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**Perspectives on Caribbean Countries and Territories Relations with the
United Kingdom post-BREXIT**

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Introduction

- Presentation explores the possible repercussions for Caribbean states and territories for their future relations with Britain/United Kingdom (UK) and the European Union (EU) following the BREXIT vote in 2016 and the triggering of Article 50 of the TEU in April 2017. Discusses the main economic, trade policy, development cooperation and other political issues for the different groups of Caribbean countries/territories.
- Regional uproar over BREXIT confirms the centrality of the EU partnership for the Caribbean, the importance of EPA market access regime for certain sectors and economies of the region.
- Also highlights the significant role Britain continues to play as the major market for many Caribbean countries' EU exports, despite CARICOM countries' over forty years of preferential market access to the EU market more generally.
- BREXIT disquiet: additional source of vulnerability to external shocks for Caribbean actors - third parties, peripheral in the BREXIT and post-BREXIT negotiations to take place between the EU and the UK.

Additional introductory observations

- BREXIT illustrates the heterogeneity of the Caribbean and the different levels of sensitivity of Caribbean actors to the new situation.
- UK Overseas Territories (UKOTs) may face the loss of their preferential access to the EU market, development cooperation and mobility within the EU as they will no longer be part of the EU Overseas Countries and Territories Grouping. But location within the UK largely unchanged.
- On the other hand, independent Caribbean states' access to EU trade and cooperation arrangements through the EPA and Cotonou remains largely in place. But they face serious questions regarding future market access to the UK after its EU withdrawal, for most of them, UK represented their largest share of the EU market.
- Dominican Republic: supplies a large percentage of its organic bananas to the UK; Cuba: not party to EPA, trades with EU on MFN basis.

Additional introductory observations

- Everything remains in the realm of speculation as the BREXIT events continue to unfold and are still very volatile. Negotiations will not even begin until after UK elections in June 2017. EU's priorities more clearly spelled out than those of UK.
- Some analysts predict negotiations are likely to be protracted, will compound political and economic uncertainty for third parties as well as for UK and EU stakeholders.
- The UK will have to formulate a sweeping range of new trade and development policies. Small developing countries, minor markets likely to be far down in the list of priorities.
- BREXIT should stimulate a new focus on diplomacy and negotiation in the Caribbean, should lead to trade, development cooperation and foreign policy coordination again being prominent on the agendas of our regional organizations like CARICOM/CARIFORUM and the OECS, may be one of the many factors pushing re-evaluation of Caribbean integration processes, most of which have had the EU as a reference point in one way or another.

BREXIT Issues for CARIFORUM countries

- EU remains CARIFORUM's second largest trading partner – approx. 10% of region's trade in goods, yet significantly behind the US, and with trade flows to China and Latin America featuring increasingly for certain Caribbean economies.
- CARIFORUM's merchandise exports under the EPA fell significantly from USD 6.2 bn in 2008 to USD 3.1 bn in 2015 (Razzaque and Vickers Commonwealth Secretariat 2016). N.B. Only DR increased its trade flows to UK in that period, also figures are distorted by the absence of adequate data on trade in services (service sectors make up over 70% of GDP for most CARIFORUM economies).
- Britain remains the most significant market in the EU for CARIFORUM goods, imported 23% of CARIFORUM merchandise exports to the EU in 2015.

BREXIT Implications for C'COM/CARIFORUM cont'd.

- Once Britain leaves the EU, unless other arrangements made, it will revert to applying MFN tariff rates. It is estimated that this would cause an overall tariff increase for ALL the non-LDC ACP countries of over 1% of their total export value to the UK (Stevens and Kennon (2016)).
- The CARIFORUM countries most affected are Guyana (which has been identified by various studies as the C'COM exporter likely to face the biggest decline in export earnings as percentage of GDP), Belize, Barbados, Jamaica, the Dominican Republic, St. Lucia.

BREXIT Implications – trade in goods

- Why these countries? Dominant sectors specializing in exports to British market:
- UK imports 25% of all Caribbean banana exports to the EU. For Belize, bananas make up 54% of all its UK exports.
- DR is the largest organic banana exporter to the EU and organic bananas account for 75% of that country's exports to the UK.
- UK imports 95% of all CARICOM's exports of raw and processed sugar products to EU. Implications for Guyana, Jamaica, Belize, Barbados.
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BREXIT: Implications for services

- Picture is more obscure, data constraints to measuring trade in services, despite the huge value of services in the GDP and GNI of Caribbean economies. Consensus that CF economies have not yet succeeded in fully capitalizing on the EPA's provisions for market access for service providers into the EU (Gonzales 2017, Green 2015).
- CF countries export to the UK financial services, tourism and travel services and communication services (Razzaque and Vickers 2016).
- Some analysts identify Barbados and Jamaica as the Caribbean tourist destinations potentially most sensitive to changes in the UK market, in the short term mainly due to BREXIT's shock to the British economy and the declining value of sterling which might make Caribbean holidays even more expensive for British consumers. Conclusions of IDB study 2016: effect on Barbados and Jamaica likely to be "small but significant".
- One Commonwealth analyst (Keane 2016) recommends urgent in-depth study of the effects of EPA implementation on trade in services, a concerted push to resolve the challenges of data collection on services in the CF countries. Suggests also lobbying for UK to include services in its post-BREXIT GSP regime, include SDT provisions for SIDS/SVEs.
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Development Cooperation

- In the Cotonou Partnership Agreement, Britain is slated to contribute 4.48 billion Euros, approximately 15% of the 11th European Development Fund between 2014 and 2020. A portion is allocated to the CARIFORUM states and to the EU OCTS. Valuable financing for strengthening national and regional economic competitiveness, for strengthening the Caribbean's capacity to successfully implement the EPA and for achieving climate change adaptation/mitigation and implementing the SDG Agenda 2030.
- In the BREXIT process, will UK agree to honour its existing commitments up to 2020? Not yet clear.
- Within EU, UK is generally regarded by ACP as a useful intermediary on trade related development questions, and is one of the few OECD countries that meets the 0.7% contribution of GDP to development support. Will its perspectives be as influential on global development questions outside of the EU? Probably not.

Development cooperation

- UK increased its grant funding to the Caribbean in 2015 pledging 360 million pounds sterling for use on physical infrastructural improvements, health facility upgrades and criminal justice reforms.

Recommendations for trade options

- Analysts caution that Caribbean countries at this time must focus both on strengthening their presence/relationship with WTO and with EU. Need to monitor strategic developments on those fronts and disseminate their perspectives to those communities.
- While long term arrangements with UK cannot be made for at least two years, consultations, lobbying must begin now.
- Strong advocates for transitional arrangement to avoid disruption of developing countries' trade (those with which UK has regional/EPA arrangements through the EU). Proponents suggest UK shd offer temporary, unilateral preferential access to such developing countries and seek a WTO waiver for this. Alternatively, could use EU's GSP for a while until it develops its own.
- In the longer term, UK could develop its own GSP to safeguard preferential access for developing country economies. In an eventual long term trade agreement, it is suggested CF should pay close attention to SPS regime and might want to explore SDT provisions in a GSP that includes trade in services.

Outlook for political and development cooperation CARICOM-UK

- Strong probability of UK/EU continued cooperation, engagement with matters of crime and security in the Caribbean, ongoing bilat. coordination among the UK, France and The Netherlands on the interdiction of financial crime, illicit narcotics flows, other forms of transnational criminal activity which threaten their Caribbean territories as well as the independent Caribbean states.
- UK former colonial power for most of CARICOM, historical, institutional and cultural ties. Significant Caribbean diaspora in the UK, potential for its engagement in future trade, investment and other exchanges between Britain and the Caribbean. Latter must systematically deepen links with its UK diaspora, as with its other diasporas.

Political and development cooperation forums

- The main institutional channel for periodic reviews of UK-Caribbean relations, for voicing concerns and introducing new initiatives is the UK-Caribbean Ministerial Forum which has met every two years since 1998, alternating the venues between the UK and CARICOM territories.
- Other important mediums: EU-Caribbean Council with its strong focus on UK-Caribbean trade issues and the Commonwealth Secretariat and other CW state/non-state entities which function as good sources of research and policy analysis, lobbying and policy formulation with UK actors and elsewhere. Their strategic value will augment considerably between now and end of BREXIT negotiations.

BREXIT and the UKOTs, OTs rel. with EU

- BREXIT poses new challenge to UKOTs for whom the European Union is an important trade and development cooperation partner. Brexit highlights the disadvantage in international affairs faced by the Overseas Territories who are handled by the UK through the FCO, have no representation in the British Parliament and are indirectly associated with the EU through Britain. Yet, are severely affected by the consequences of decisions and developments like Brexit on which they were minimally consulted and over which they have no control.
- Associated through Part IV of the Treaty on the Functioning of the EU, Articles 198 – 203; European Council Overseas Association Decision 2013/755/EU (see Clegg 2016).
- OCT affairs handled by the European Commission's Directorate-General for International Cooperation and Development; Annual OCT-EU Forum, other working groups on matters of joint concern involving the OCTs and the EU; OCTs have their own organization (OCTA) aimed at cooperating more closely and coordinating positions vis-à-vis the EU. These links are extremely important for the international visibility of the UKOTs.

OTs trade interests in EU

- For the Caribbean UKOTs, mainly trade in financial services: Bermuda, the BVI, the Cayman Islands and the TCI are major exporters of financial services to the EU.
- Bermuda services over 40% of the EU property catastrophe reinsurance market and its insurance assets account for 98% of its GDP (Clegg 2016, 2017; Ernst and Young 2017). Financial services make up 41% of the Cayman Islands' GDP and 13% for the TCI (Ernst and Young 2017).

OT interests in financial services trade cont'd

- EU market access for financial services remains uncertain once Brexit is fully implemented. Ernst and Young (2017) identify Bermuda as in most favourable position, since it has third country equivalency via Solvency II and has aligned its regulatory framework with EU legislation over the past six years. It has a bilateral relationship with the Commission and representation in Brussels.
- The Cayman Islands, despite boasting a very modern financial legal framework, may experience greater difficulties as may the BVI. **Neither jurisdiction has yet established representation in Brussels.** The BVI will lose the political visibility benefits of co-chairing the OCT-EU Financial Services Partnership and co-administering the Caribbean OT Regional Development Fund.
- Some analysts wonder if, although the OTs perform favourably on most EU criteria for compliant offshore financial jurisdictions except that they charge no corporate tax, they may be disadvantaged by Britain's absence from the decision-making process in the future. Bermuda, the BVI and the Cayman Islands are all currently updating their regulatory regimes to conform to the some EU 2011 directives. The alignment process is slow, cannot access parts of the EU market until the EU deems that they have met the requirements.

OTs trade, development cooperation interests cont'd.

- Mobility within the EU market is an important facility for OT service operators and for general socio-cultural and educational opportunities.
- The 11th EDF 2014 – 2020 has 76.8 million Euros for bilateral funding for eligible OTs, and 40 million Euros for Caribbean OTs for environmental conservation programmes (Clegg 2017; David Jessop 2016).
- Certain Caribbean OTs, Montserrat, Anguilla and TCI have benefited from European Development Funding, have indicative allocations under the 11th EDF of Euros 8.4 mn, 14 mn and 14.6 mn respectively. (Clegg UKOTA Report 2016:8). No other sources of ODA apart from the British government. Wider group, ineligible for bilateral development cooperation allocations by virtue of their GDP, but benefit through the regional funding in development cooperation programmes for environmental protection and climate change mitigation.

UKOT actions, responses to date

- The OTs were proactive in commissioning a study, even before the Brexit referendum, on the potential implications of a “Leave” vote, possible alternative models of association with the EU that could be explored – UKOTA study 2016.
- UK/OTA Joint Ministerial Council Meeting November 2016 brought limited UK assurances that they would receive agreed EU funding as long as the UK remains an EU member, of consultations in the process leading up to negotiation, and that a UK-OT Joint Ministerial Council on the European Negotiations would be convened during the first quarter of 2017.

OT actions, ongoing questions

- OTs have inherent capacity limitations in public administration and international engagement. Have been proactive, have leveraged their public, private sector and academic networks quite effectively thus far.
- Ongoing uncertainty surrounding the process, duration and ultimate outcomes of BREXIT. Possible delays in disbursement of development funds until conclusion of BREXIT negotiations, possibility of delays in progress of development projects. Larger question of development cooperation in the longer term, of access to funding for climate change mitigation and for some, the achievement of the 2030 SDGs.
- Perception that major challenges posed by Brexit for Gibraltar and to some extent Falklands have led to more visible focus on their situations in the British Parliament than those of other OTs. The OTs collectively need greater visibility and the capacity to generate more public awareness of the equally grave economic security threats posed to financial services jurisdictions in the Caribbean and to territories like Montserrat which lack economic autonomy and are heavily dependent on budget support from Britain and from the EU.

Conclusions for BREXIT and Caribbean UKOTs

- OTs have a huge stake in the configuration of Britain's post-Brexit relationship with the EU. **They need to maintain as many of their current benefits as possible: favourable market access, time-limited free movement, development cooperation and investment flows from the EU, opportunity to maintain and strengthen their links not only with EU institutions in Brussels but with other members of OCTA.** Maybe some of these opportunities can be negotiated as part of the structure of the new Britain-EU relations, chances of success will depend on how smoothly the rest of the negotiations go.
- UN organizations (ECLAC), Commonwealth and Caribbean regional organizations can do much to support the OTs in addressing BREXIT, in constructing ongoing relations with other EU OCTS in region, and in accessing climate change mitigation funding, other SDG support through EU- Caribbean regional programmes.

Overall Conclusions

- Many conclusions listed earlier. Wish to emphasize four points here:
- 1. BREXIT (and other developments) will precipitate a return to trade diplomacy for the Caribbean, this time hopefully with greater emphasis on production and on strengthening data collection, monitoring and deeper analysis to support trade policy and trade negotiations – particularly with services!
- 2. BREXIT also underlines the supreme importance of good political diplomacy, of strengthening Caribbean visibility and alliances in the WTO, in the EU, within the British domestic political arena, with the diaspora, with other affected parts of the ACP, namely African and Pacific economies that trade heavily with UK.
- 3. BREXIT points to the major weaknesses in foreign policy coordination in CARICOM, OECS and urgent need to address capacity issues here at national and regional levels.
- 4. BREXIT may be catalytic for rethinking Caribbean regionalism in three ways (i) relevance, if any, of EU-BREXIT for Caribbean regional constructs – may have provided additional fodder for some national reviews of CARICOM eg. Jamaican case; (ii) new imperative to include non-independent territories more, provide them with greater voice and visibility to defend their development needs internationally; (iii) greater diplomatic and cooperation engagement within CELAC and other structures of LAC regionalism, as EU continues to construct its EU-LAC interregionalism.