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Brexit: Avoiding a Caribbean Hangover[1]

Dr Quinn, faculty and students of UCL, ladies and gentlemen. It is a real pleasure and privilege to be here this evening to discuss Brexit and its impact on the Caribbean. Admittedly the title could seem frivolous, after all this is about livelihoods. There is something though in the analogy, even if, unlike the hangover that affects just the one who has over-imbibed, the adverse effects of Brexit might also be felt by third-parties, or as some might say, "the innocent bystanders".

It is one such group that I will focus on this evening; the Caribbean[2], examining what Brexit will mean for its members and how it will affect their trade and aid. I will also consider policy approaches that might help safeguard their economic interests.

Background

When the UK voters opted in the 23rd June 2016 referendum to leave the European Union (EU), their choices would essentially have been shaped by what they felt was in their best interests and those of their own country. Their decision led the Government to invoke Article 50 of the Treaty of Lisbon[3] that triggered the actual withdrawal process and set in train a two-year period for negotiating the terms of exiting the EU on 29th March 2019.

The UK's post-Brexit relationship with the EU and also the rest of the world now has to worked out, but the nature of those relationships cannot be predicted at this time and will be subject to the UK's and EU's internal deliberations and negotiations with each other as well as with other international players.

Whatever the precise outcomes and the particular scenario that will emerge, the UK's leaving the EU will have major consequences, way beyond its shores, with economic repercussions felt worldwide; and most acutely in the Caribbean. This is so because Caribbean life and prospects since early colonial times, have been entwined with what went on in Europe and the UK; through their wars, imperial competition and most consistently transatlantic trade.

[1] Lecture at the Institute of the Americas, University College London, 6th December 2017, delivered by Edwin Laurent, Director of the Ramphal Institute. The views and positions expressed are his and do not necessarily constitute those of the Institute or its Trustees.
[2] The coverage here will not be the geographic or wider Caribbean, but the Caribbean Forum (CARIFORUM) whose members are Antigua and Barbuda, Bahamas, Barbados, Belize, Commonwealth of Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, St Vincent and the Grenadines, St Kitts and Nevis, Suriname, and Trinidad and Tobago.
[3] The Treaty on European Union (TEU), commonly referred to as the Treaty of Lisbon was signed by EU member states on 13 December 2007 and entered into force on 1 December 2009.

When the UK joined the then European Economic Community (EEC) in 1973, the Commonwealth wide system of trade preferences, under which the English-speaking Caribbean had traded ended. Two years later the Lomé Convention which provided unilateral trade preferences and long-term development assistance came into force and provided a new framework for the region's export trade with the UK. That Convention evolved and was eventually replaced in 1990 by the 20-year Cotonou Agreement.

The trading arrangements under that Agreement, have now been replaced by the CARIFORUM-EU Economic Partnership Agreement (EPA) signed in October 2008 that provisionally came into force on 29 December of the same year. It enables those Caribbean countries to freely export their products to the UK and the EU free of import duties and quotas. Unlike the previous Lomé and Cotonou arrangements however, the trading arrangements are reciprocal and of indefinite duration. Once the UK leaves the EU it would no longer be party to the EPA, immediately and simultaneously losing its rights and divesting itself of its obligations.

"Unpacking Brexit"

When Brexit finally materializes, two years from the date of the Article 50 notification, all EU treaties will cease to apply to the UK unless agreement specifying otherwise is reached. There is the theoretical possibility of extending the two-year period, but this requires unanimity among all EU Member States.

International commercial policy is common in the EU and competence in the area is not with individual Member States but is centralised. The UK cannot therefore negotiate and conclude trade agreements with third-countries whilst it is still in the EU. Third countries would in any event first wish clarity on the UK's post-Brexit economic relationship with the EU before commencing their own negotiations.

It is important to recognise that according to Articles 50 (secs' 1 and 2 of the Treaty on European Union), the negotiations that must be concluded before 29th March 2019 relate to the 'arrangements for withdrawal', which will cover matters such as pensions and residency rights for UK and EU-27 nationals by the other party. An agreement dealing with trade and economic relations between the UK and the EU is separate and clearly desired by both sides. But if one is not reached by the 29th March 2019, then trade will, by default, be on WTO terms. It of course would be preferable to both the UK and the EU to be able to negotiate their future trade and economic relationship in parallel with the withdrawal agreement, but there is no obligation on either side to do so.

Current position

For almost forty years a substantial portion of the development assistance provided to the Caribbean by the UK has been via the EU. Even more importantly, during that period, its trade with the UK has been conducted within the regulatory and institutional framework of the EU. Under the EU-wide arrangements, the UK offers full duty-free quota-free access for most of their exports.

Consequently, unless replacement aid and preferential trade measures can be put in place on the day after Brexit, exports and development aid will suffer.

The Trade consequences for the Caribbean

The UK and Europe's historical commercial links with the region and the various preferential trading arrangements enabled them to continue to provide major markets for Caribbean Exports. The importance and dependence on the UK market can be exceptionally high for particular countries and sectors.

Table 1 Composition and value of CARICOM exports to the EU and the UK, 2015 (thousand US$)

	To the European Union		To the United Kingdom (13%)	
Rank	Product	Value	Product	Value
	All products	**3,489,175**	**All products**	**476,185**
1	Ships, boats and other floating structures	785,121	Sugars and sugar confectionery	160,386
2	Organic chemicals	616,872	Organic chemicals	106,999
3	Mineral fuels, oils, distillation products, etc.	615,280	Mineral fuels, oils, distillation products, etc.	55,952
4	Inorganic chemicals, precious metal compound, isotopes	239,461	Edible fruit, nuts, peel of citrus fruit, melons	42,728
5	Pearls, precious stones, metals, coins,	194,245	Beverages, spirits and vinegar	29,915
6	Sugars and sugar confectionery	168,065	Fish, crustaceans, molluscs, aquatic invertebrates nes	9,163
7	Iron and steel	124,688	Vegetable, fruit, nut, etc. food preparations	6,672
8	Fertilisers	114,837	Articles of apparel, accessories, knit or crochet	6,256
9	Edible fruit, nuts, peel of citrus fruit,	114,590	Plastics and articles thereof	6,023
10	Beverages, spirits and vinegar	95,183	Edible vegetables and certain roots and tubers	5,678
12	Fish, crustaceans, molluscs, aquatic nes	74,039	Miscellaneous edible preparations	5,320
13	Cereals	62,911	Optical, photo, technical apparatus	5,138

***Source:** compiled from ITC data*

Eight of the 14 EPA signatories have a disproportionate dependence on the UK market in their exports to the EU. Belize and Saint Lucia have exceptionally high dependency; Guyana and Jamaica a very high dependency; and Dominican Republic, Barbados and Haiti an above average dependence on the UK market.

In the case of Belize 73% of total exports to the EU go to the UK and are highly dependent on tariff preferences. For St Lucia 80% of exports to the EU are in agro-food products and its entire banana exports to the EU are destined for the UK market.

In other Caribbean countries, an exceptionally high dependence on the UK market exists in particular sectors. For example, Guyana and Jamaica have a very high dependence on the UK market for their sugar exports; 100% and 84% respectively.

Table 2: Top Caribbean countries most dependent on exports to the UK in 2015 (€)

Country	UK	EU	%
St Lucia	7,759,682	9,969,361	77.80%
Belize	112,302,658	152,553,289	73.60%
Guyana	77,594,917	226,094,411	34.30%
Jamaica	73,366,337	222,632,735	33.00%
Dominica	1,057,639	3,679,888	28.80%
Dominican Republic	191,338,857	833,859,529	22.90%

Much of the region's trade with the UK and the EU is enabled by the EPA preferences, which have helped keep exports viable and competitive because high tariffs are maintained on imports which some competitors do not have to pay.

For Brexit not to damage Caribbean exports, preferential margins must be preserved. This will require the retention of the duty and quota free access arrangements, as well as of high duties on competing third-country imports from which Caribbean countries are exempted by the EPA.

Why are preferences so important?

These countries face greater production and distribution costs stemming from a variety of constraints, that are often beyond their control.

Foremost among them is small economic size accompanied by a limited volume and range of resources. A major consequence of such structural factors, is that they limit the array of goods and services in which production can achieve minimum production levels required for economic viability and to be able to harness economies of scale needed for international competitiveness. They are often heavily dependent, for their income on just one agricultural commodity such as sugar or bananas, or a service like tourism.

Their economies are consequently not sufficiently diversified; something that is considered essential for sustainable growth and development. Since economies gain by specialising and trading, their prospects are determined not just by the conditions on the domestic market but the terms under which they can sell internationally. Being able to sell abroad on a profitable basis has an additional importance for them because their internal markets are too small and low income to be able to absorb the increased production. For them, the scope for economic expansion is therefore constrained by their ability to export on a beneficial and profitable basis

Because of limited volumes, the unit costs of production can be very high, as can be the costs that they face in getting their goods to overseas markets. Other handicaps include; vulnerability to natural disasters; limited access to markets; and inadequacy of competitive air and sea freight connections. All of this helps make it difficult for them to compete internationally.

Of course, the countries must find ways to overcome these challenges and to achieve competitiveness. However other underlying characteristics of their economies can undermine their chances of success; including limited technological capacity and development and weak and poorly resourced institutional structures. Their ability to deal with the challenges that they face is reduced by the steady haemorrhaging abroad of skilled personnel and talent in the ongoing brain-drain.

All of these factors combine to increase unit costs of production and delivery to the international market resulting in limited international competitiveness.

However, when an arrangement like the EPA eliminates tariffs and other restrictions on their exports, but keep them on competitors, it provides them with a real marketing benefit. Where the differential, i.e. the margin of preference, is great enough, it can even enable them to overcome their cost disadvantage and ensure the continued viability of their export trade.

The preferential margin is a function, not just of zero duties on CARICOM/CARIFORUM exports, but also the level of tariffs faced by competitors, which will determine the size of the differential; i.e. the margin of preference.

The Trade Headache

As has already been pointed out, Brexit will end EPA preferences on Caribbean exports to the UK. A replacement trading arrangement would therefore be needed if trade is to continue without interruption. However, the UK cannot start talks until it has left the EU. And when it leaves in 2019, it doubtlessly will be fully taken up with trying to secure trade deals with the major trading partners like the EU, the USA, India, China, and others. Then the challenge facing the Caribbean will be secure attention from a hard-pressed UK Government and its trade negotiators.

Exporters would face the prospect of having to pay full duties, just as their lowest cost competitors. This could price many out of the UK market. Then, even if substitute arrangements providing adequate preferences are eventually introduced, having lost the presence on the market some might not be able to re-enter and re-establish themselves and others could well have gone out of business altogether.

Alternative preferential trading arrangements that can be unilaterally applied

EBA[4] grants LDCs full duty free-quota free access to the entire EU market, for all products except arms and ammunitions. Haiti is the only Caribbean country that would qualify under EBA.

[4] Everything but Arms. This is an arrangement under which imports from the Least Developed Countries are duty-free and quota-free, with the exception of armaments. The arrangement entered into force in the EU in 2001.

GSP[5]. It is also non-reciprocal and it provides partial or entire removal of tariffs on a substantial portion of product categories. Currently no CARIFORUM countries trade with the UK on the basis of GSP, which provides less favourable access than the EPA.

MFN[6]. These are the rates applied in the absence of any preferences. Certainly, the region's traditional exports would not be able to compete on the UK market if they had to face the same tariffs as say faced by sugar from Brazil or bananas from Ecuador.

Brexit's consequences for development cooperation with the Caribbean

This is an area where outcomes for the Caribbean will be affected. The UK will no longer contribute to the EU's Development Fund and the EDF, but will it maintain its 0.7% of GNI aid target?

The UK has been a leading player in global development cooperation and was the first G7 country to meet the international 0.7% target. In 2014 it disbursed the second largest amount of development assistance among OECD DAC countries. Therefore, one can be hopeful that its policy will continue, even after Brexit.

The 11th EDF (2014-2020) is set at €30.8 billion. The UK is the third largest contributor to the EDF behind Germany and France, providing nearly €4.5 billion or 15% of the total. The UK also makes a major contribution, estimated at €8.3 billion in 2015, to the EU's overall budget, which provides the finance for the EU's Development Budget line.

Brexit will result in the loss of the UK's contribution to the EU development budget and, more pertinently for the Caribbean; the EDF.

Regarding EU funding for the Caribbean post Brexit, the 11th EDF, which runs to 2020, is already set so the countries should continue to receive the total committed amount even if the UK leaves before then.

Brexit and the transformation of development cooperation arrangements will be happening at a time of flux and transition in development cooperation policies and systems. This stems from a variety of factors, but include changes in the classification of aid beneficiaries, the realignment of international development cooperation to the new Sustainable Development Goals framework, ongoing international economic and financial crises and austerity, and the political demand for greater effectiveness and value for money from Overseas Development Aid (ODA).

Safeguarding interests

Aims for the Caribbean post- Brexit

1) Ensure that the quantum of development assistance received from the EU and the UK is at least as much as it would have been in the absence of Brexit and that it is provided is more creative, effective and in line with the region's development priorities.

[5] Generalised System of Preferences (GSP). A system drawn up by UNCTAD in 1968 which entered into force in 1971 that enables zero or reduced tariffs on specified imports from certain developing counties.
[6] Most Favoured Nation – MFN. These are the Tariffs notified to the WTO and applied on all non-preferential imports.

2) That the Caribbean countries' trading positions in the UK are safeguarded and any hiatus in trade is avoided which would be very damaging to their economies. Consequently, duty free-quota free access to the UK market, currently provided under the EPA, continues upon Brexit, without interruption and that the preferential margins which help ensure the viability of the region's exports to the UK are preserved. It will be essential that the UK continues to apply tariffs at existing rates, on third country imports of products of export interest to the Caribbean, in order to maintain their essential preferences.

Elements of a Strategy

1. Work with the ACP post-Brexit.
2. Utilise High Commissioners and Ambassadors in London, to actively engage with and lobby HMG, not only in formal governmental meetings but also in other interactions with parliamentarians and officials.
3. Actively engage with and inform the media, supportive organisations and the diaspora to help ensure favourable public attitudes to safeguarding Caribbean interests, post-Brexit.

Conclusion

The UK leaving the EU can provide a valuable and historic opportunity for rebuilding a new constructive and beneficial relationship with the Caribbean. However adequate provisions need to be rapidly put in place to operate from the very first day after leaving, to permit the seamless continuation of trade. It will be essential that the post-Brexit arrangements safeguard not only the Caribbean's trading but also its development interests.

Caribbean countries would not wish to become victims, even if unintended, of Brexit. To ensure that this does not happen, Brexit's direct and indirect consequences for them must be understood and what is at stake appreciated. This will inform policy choices and strategies to safeguard the region's interests and help build a new forward looking and beneficial relationship with the UK.