and curd; eggs and egg-based products; butter and margarine; other edible oils and fats; fresh or chilled fruit; frozen, preserved or processed fruit and fruit-based products; fresh or chilled vegetables other than potatoes and other tuber vegetables; fresh or chilled potatoes and other tuber vegetables; frozen, preserved or processed vegetables and vegetable-based products; sugar; jams, marmalades and honey; confectionery, chocolate and ice cream; food products n.e.c.; coffee, tea and cocoa; mineral waters, soft drinks, fruit and vegetable juices.

Netherlands is 120, then prices in the Netherlands are 20% higher than the global average and 9% above those in Aruba (10/110 x 100%).

Figure 1: ICP developments in food products, 2011 and 2017



Source: World Bank website consulted in 2024

Figure 1 shows that, both in 2011 and in 2017, prices in Aruba were higher than in the Netherlands and the United States, but also structurally higher than in Curaçao.

Table 1 below presents an overview of the price differences by category for the year 2017. The price difference percentages with Aruba have been calculated by dividing the index differences by the index of the analogue country; for example, if Aruba has an index of 150 and the Netherlands of 120, then the price difference is 150-120=30/120=25%; so, in this example the prices in Aruba are 25% higher than in the Netherlands.

Table 1 Price differences per category of food products, 2017

Country	Bread and cereals	Fish and seafood	Meat	Milk, cheese and eggs	Oils and fats	Vegetables	Fruit	Sugar, jam, honey, chocolate and candy	Non-alcoholic beverages	Other food products
Aruba	162	146	109	153	151	226	175	164	149	140
Curaçao	135	147	108	143	126	173	144	137	136	123
Netherlands	107	147	151	97	82	143	124	83	100	88
US	128	147	126	110	99	167	136	101	116	103
	Bread and cereals	Fish and Seafood	Meat	Milk, cheese and eggs	Oils and fats	Vegetables	Fruit	Sugar, jam, honey, chocolate and candy	Non-alcoholic beverages	Other food products
Curaçao/Aruba	20.0%	-0.1%	0.1%	7.5%	19.4%	30.6%	21.3%	19.7%	9.4%	13.9%
Netherlands/Aruba	51.2%	-0.4%	-28.2%	57.4%	82.8%	58.5%	41.0%	96.1%	48.0%	59.9%
US/Aruba	26.4%	-0.6%	-13.6%	39.5%	52.6%	35.5%	28.2%	61.1%	28.5%	35.6%

Source: World Bank 2024 - Analysis AFTA

The price differences, including with Curaçao, are significant in a number of categories. For example, the data show that, in 2017, fruit and vegetables in Aruba are more than 20% more expensive than in Curaçao and much more expensive than in the Netherlands. Very considerable price differences also occur in the other categories.

More recent comparable data from the World Bank or other public sources are not available. Because the source data are from 2017, the price differences between 2017 and 2024 may have decreased (or rather increased).

Because the available public information is somewhat dated, we will examine the price developments in the period 2018-2023 below.

In doing so, we compare the relative development of the prices of food products in Aruba compared to that in the United States, the Netherlands and Curaçao using the development of the consumer price index (CPI).

The United States and the Netherlands were chosen as analogue countries because a large part of the food products imported in Aruba comes from these countries. A comparison with Curaçao was also chosen because of its geographical proximity and because it is a small-island economy that, like Aruba, relies heavily on food imports.

In addition to a relative comparison based on CPI development, we also performed a (limited) absolute price comparison based on current prices.[8]

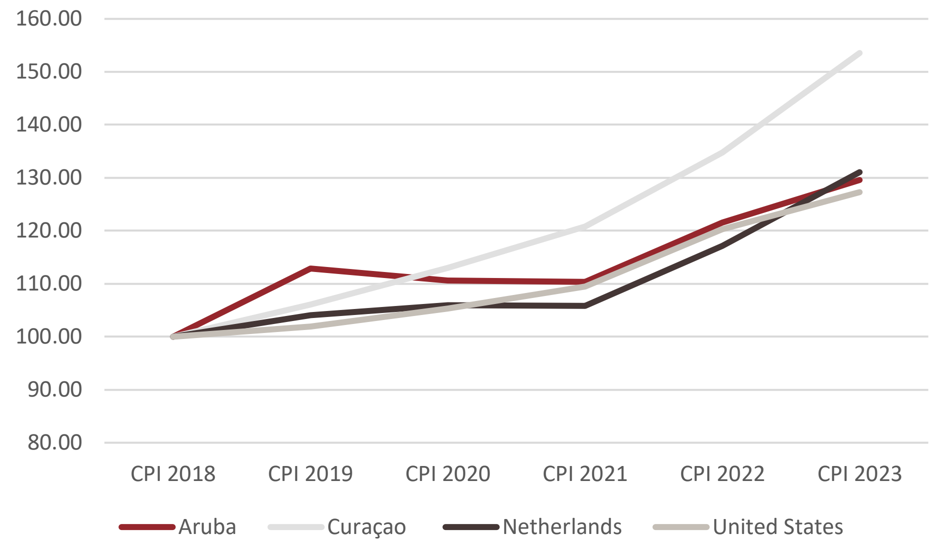
2.2 DEVELOPMENT OF RELATIVE PRICES

To examine the relative development of prices and to be able to make a comparison between countries, we use the index of consumer food prices published by the national statistical offices, such as the Central Bureau of Statistics (CBS) in Aruba. This index provides an insight into the development of prices over time of a representative basket of food products.

Figure 2 below shows that, during the period 2018-2023, there was a (significant) increase in food prices in all four countries studied: in the Netherlands, prices increased by 31% during this period, in the United States by 27%, in Curaçao by 54% and in Aruba by 31%.

[8] It is important to look at both the relative development of prices and the absolute levels: the relative development over time provides indications as to whether prices are converging or diverging over time; absolute price levels provide an insight into existing price differences.

Figure 2 CPI developments in food products, 2018 = 100



Source: CBS Aruba, CBS Curaçao, CBS Netherlands, USDA; Economic Research Service, 2024

It follows logically from the similar price development in Aruba, the Netherlands and the US in the period 2018-2023 that the price differences observed in 2017 have likely remained largely intact, and that food prices in Aruba continue to be significantly higher than those in the Netherlands and the US The substantially higher price increase in Curaçao in the period 2018-2023 compared to Aruba suggests that prices in Aruba and Curaçao converged during that period, and that the previously observed price difference has decreased.

To assess these conclusions based on relative price developments, the AFTA performed a limited comparison of the current (absolute) prices of a number of food products.

2.3 Comparison of absolute prices at product level

The AFTA performed a price comparison of 14 common food products for sale at supermarkets in the four countries under comparison. The following criteria were used to select the products:

- At least one product from the following categories: packaged food, fresh meat, fresh fruit and vegetables, dairy products and bakery products.
- As many homogeneous products as possible to reduce the complexity of the study.
- Brands and products available in all countries studied.
- Variety in the products chosen.

Because the Aruban Government regulates the prices of a number of basic food products ("*canasta basico*"), these regulated products, except for white bread, were excluded from this study. While this price survey obviously does not provide a complete overview, it does allow the AFTA to assess whether the prices in Aruba are indeed higher than in the other countries studied. The results of this price survey are reflected in the table below.

Table 2 Average prices per product per country

Product	Brand	Category	Content	Aruba	Curaçao	Netherlands	United States
Cornflakes original	Kellog's	**Packaged food**	510g/18oz	AWG 8.39	AWG 6.54	AWG 2.96	AWG 6.88
Canned corn kernels	Del Monte	**Packaged food**	432g/15.2oz	AWG 4.23	AWG 3.39	N/A	AWG 2.89
Canned tuna (light chunk in water)	Chicken of the Sea	**Packaged food**	5oz/141g	AWG 3.73	N/A	N/A	AWG 2.28
Lean grounded beef		**Fresh meat**	1kg/2.2lbs	AWG 19.88	AWG 21.12	AWG 18.57	AWG 24.44
Banana		**Fresh vegetables and fruit**	1kg/2.2lbs	AWG 3.78	AWG 3.35	AWG 4.58	AWG 2.08
Broccoli		**Fresh vegetables and fruit**	1kg/2.2lbs	AWG 12.13	AWG 13.52	AWG 5.85	AWG 6.39
Sem-skimmed milk	Frisian Flag	**Dairy products**	1l	AWG 3.73	AWG 3.80	N/A	N/A
Unsalted butter	Kerry Gold	**Dairy products**	227g/8oz	AWG 12.95	N/A	AWG 7.08	AWG 7.65
White bread		**Bakery products**		AWG 5.23	AWG 5.99	AWG 1.60	AWG 2.87
Coke original taste	Coca-Cola		2l	AWG 6.90	AWG 6.59	AWG 8.09	AWG 4.99
Chocolate spread	Nutella		400g/13oz	AWG 10.08	AWG 8.95	AWG 5.81	AWG 7.49
Ketchup	Heinz		907g/32oz	AWG 9.60	AWG 11.00	AWG 8.95	AWG 8.70
Chips	Lays Classic		184/g/6.5oz	AWG 9.51	AWG 6.26	AWG 3.26	AWG 8.24
Gummy bears	Haribo		227g/8oz	N/A	N/A	AWG 3.06	AWG 4.53

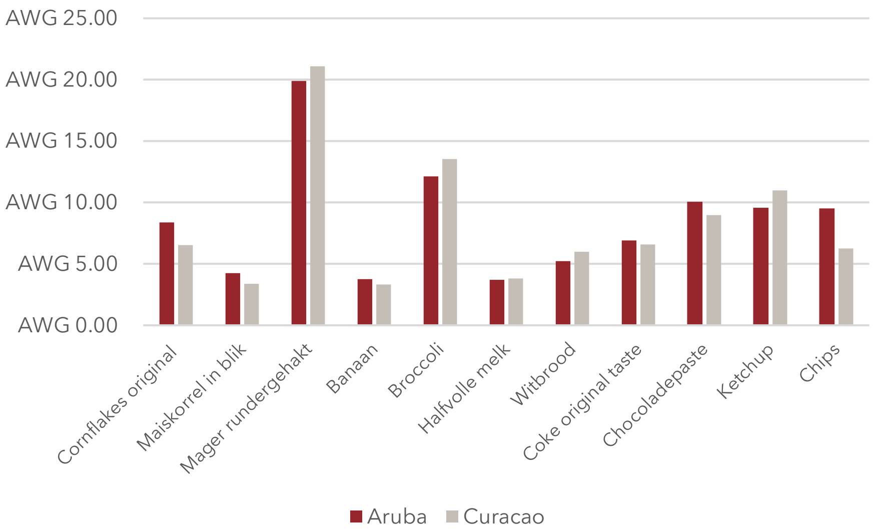
Source: AFTA price survey, March 2024

Table 2 shows the average prices per product in each of the countries studied. This table shows that prices in Aruba are currently fairly similar to those in Curaçao but are indeed still significantly higher than in the Netherlands and the United States.

This price comparison supports the previous conclusions from the price survey based on price levels in 2017 and the development of relative prices in 2018-2023: the prices of food products are structurally (significantly) higher than those in the Netherlands and the United States but can be reasonably compared to those in Curaçao. Prices at product level are graphically represented below.

2.3.1 Price comparison Aruba - Curaçao

Figure 3: Price comparison between Aruba and Curaçao

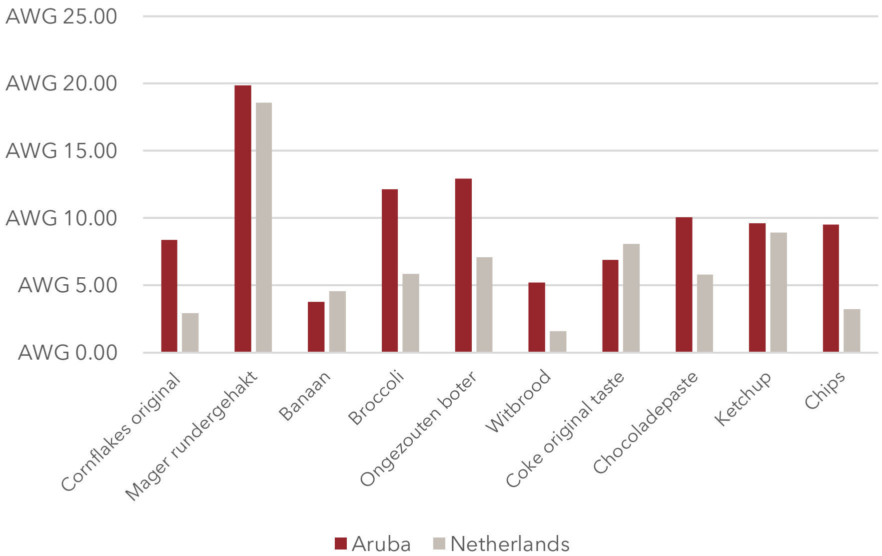


Source: AFTA price survey, March 2024

Figure 3 compares prices at product level between Aruba and Curaçao. Some products, such as cornflakes (28%), corn kernels (25%), banana (13%), cola (5%), chocolate spread (13%) and chips (52%) are more expensive in Aruba than in Curaçao. Fresh produce (vegetables) and dairy products seem to be slightly cheaper in Aruba. In general, however, no significant differences in prices between Aruba and Curaçao can be observed.

2.3.2 Price comparison Aruba - Netherlands

Figure 4: Price comparison between Aruba and the Netherlands

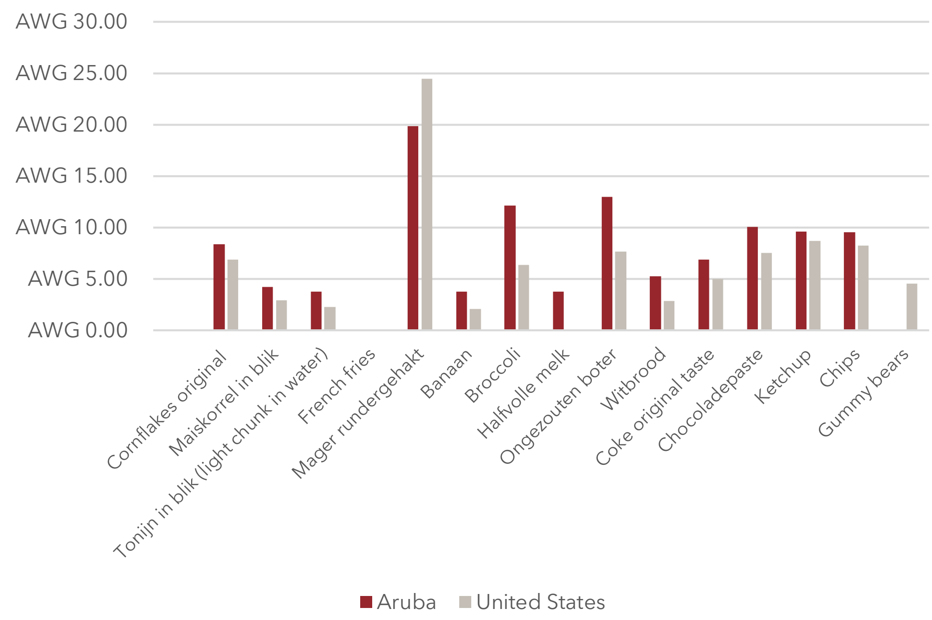


Source: AFTA price survey, March 2024

Figure 4 illustrates the price differences between Aruba and the Netherlands. It shows that food products are significantly more expensive in Aruba than in the Netherlands. Products such as cornflakes (183%), broccoli (107%), unsalted butter (83%), white bread (228%), chocolate spread (74%) and chips (192%) are significantly more expensive in Aruba. Bananas and cola are cheaper but also need to be imported from less far: bananas come from the region, and Aruba is home to a Coca-Cola bottling plant.

2.3.3 Price comparison Aruba - United States

Figure 5 Price comparison between Aruba and the United States



Source: AFTA price survey, March 2024

Figure 5 compares prices in Aruba and the United States. The prices in this comparison also are generally higher in Aruba than in the United States. Products such as canned tuna (64%), banana (82%), broccoli (90%), unsalted butter (69%) and white bread (82%) are considerably more expensive in Aruba. Only lean ground beef is cheaper.

2.3.4 Conclusions

The price indices and comparison of absolute prices of the chosen food products show that:

(a) the prices of food products have increased considerably in recent years not only in Aruba, but also in Curaçao, the Netherlands and the United States. Thus, the development of prices in Aruba follows a global trend that has been caused in part by a number of crises that have led to higher prices for agricultural products, raw materials and energy;

(b) the price differences between Aruba and Curaçao seem to have decreased in recent years and are reasonably comparable; and

(c) the general perception that food products are expensive in Aruba is correct. While prices in Aruba show the same trend in development as those in the United States and the Netherlands, absolute price levels seem to be (considerably) higher.

Since the vast majority of the food products sold in Aruba is imported, at least part of the price difference with the United States and the Netherlands can be accounted for by transportation costs, but other factors may also play a role. The next chapter analyzes the structure of the food sector in more detail.

3 STRUCTURE OF THE FOOD PRODUCTS MARKET IN ARUBA

3.1 TRADE FLOWS

Almost all food products in Aruba are imported from abroad. In recent years, especially during and after the Covid-19 pandemic, and in line with Aruba's commitment to the United Nations Sustainable Development Goals (SDGs) and the cooperation agreement between the four countries of the Kingdom, more self-sufficiency projects have been initiated in the agricultural sector in Aruba.[9]

It concerns viable and profitable food and agricultural businesses that would suit local conditions, which would also lead to a diversification of the economy to make it more resilient to external and internal shocks. Aruba has a number of vegetable and egg farms, such as *297 farms*, *Pok3, Santa Rosa* and *Cunucu Fresh* that specialize in lettuce and salad plants, eggs, fruits and mushrooms, among other things.

Despite this policy of promoting and supporting local food security, this has not yet resulted in substantial domestic production with sufficient supply to feed Aruba's own population. A fundamental element here is that, due to Aruba's warm climate and the lack of fertile soil, the quantity of food and the number of products that can be grown or cultivated locally remain limited.

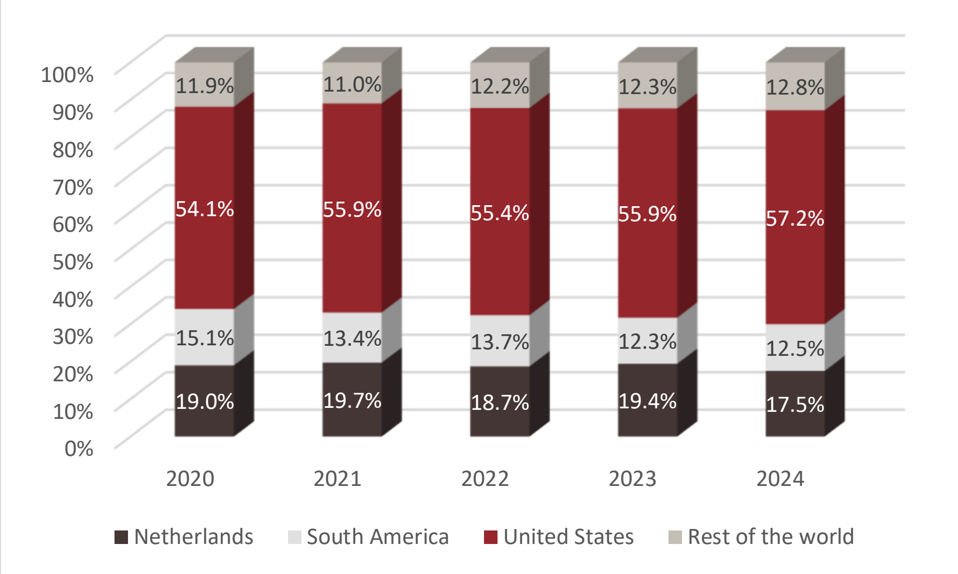
The above is also acknowledged by the Department of Economic Affairs, Commerce and Industry (hereinafter: DEACI). In Aruba, for example, there is a ban on the import of chicken eggs to protect local egg production.[10] This is because there are enough local egg farmers who can provide the population (and visitors) with eggs. During the peak season, however, local farms may not be able to produce enough eggs, meaning that supply and demand do not match. In such a case, the Minister of Economic Affairs can, on request, grant an exemption from the import ban on chicken eggs to temporarily import a limited number of eggs from abroad.

Due to a shortage of food production, Aruba remains largely dependent on food imports from abroad for now, despite various self-sufficiency projects, plans and initiatives.

Aruba imports mainly from the United States, the Netherlands and South America (Colombia). For the rest, food products come mainly from China. **Figure 6** shows the origin of the imported food products between 2020 and the first quarter of 2024. Between 50% and 60% come from the United States, between 15% and 20% from the Netherlands, between 10% and 15% from South America and over 10% from the rest of the world.

[9] In 2023, the four countries of the Kingdom signed a cooperation agreement that should contribute to a Nature and Environment Policy Plan Caribbean Netherlands 2020-2030 in which food security is one of the topics.
[10] National Decree containing an Import Ban on Chicken Eggs.

Figure 6 Country of origin of food products, 2020 - Q1 2024



Source: Customs Aruba and CBS Aruba, 2024

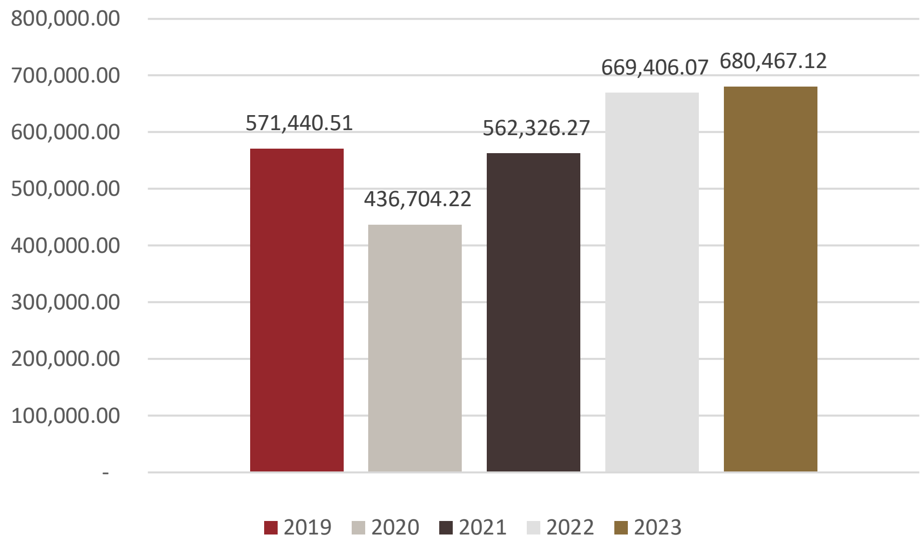
The vast majority of food products are therefore imported from the United States. In the past, more goods were imported from neighboring countries such as Venezuela. However, the import share of these countries has declined somewhat. Here, the traffic embargo on both air traffic and shipping traffic from Venezuela imposed by Aruba in 2019 will have played a role because, as a result, fruit and vegetables could no longer be imported from Venezuela. In May 2023, the maritime borders were opened based on concrete agreements between the authorities of Aruba and Venezuela. An important reason for Aruba to reopen the borders is the cheaper import of fruit, vegetables and building materials. This decision was made in the hope of reducing the costs of these goods and increasing availability.

Moreover, while importing goods from other South American countries seems logical given the relatively short geographical distances, it is not always the most attractive option. Studies have shown that transportation rates in South America are very volatile, especially when products must be transported from inland to coastal locations via land or inland waterways.[11] This volatility can significantly affect final transportation costs. In addition, factors such as political instability, local laws and regulations, corruption and poor infrastructure in these countries pose significant risks. These factors can have cost-increasing effects, making it less attractive for Aruba to import products from South American countries.

This is counterbalanced by the steady and reliable weekly supply of goods to Aruba from Port Everglades in the United States. The guaranteed quality of both products and services offers importers security and reliability. The fact that food products arrive in Aruba in a timely manner means that more and more goods are being imported from the United States.

[11] Interview importers, 2024

Figure 7: Customs value of imported food products in Afl. x 1000, 2019-2023



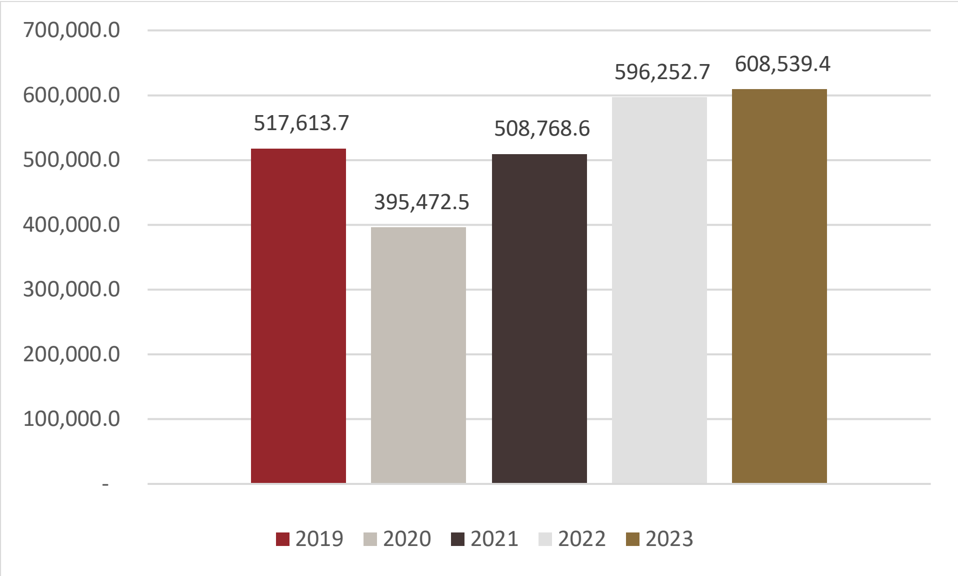
Source: Customs Aruba and CBS Aruba, 2024

The customs value of the imported food products during the period 2019-2023 is shown in **Figure 7**. This value includes the (purchase) price of products plus all costs related to the sale, such as foreign transportation costs (*inland freight*), freight charges and insurance costs up to the first place of unloading in Aruba.[12] **Figure 7** shows that the customs value of imported food products increased from Afl. 571,440,510 in 2019 to Afl. 680,467,120 in 2023, with a drop in 2020 and 2021 due to the Covid-19 pandemic.

The invoice value (usually the purchase price) and freight charges are key components of the customs value and affect the total costs of imported food products. **Figure 8** shows the invoice value of imported food products during the period 2019-2023. Again, we see an increase in the invoice value of imported food products from Afl. 517,613,700 in 2019 to Afl. 608,539,400 in 2023, with a drop in 2020 and 2021 due to the Covid-19 pandemic.

[12] Article 59 of the National Ordinance on Import, Export and Transit (AB 2000 No. GT 10)

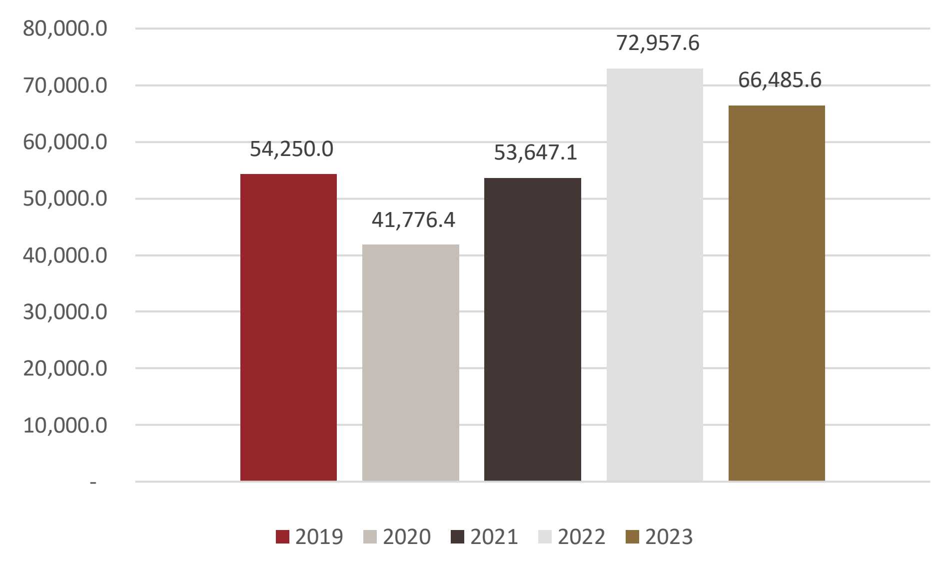
Figure 8: Invoice value of imported food products in Afl. x 1000, 2019-2023



Source: Customs Aruba and CBS Aruba, 2024

Freight charges can be broken down into air freight charges and ocean freight charges, each of which has its own characteristics and cost structure. Air freight has a higher price per kilogram compared to ocean freight, but offers faster transportation, which can be essential for perishable goods. Ocean freight charges are generally lower and suitable for bulk and less perishable goods, but transportation time is slightly longer. **Figure 9** shows the total freight charges of food products transported to Aruba over the past five years.

Figure 9: Total freight charges food products in Afl. x 1000, 2019-2023



Source: Customs Aruba and CBS Aruba, 2024

The freight charges for transporting food products to Aruba at the end of 2019 amounted to Afl. 54,250,000. By the end of 2023, these costs had increased to Afl. 66,485,600, representing an average increase of 22.55% over a five-year period.

This increase can be attributed to several external factors, such as the Covid-19 pandemic, fluctuations in international oil prices, the war in Ukraine and disruptions in the Panama Canal. The availability of container liners to Aruba also plays a role, as well as limited exports from Aruba, which contributes to high freight charges. It is striking that the freight charges for food products were higher in 2022 (Afl. 72,957,600) than in 2023 (Afl. 66,485,600), despite the fact that the total value of imported food products was slightly lower in 2022 (Afl. 669,406,070) than in 2023 (Afl. 680,467,120).

A more detailed analysis of the freight charges compared to the invoice value of imported food products results in the following figures:

Table 3: Freight charges compared to invoice value of food products

Year	Total freight charges food products (Afl. x 1000)	Total invoice value food products (Afl. x 1000)	Freight charges compared to invoice value (%)
2019	54,250.00	517,613.71	10%
2020	41,776.40	395,472.51	11%
2021	53,647.10	508,768.57	11%
2022	72,957.60	596,252.75	12%
2023	66,485.60	608,539.44	11%

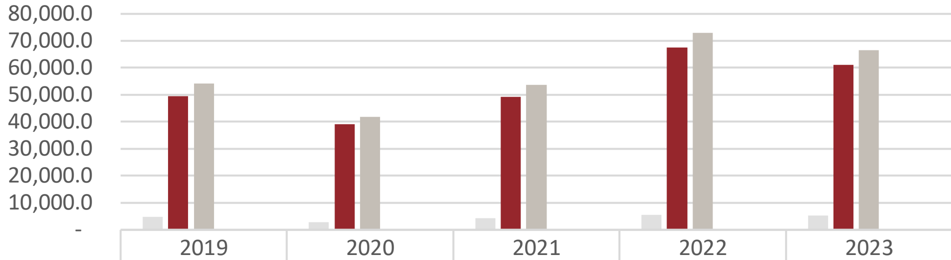
Source: Customs Aruba and CBS Aruba, 2024

Table 3 shows that, despite variations in absolute values of both freight charges and invoice value, the freight charges continue to represent a relatively stable share within the total cost structure. This indicates that, even though freight charges are perceived as high, they do represent a consistent part of total import costs.

Further differentiation between air freight and ocean freight is also relevant, especially given the cost differences between these methods of transportation. **Figure 10** below shows that, in 2019, only 9% of the total freight charges for good products were related to air freight. This percentage decreased to 7% in 2020, presumably due to the Covid-19 pandemic. Between 2021 and 2024, the share of air freight charges increased by 1% to 8%, implying that the majority of the freight charges can be allocated to ocean freight, which tends to be more cost-effective.

In addition, data received from the "Departamento di Aduana" (Customs Aruba) show that the majority of the food products imported by air consists of perishable goods such as vegetables, fruit, fish and meat. This is also logical since these goods require faster methods of transportation to maintain their freshness, which may justify the choice of air freight despite the higher cost. However, the cost efficiency of ocean freight, combined with the reliable transportation services provided by the United States, makes it preferable for most food products to import them via ocean freight.

Figure 10: Freight charges of imported food products in Afl. x 1000, 2019-2023



	2019	2020	2021	2022	2023
Airfreight	4,823.0	2,719.1	4,383.2	5,536.0	5,386.4
Sea freight	49,426.8	39,057.4	49,263.8	67,421.7	61,099.2
Total	54,249.8	41,776.4	53,647.1	72,957.6	66,485.6
% Air freight	9%	7%	8%	8%	8%
%Seafreight	91%	93%	92%	92%	92%

Airfreight Sea freight Total % Air freight %Seafreight

Source: Customs Aruba and CBS Aruba, 2024

The Ecorys report[13] and this study show that Aruba's heavy dependence on the import of food products and limited domestic production have a cost-increasing effect on the transportation costs of goods to Aruba. **Table 4** below, which compares imports in kilograms to exports in kilograms, shows that imports significantly exceed exports. Because little is produced domestically, and these products are mainly intended for local use, containers often leave the port of Aruba empty. This study has shown that exporting empty containers increases transportation prices because the shipping companies must offset the costs of empty return shipments by increasing the freight charges for imported goods. This leads to an increase in the total transportation costs for imported products, which ultimately affects the prices of consumer products (including food products) in Aruba. Furthermore, due to its geographical location and size, Aruba cannot compete with the connectivity of large container hubs, such as Cartagena, Colombia or Kingston, Jamaica, where the freight charges are much lower.[14]

Table 4 Imports and exports in kilograms (x1000)

Year	Import weight in kilograms (x 1000)	Export weight in kilograms (x 1000)	% exports compared to imports
2019	127,744,504	1,440	0.0012%
2020	104,672,692	1,554	0.0015%
2021	122,945,676	1,060	0.0009%
2022	131,704,992	2,559	0.0019%
2023	126,387,984	4,430	0.0035%

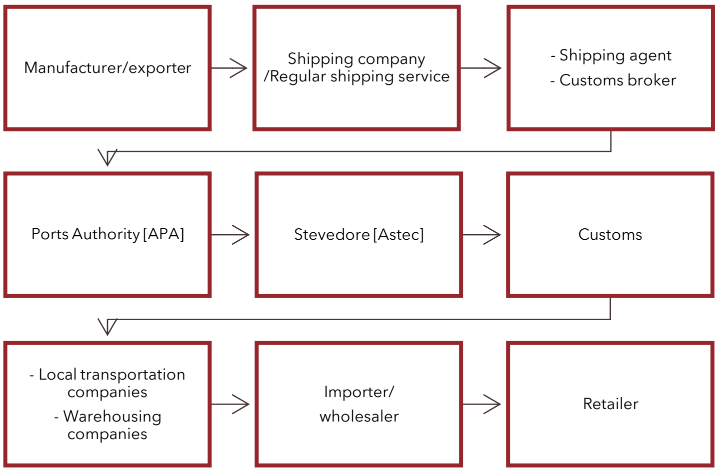
[13] Ecorys (2017). Aruba, Curaçao and Sint Maarten - study on price developments and logistics in the region, part 1

[14] Port of Amsterdam, Aruba Ports Authority N.V. & Curaçao Ports Authority (2019). Competitive pricing analysis container port costs.

3.2 Market Structure

In the context of this report, the term *market structure* refers to the different links in the food chain from producer to consumer on the one hand and to the structure of the market (number of actors, competition) in each of those links on the other.

The food products market structure consists of a long chain of links, with each link playing a specific role in the process of bringing a food product from the producer/exporter to the store shelf. Broadly speaking, the following links can be distinguished in the food products market:



3.2.1 Manufacturer/exporter country of origin

The local importer places orders and enters into contracts with the manufacturer of the food product in question and/or exporters in the country of origin. Exporters of food products can be food manufacturers, as well as trading houses or wholesalers who collect and ship products to international markets.

In addition, a freight forwarder in the country of origin plays an important role in the transportation process of goods, including food products, to Aruba. Local customs brokers and importers often have contracts with such freight forwarders, who are responsible for transporting the goods, including managing export documentation and coordinating logistics until arrival in Aruba.

There are two options for transporting the products:

- The exporter or manufacturer usually determines which shipping company or customs broker they work with to ship products, which makes the importer dependent on this choice;
- The importer is free to request quotes itself from various regular shipping service agents to determine which regular shipping service and customs broker they wish to use to transport products to Aruba.[15]

[15] Interview importers. 2024

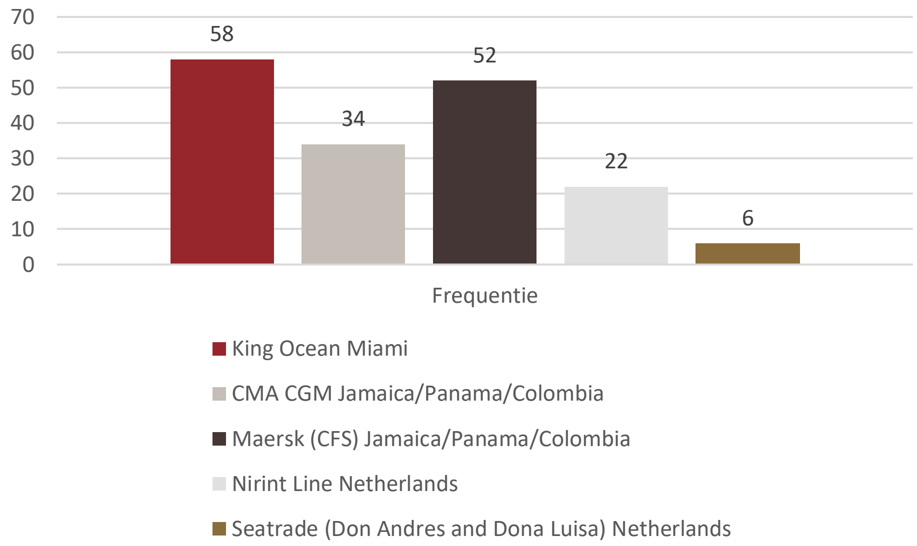
3.2.2 Shipping company/container liner

Based on data from 2023, it appears that goods are transported to Aruba by 12 different container shipping companies. This specifically concerns the transportation of containers and not bulk transportation or car carriers. However, not all container shipping companies have physical container ships navigating to Aruba. Instead, they lease container slots on ships of other shipping companies, such as King Ocean and Caribbean Feeder Services (hereinafter: CFS), which do call at the port of Aruba.

Container shipping company Nirint from Rotterdam, the Netherlands calls directly at the port of Barcadera every two weeks.[16] All shipping companies that export containers to Aruba are represented by a local shipping agent. An overview of these shipping agents can be found in paragraph 4.2.3.

Of the 12 container shipping companies, only three actually navigated to Aruba in 2023: King Ocean, CMA CGM and Nirint. Other shipping companies, such as Maersk, use container slots on CFS ships, which depart from Jamaica[17], Panama or Colombia[18], and Seatrade, which deploys the ships Doña Luisa I and Don Andres I from Curaçao. The figure below shows the frequency and country of origin of shipping companies that navigated to Aruba in 2023.[19]

Figure 11: Frequency of arrival of container shipping companies - 2023

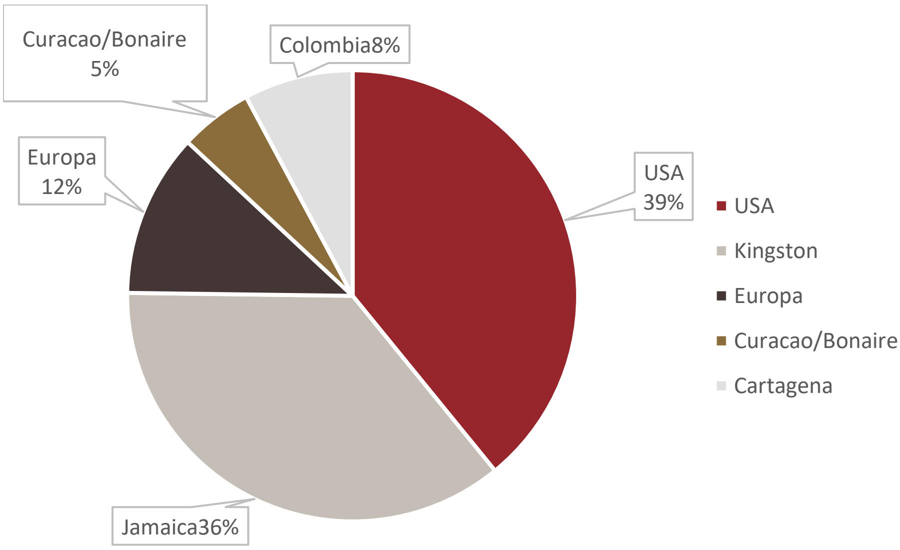


[16] Nirint Shipping (2024). Consulted via AA - NEW WEB SCHEDULE temp.xlsx (nirint.com)
[17] Kingston, Jamaica
[18] Cartagena, Colombia
[19] Astec S.A., 2024

Figure 12 shows the origin of containers unloaded at the port of Aruba, based on the last port of call before the containers arrived in Aruba. For an overview of the country of origin of imported food products, reference is made to **Figure 6** in paragraph 4.1.

As the figure indicates, between 50% and 60% of food products are imported from the United States. In the first quarter of 2024, 39% of all containers unloaded in Aruba came from the United States. This percentage includes containers exported both directly and indirectly from the US to Aruba.

Figure 12: Origin of containers Aruba



Source: Astec S.A., 2024

King Ocean

Although between 50% and 60%[20] of food products in Aruba are imported from the United States, only one container liner has been navigating from the United States to Aruba since 2015: King Ocean. King Ocean is a shipping company with its headquarters in Miami, United States. Since 1982, King Ocean has been providing shipping services to the islands and navigates a fixed weekly route between Port Everglades in Florida and various islands in the Caribbean.

The fleet of King Ocean consists of 25 container ships of different sizes, which can carry different types of cargo in 20-foot or 40-foot containers.[21] Examples are dry products, chilled/frozen products but also, for example, live animals.

Port Everglades is a major deepwater port located in Broward County, Florida and plays a crucial role in the maritime transportation to the Caribbean. Port Everglades is connected to more than 150 ports in more than 70 countries worldwide. From Port Everglades, the shipping company King Ocean navigates a weekly fixed route to Aruba, Curaçao and Bonaire to deliver food products and

[20] Customs Aruba and CBS Aruba, 2024
[21] King Ocean (2024). Consulted via: https://kingocean.com/about-us/

other goods.[22] Every Tuesday, a King Ocean ship docks at the port of Barcadera in Aruba to deliver products originating from the United States or Europe/China that have been shipped to Aruba via the United States. **Figure 13** below shows the weekly route of shipping company King Ocean directly to the ABC Islands.[23]

Figure 13 Weekly route King Ocean to the ABC Islands.

Caribbean Feeder Services (CFS)

CFS is a container shipping company that transports goods to Aruba through the major ports of Panama, Jamaica (Kingston) and Colombia (Cartagena). CFS offers container slots on its ships to other shipping companies that do not call at the smaller island ports.[24] In **Figure 14** below, the yellow line (Nean) indicates the route of CFS, which calls at Aruba and Curaçao on a weekly basis.

Nirint

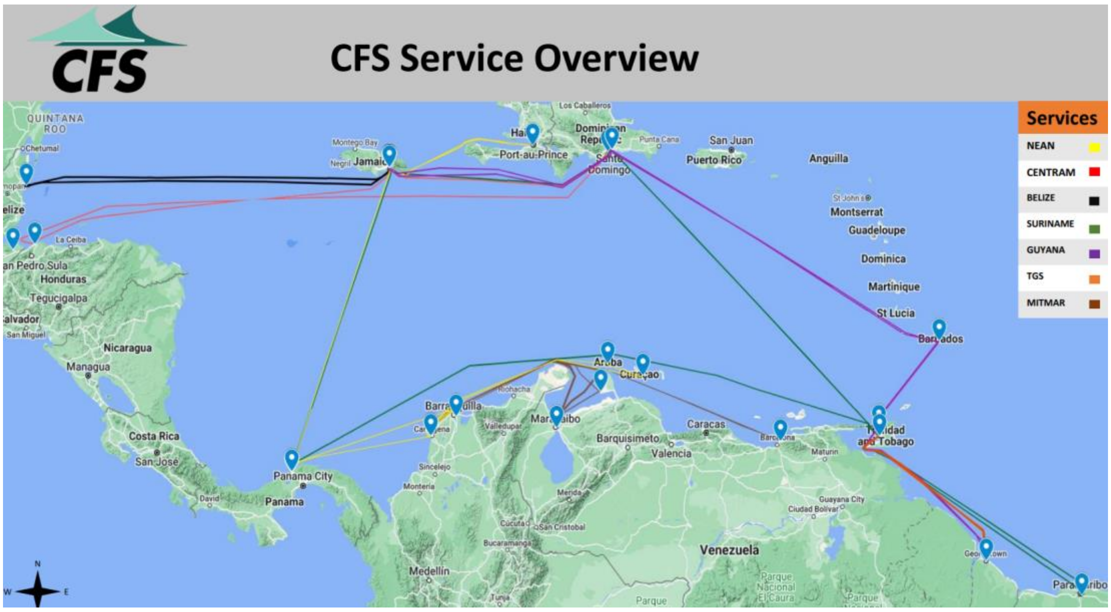
Nirint is a Dutch container shipping company based in Barendrecht, the Netherlands. Nirint handles ocean freight from Northern Europe to the Caribbean. Nirint navigates every two weeks from the port of Rotterdam directly to Aruba, Curaçao and Bonaire and docks every other Thursday at the port of Barcadera, Aruba to unload containers.

[22] King Ocean (2024). Consulted via: https://kingocean.com/news/King-Ocean-Sailing-Schedule.pdf

[23] *At the time of preparing this report, the AFTA could not obtain relevant detailed information from Gomez Enterprises/King Ocean about the costs and processes involved in the shipping company, internal and external factors that further affect the prices of the international maritime transportation market.*

[24] *Example: an importer wants to order a container of toilet paper and dish soap from Germany. It receives the best quote through Hapag Lloyd's local agent. The ship with the container of toilet paper leaves Hamburg with Hapag Lloyd and arrives in Kingston, Jamaica. Hapag Lloyd's own container ships do not call at Aruba due to the size of the ship and the fact that these ships cannot dock at the port of Barcadera. In Kingston, the container will be transferred to a Caribbean Feeder Services ship to Aruba.*

Figure 14: Route CFS Caribbean



Source : www.caribbeanfeeder.com

3.2.3 Shipping agents

There are six shipping agents in Aruba representing various container liners. The shipping agent is crucial to the smooth handling and processing of ocean freight to Aruba. The shipping agent acts as the liaison between the shipping company, the ports authority and other stakeholders and is primarily responsible for the smooth and efficient operational execution. The following regular shipping services agents represent the various container shipping companies and/or feeder operators in Aruba:

	Local shipping agent	Container shipping company	Feeder operator
1	Gomez Enterprises	King Ocean	
2	S.E.L. Maduro & Sons	Zim Line	
3	Perez & Cia	Maersk Line Marbridge Line Sealand Evergreen Hamburg Süd	Caribbean Feeder Services
4	Caribbean Port Agencies Inc.	Nirint Line	
5	Global Marine Services N.V.	Seatrade Line Don Andres Line	
6	VR Shipping N.V.	Hapag-Lloyd Line CMA/CGM Line	

Source: *Astec S.A., 2024*

The local shipping agents are the official points of contact in Aruba of the shipping companies with whom they have a contract and handle all port formalities in Aruba, from cargo arrival to departure. This includes taking care of the various documents and permits for the arrival and departure of ships, including coordination with the ports authority (Aruba Ports Authority) and Customs for customs clearance. The local shipping agent is responsible for handling requests from importers and wholesalers, including taking care of transportation quotes, shipping, insurance and logistical coordination of unloading and loading arrangements. In addition, the local shipping agent takes care of the payment of the stevedoring fees (Astec) and handles damage claims for any damage to containers during navigation. Finally, the local shipping agent provides support to the crew of the shipping company, such as medical care, provisions and visas and other required documents for crew members of the container liner.[25]

3.2.4 Customs broker

Customs brokers play an essential role in international trade as intermediaries between their clients and the customs authority. They represent their clients in customs matters, such as handling all customs formalities, and they ensure the smooth and efficient handling of all customs procedures in accordance with local customs laws and regulations. There are currently 30 customs brokers operating in Aruba.[26] These customs brokers offer their services to both importers and wholesalers and to private individuals importing goods for their own use. Some customs brokers have a fixed-term contract with the importer.

In addition, some large supermarkets choose to use in-house employee(s) to handle customs procedures and declarations. This is a cost-effective option, as there is no need to engage the services of external customs brokers. However, this internal handling does require a permit from the customs authority to gain access to the declaration system Asycuda World.

The services of a customs broker directly affect the final price of goods. Customs brokers charge fees for their services, such as preparing and filing customs declarations, handling documentation, and coordinating physical customs import controls. These costs are usually passed on to importers and ultimately reflected in the prices of goods. By using in-house employees for customs formalities, companies can save these costs, which can have a positive effect on the price of food products. In addition, indirect effects can occur, such as delays due to inefficiency or incorrect tariff classifications of goods, which can also affect the final consumer price.

3.2.5 Ports Authority

In Aruba, the Aruba Ports Authority N.V. (hereinafter: APA) is the sole port service provider. As ports authority, the APA is responsible for the construction, management, maintenance and operation of the ports of Oranjestad (for cruise ships and car carriers) and Barcadera (for freight ships), as well as the associated waterways, roads and assets. The APA is also responsible for the security of all sites and the promotion and development of cruise tourism.

[25] Interview shipping agent, 2024
[26] Aruba Chamber of Commerce, 2024

The main clients of the APA are the shipping agents representing the various shipping companies and the stevedore (Astec N.V.), which is responsible for loading and unloading activities under concession. In Barcadera, the APA focuses specifically on maritime activities such as towing activities for cargo ships, with Astec N.V. taking over as soon as a container ship docks.

Although there is a general perception that port charges in Aruba are high compared to other ports in the region, a price comparison survey carried out in 2019 by the Port of Amsterdam, together with the stevedores of both Aruba and Curaçao and the APA, has shown that the port and container handling charges of Aruba and Curaçao are competitive and comparable as to level.[27] This survey also shows that the costs of port services in Aruba for container ships are the most favorable in the region. For dry and liquid bulk vessels, the costs of port services in Aruba are competitive compared to Curaçao, Bonaire and Amsterdam.

3.2.6 Stevedore (loading and unloading services)

There is one stevedore company in Aruba, namely Astec N.V. (hereinafter: Astec).[28] Astec is responsible for loading and unloading ocean freight in the port of Aruba. Astec has a concession from the Ports Authority APA. Astec publishes its stevedoring rates annually on its website. Local shipping agents consult the website for the rates and then include them in the pricing (quotation) of container transportation.

Although the container handling charges of Astec N.V. are relatively high compared to the charges of stevedores in the region, they remain competitive on an overall level compared to Curaçao and the Netherlands.[29] Astec distinguishes itself from Curaçao by its efficiency and effectiveness. Efficiency because of modern technology and infrastructure allowing for faster unloading and loading of containers from ships. Greater effectiveness because Astec has an all-inclusive pricing policy (full-circle tariff) for its services, unlike Curaçao, which has a separate tariff for each individual service. The full-circle tariff covers all costs of import and export on import, making container handling charges cheaper in Aruba than in Curaçao and other ports that charge separate tariffs for export operations. With these considerations in mind and without including concession fees, the port charges in Aruba are about 35% lower than in Curaçao.[30] **Figure 15** below reflects the comparison of stevedoring rates between Aruba and Curaçao.

[27] Port of Amsterdam, Aruba Ports Authority N.V. & Curaçao Ports Authority (2019). Competitive pricing analysis container port costs.
[28] Source: Aruba Chamber of Commerce, 2024
[29] Port of Amsterdam, Aruba Ports Authority N.V. & Curaçao Ports Authority (2019). Competitive pricing analysis container port costs.
[30] Port of Amsterdam, Aruba Ports Authority N.V. & Curaçao Ports Authority (2019). Competitive pricing analysis container port costs.

Figure 15: Comparison container handling prices Aruba - Curaçao

	ASTEC			CPS		
DAYSHIFT	**PRICE**	**COUNT**	**AMOUNT**	**PRICE**	**COUNT**	**AMOUNT**
Discharge 20 FT	AWG 1,068.00	74	AWG 79,032.00	ANG 1,027.87	51	ANG 52,421.37
Discharge 40 FT	AWG 1,560.00	36	AWG 56,160.00	ANG 1,306.12	25	ANG 32,653.00
Discharge 40 FT H	AWG 1,827.00	30	AWG 54,810.00	ANG 1,411.12	14	ANG 19,755.68
EVENINGSHIFT	**PRICE**	**COUNT**	**AMOUNT**	**PRICE**	**COUNT**	**AMOUNT**
Discharge 20 FT	AWG 1,068.00	25	AWG 26,700.00	ANG 1,324.20	48	ANG 63,561.60
Discharge 40 FT	AWG 1,560.00	12	AWG 18,720.00	ANG 1,602.45	23	ANG 36,856.35
Discharge 40 FT H	AWG 1,827.00	0	AWG -	ANG 1,707.45	16	ANG 27,319.20
Crane hire	AWG 1,040.00	9	AWG 9,360.00	ANG 945.00	12	ANG 11,340.00
Total			**AWG 244,782.00**			**ANG 243,907.20**

Source: *Astec S.A., 2024*

A study has shown that the stevedoring costs in Aruba account for approximately 17% of the total transportation costs.[31] Transportation costs make up an average of 11% of the invoice value of food products (see **Table 3**).

3.2.7 Customs

The "Departamento di Aduana" (hereinafter: Customs) is the customs authority of Aruba and is responsible for supervising the import, export and transit of cross-border goods. In addition, the Customs is responsible for levying and collecting import and excise duties. For the purposes of this study, it is important to highlight the tax consequences for consumer food prices. After all, there may be objective reasons why the costs of food products in Aruba are logically higher than in other countries such as the Netherlands and the United States because the vast majority of food products are imported. Given that this study is related to food products (not including alcoholic beverages), we limit ourselves in this paragraph to the impact of import duties on the price of food products in Aruba.

Import duties are taxes on imported goods and directly affect the selling price of products, so consumers ultimately bear these costs. The amount of the import duties is determined independently by the Aruban Government, with different tariffs applying to different categories of goods. With the introduction of the Business Turnover Tax at the border (hereinafter BBO[32] at the border) on August 1, 2023, even more food products and beverages that were previously subject to a 6% import duty rate, such as chocolate milk, coconut milk, buttermilk, baking powder, yogurt, salmon, canned tuna, canned sardines and oil, as well as dog and cat food, are now taxed at a zero rate. This adjustment is the result of a study by the International Monetary Fund (IMF), which shows that despite a decrease in inflation in Aruba, the introduction of the BBO at the border still results in a 0.7% increase in inflation. In response, the Government of Aruba reduced several import duties as a compensatory measure to ease the burden of the BBO at the border. Consequently, most food products are subject to a 0% import duty rate. A limited number of food products, including seafood and luxury foods, are subject to higher rates. Example of such rates are:

[31] Port of Amsterdam, Aruba Ports Authority N.V. & Curaçao Ports Authority (2019). Competitive pricing analysis container port costs page 9

[32] This study uses the term "BBO" as an umbrella term for the levies BBO, BAVP (Additional Provisions PPS Projects Tax) and BAZV (Health Tax).

- Bakery products (bread, cakes, pies, cookies): 6%
- Cornflakes: 6%
- Seafood: 6%
- Oysters: (22%)
- Caviar: 32%

Therefore, price differences with the Netherlands and the United States can be explained by import duties for a limited number of food products. Price differences with Curaçao cannot be explained by import duties, since in Curaçao most food products, including seafood, are also taxed at a 0% import duty rate. In contrast, a limited number of food products are subject to duties. Example of such duties are:

- Bread: 5.5%
- Eggs: 5.5%
- Cornflakes: 10.5%
- Cookies: 27%
- Caviar: 37%

It is important to note that local producers, if classified as industrial enterprises, are exempt from import duties on raw materials, auxiliary materials, semifinished products, machinery and other goods intended for the production of a new product.[33] This exemption also applies to producers of food products, such as bakery products. This contributes to lower consumer prices for locally produced food products that meet the conditions of this exemption.

In summary, the above analysis shows that the higher prices of food products in Aruba compared to the United States and the Netherlands are not due to import duties, except for a limited number of food products, and that the price differences between Aruba and Curaçao are not due to import duties either, as the rates are similar, and most food products in Curaçao are also taxed at 0%. These findings suggest that other factors, such as transportation costs, market structure and logistical challenges, play an important role in the pricing of food products in Aruba.

3.2.8 Transportation companies/warehousing companies

Both importers, wholesalers and supermarkets need warehouses for their inventory. Importers often have large storage areas, such as storerooms, but depending on the season or product, the available storage areas may not be sufficient or suitable. Also, for example, a change in the arrival of container ships (delay or earlier due to external factors) and/or a change in loading and unloading times and other external factors (staff problems or shortage) can affect the availability of storage area but also the importer's available means of transportation, such as chilled transportation trucks. In case there is a lack of space at the importer or customer, external storage areas are hired to store products, especially chilled areas. External transportation companies can also be used to distribute chilled products.

[33] Article 128, first paragraph, subparagraph 7, letters a and b, of the National Ordinance on Import, Export and Transit (AB 2000 No. GT 10)

There are approximately 71 companies in Aruba that provide services for loading, unloading and transporting various products.[34]

Aruba is characterized by very high temperatures, making it very important to have suitable storage areas available for chilled and frozen products as well. Importers and wholesalers do not always have enough space available in their own warehouses for the storage of products and therefore, seasonal[35] or not, need to hire additional storage space from external parties. There are around 14 warehousing companies in Aruba specializing in chilled spaces for storing goods.

Hiring external warehouses and/or transportation companies can impact food products margins, as these costs will also be reflected in the selling price of the various food products.

3.2.9 Importer/wholesaler

As of 2024, there are 158 food importers and wholesalers operating in Aruba.[36] These companies specialize in varying products, with some focusing on specific categories such as meat or dairy, while others import a wide range of fresh, chilled, dry and frozen food products. Some prominent actors in the market are J.O. Caribbean Overseas Company N.V., which focuses on meat and meat products, Martijn Trading Company N.V., which imports dry and chilled foods, and Compra Distribution N.V., which specializes in frozen, dry and chilled products. Although the terms "importer" and "wholesaler" are often used interchangeably, a wholesaler is usually also an importer, but an importer is not always a wholesaler.

The average margins for importers and wholesalers vary depending on product type.[37] These variations are influenced by the storage and transportation requirements of each product type. Dry products, which are stored at room temperature and have a longer shelf life, have a margin of between 20% and 25%. This includes both non-food products, such as toilet paper, kitchen supplies and cleaning products, and food products, such as coffee, tea and preserved fruits and vegetables.

Chilled products have a higher margin of around 30% to 35% because they must be continuously chilled during transportation and storage. Examples of such products are butter, milk and meat products, which must be kept at a constant cooling temperature.

Frozen products have the highest margin of around 40%. These goods, such as frozen products, must remain completely frozen during both transportation and storage.

It should be noted that the aforementioned margins for the various product types are gross margins, and that these margins also include various cost elements of the importer. A more detailed analysis of these elements and net margins could provide more in-depth insights into actual margins.

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[34] Aruba Chamber of Commerce, 2024

[35] *The term "seasonal" is this context refers not only to seasons where summer is much warmer than winter but the tourist high season that lasts from September to March of each year.*

[36] Chamber of Commerce, 2024

[37] Interview importer, 2024.

Incidentally, these margins are consistent with findings from the 2017 Ecorys study, which showed that the average wholesale margin was between 20-30%.[38]

The final wholesale prices of these food products are influenced by several factors. Transportation costs are an important element and can vary depending on product type and country of origin. For example, products from countries with direct transportation links to Aruba, such as the United States, can often be imported at a lower cost compared to countries such as Switzerland, where additional costs may be incurred due to the need for land transportation (*inland freight*). Other factors such as rising staff and energy costs caused by wage increases, inflation adjustments, and amendments to laws and regulations also play a role in final pricing. The introduction of mandatory fringe benefits, such as the general employer's pension and increased health insurance contributions, further contributes to the increase in staff costs.

Although parallel imports are allowed in Aruba[39], it is notable that wholesalers often enter into exclusivity agreements with distributors or manufacturers. These agreements can be advantageous to the importer, as they can negotiate more favorable terms regarding price, quality and transportation. The importer is also often given priority when placing orders. On the other hand, exclusivity agreements can also distort competition, especially when they are used for blocking parallel imports. Such practices can lead to reduced competitive pressure, higher prices for consumers and a restriction of access to cheaper alternatives, which is especially detrimental in a small-market economy like Aruba.

This study and interviews conducted show that there are indications of potential anti-competitive practices by importers and wholesalers. Despite the fact that parallel imports are not prohibited, large wholesalers are making attempts to block this form of import where possible. These attempts may adversely impact food prices. Preventing parallel imports reduces competitive pressure and price competition, which can lead to higher prices for consumers. In addition, exclusivity agreements and limiting access to cheaper alternatives in small-market economies can result in higher wholesale and retail prices, which further pushes up the costs of food products for the end consumer.

[38] Ecorys. (2017). Aruba, Curaçao and Sint Maarten - study on price developments and logistics in the region, part 2, page 34
[39] Parallel imports are taken to mean: importing and trading brand products outside the official distribution channels of the manufacturer or brand owner.

3.2.10 Retailer

As of 2024, there are 747 supermarkets, minimarkets and specialty stores in Aruba.[40] The most popular supermarkets are the larger ones, such as Superfood, Ling & Sons, and PriceSmart (buyer's club). The large supermarkets, such as Superfood and Ling & Sons, partially import their own food products directly from the Netherlands because they operate under the flag of Dutch groups, such as Jumbo or Albert Heijn.

This allows them to import and sell locally, in addition to European A-brand products, European B-brands and even store brands of the aforementioned groups at attractive prices. Yet, these large supermarkets also have American, South American and food products from other countries on their shelves, resulting in a very broad product range. For some products, they rely on wholesalers who have exclusivity agreements with certain brands and/or factories. However, most food products are imported by them themselves.

Aruba is characterized by a large number of neighborhood supermarkets and convenience stores. Neighborhood supermarkets are smaller supermarkets or minimarkets (in between a minimarket and a supermarket) often located in or on the outskirts of residential areas. Aruba also has several convenience stores located on the busier back roads. The convenience stores range from small to medium-sized and often offer a limited but varied assortment of bread, various fruits and vegetables, meats and several canned and preserved food products. Convenience stores are also characterized by flexible opening hours (they are open longer than larger supermarkets), and they are reliable and accessible. Although the majority of convenience stores appear to be of Chinese origin, the range of products in most stores is geared toward the demand of the local population.

The fact that, on a small island like Aruba, there are 747 shopping options to purchase food products should, in theory, lead to several benefits for consumers. Consumers should be able to enjoy benefits such as:

- ***Lower prices***: This is accomplished when supermarkets and convenience stores compete to attract customers.
- ***Better quality***: This can include both product quality and service quality.
- ***Innovation and improvement***: Competition should encourage supermarkets to innovate and improve their services. This can be done in the form of new store concepts, delivery services, online ordering options and other efficiency benefits.

In addition to the local population, the tourism industry plays an important role in the Aruban economy. This explains the high availability of American food products in supermarkets and convenience stores. In 2023, Aruba welcomed 1.24 million tourists, an increase of 17% compared to 2019, the period before the Covid-19 pandemic.[41] An increased demand for specific food products often leads to price increases. Tourists, who are generally less price conscious and wealthier than locals, allow supermarkets to charge higher prices for products popular among tourists. This can result in significant price differences between A brands and C brands, for example.

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[40] Aruba Chamber of Commerce, 2024

[41] Aruba's Tourism Soars to New Heights in 2023. (2023, January 18). Aruba Papers. Consulted on 5-25-2024. [Aruba's Tourism Soars to New Heights in 2023 - Aruba Papers.]

By contrast, tourists' demand for specific food products encourages a broad range of products, which benefits both tourists and locals.

3.2.11 Taxes

Taxes also play an important role in supermarket food pricing. However, this study does not include direct taxes, such as profit tax and wage tax, which supermarkets and convenience stores must pay, due to the complexity and limited availability of information. This study focuses exclusively on the impact of indirect taxes, such as the BBO[42] and import duties, on the prices of food products in Aruba. The impact of import duties on food products has already been discussed in paragraph 3.2.7. The impact of the BBO on food prices in Aruba is discussed in more detail below.

The BBO, which was introduced in 2007, is a turnover tax imposed on the sale of goods and services at each step in the production chain. The combined rate of BBO (2.5%), BAVP (1.5%) and BAZV (3%) totals 7%. This tax is calculated on the business turnover achieved by the entrepreneur through the supply of goods and provision of services in Aruba, without the possibility of reclaiming BBO paid on previous transactions or deducting it as an input tax (except for BBO paid on import). This cumulative nature may result in higher costs for goods sold to consumers through multiple intermediaries, as the tax burden accumulates with each transaction.

In Curaçao, the turnover tax (hereinafter: OB) rate for the sale of food products prepared and suitable for immediate consumption, soft drinks and alcoholic beverages is 9% and 6% for all other food products and beverages. This tax has the same cumulative nature as the BBO in Aruba.

In the Netherlands, the Value Added Tax (hereinafter: VAT) on food products consists of two different rates. The low 9% VAT rate applies to most food products, such as fruit, vegetables, bread, meat and dairy products. The high VAT rate of 21% applies to some food products and beverages considered luxuries, such as soft drinks with added sugar. Unlike the BBO and turnover tax in Curaçao, the VAT is a value-added (only) tax, meaning that the VAT a company pays on its purchases can be deducted from the VAT it receives on its sales. As a result, each company in the chain pays VAT only on the value added it creates, which prevents the tax from accumulating at each step in the chain.

The sales tax in the United States varies per state and local jurisdiction. Basic food products such as fruit, vegetables, meat and bread are exempt from sales tax in most states. In Florida, basic food products consumed at home and sold in supermarkets, bakeries, markets and similar establishments are exempt from sales tax.[43] However, there are specific exceptions that are taxable such as soft drinks, candy and ready meals.[44] The total tax rate may vary depending on the specific location within the state because of local surcharges levied on top of the 6% sales tax.

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[42] This study uses the term "BBO" as an umbrella term for the taxes BBO, BAVP (Additional Provisions PPS Projects Tax) and BAZV (Health Tax). These are taxes levied on the business turnover achieved by entrepreneurs in the course of their business or profession by supplying goods and performing services in Aruba.

[43] Florida Administrative Code (F.A.C.), Chapter 12A-1.011. Consulted on July 5, 2024, from 12A-1 : SALES AND USE TAX - Florida Administrative Rules, Law, Code, Register - FAC, FAR, eRulemaking (flrules.org)

[44] Florida Administrative Code (F.A.C.), Chapter 12A-1.011. Consulted on July 5, 2024, from 12A-1 : SALES AND USE TAX - Florida Administrative Rules, Law, Code, Register - FAC, FAR, eRulemaking (flrules.org)

The main difference between the VAT in the Netherlands, the OB in Curaçao and the BBO in Aruba lies in the cumulative nature of the OB and the BBO. This ensures that the prices of goods in Aruba and Curaçao are potentially even higher because of the tax that accumulates at each step in the chain, whereas the non-cumulative VAT in the Netherlands avoids this price increase by levying tax on the added value. In the United States, and specifically in Florida, consumers can benefit from exemptions on basic food products. This means that the impact of tax on end-user food prices in the United States is much lower compared to the cumulative tax effect in Aruba and Curaçao.

It might help to reconsider the introduction of a VAT system in Aruba. Such a system would ensure that tax is levied only on the value added at each link in the chain. This could reduce the tax burden, which could potentially contribute to lower price levels for food products in Aruba.

4 CONCLUSIONS

General

- This study shows that the prices of food products in Aruba are structurally significantly higher than in the Netherlands and the United States. Prices in Aruba currently appear to be similar to those in Curaçao.
- One consequence of the high food prices is that Arubans spend a large portion of their disposable income on groceries. For those with minimum means of substance, this can be more than 40 percent of their disposable income. This is significantly higher than in the Netherlands and the United States for similar income groups.
- Part of the price differences with the Netherlands and the United States can be accounted for by transportation costs because the vast majority of food products must be imported. However, the share of transportation costs in prices seems to be limited and relatively stable over time.
- The structure of the food products market is relatively complex with a large number of links in the chain, partly due to import dependency. This can lead to higher costs in the chain for logistics (local transportation, storage, energy) and, combined with the small scale of Aruba, can therefore cause price differences.
- In addition, the tax burden on food products in Aruba appears to be higher than in the Netherlands and the United States, particularly because in Aruba tax is levied cumulatively at each link in the chain rather than only on the added value. This, too, may partly explain the price differences.
- However, it does not seem plausible that these general factors fully and adequately account for the large price differences found.

Market structure

- A number of links in the chain give cause for concern.
    - There is only one container shipping company, King Ocean, that navigates directly from the United States to Aruba.
    - There is only one ports authority in Aruba that provides port services.
    - There is only one stevedore offering container loading and unloading services. Parties cannot choose another stevedore, as in larger ports in other countries.
- At the level of importers and wholesalers, exclusive representation of food producers and suppliers in Aruba appears to be frequent. Although parallel imports are allowed, examples have been mentioned where parallel trade has been actively thwarted by importers and/or producers, and the question is to what extent parallel trade occurs in actual practice, partly due to the small scale of Aruba. Exclusive distribution arrangements can push prices upwards, especially if applied on a large scale. The indicative information received by the AFTA on gross margins of wholesalers and importers do not seem to rule out such competition problems.
- In this study, no evidence was found to suggest that, in general, there is insufficient competition among supermarkets in Aruba.

Follow-up steps

- This study is based on available public information and informal interviews, without the AFTA having used its formal investigative powers.
- Given the great importance of affordable food products to Aruban society, the AFTA has decided, as a result of the findings in this study, to initiate two follow-up studies, namely into exclusive distribution arrangements in the food sector and into competition within container transportation to Aruba, in which AFTA will use its investigative powers.

5 ANNEXES

Interviews AFTA

Company	Person	Position
Department of Economic Affairs, Commerce and Industry (DEACI)	Ms. Maria Dijkhoff-Pita	Director
Aruba Stevedoring Company (Astec) N.V.	Mr. Christopher Lake Mr. Randy Angela	Director Operations Manager
Aruba Ports Authority (APA) N.V.	Mr. Mark Figaroa Mr. Bruce Franken	Director Financial Manager
Central Bureau of Statistics (CBS)	Mr. Marlon Faarup	Director

In addition to the aforementioned agencies and companies, several market participants were interviewed as part of this study. To ensure the confidentiality of these conversations and privacy of these sources, their names and specific details are not mentioned.