

Senate Statement
By Senator The Honourable Kamina Johnson Smith
Minister of Foreign Affairs and Foreign Trade
on
The Implications of the United Kingdom's Vote to Leave the European Union
Friday, 1st July 2016

Mr. President
Honourable Members,

For several months preceding the United Kingdom's Referendum held on 23rd June 2016, in which the people of that country voted on whether to '**Remain**' in or to '**Leave**' the membership of the European Union (EU), the Ministry of Foreign Affairs had begun to examine the possible implications for Jamaica of the vote to leave the Union (Brexit).

That decision to withdraw from membership of the EU is now a reality. Like many other countries around the world, Jamaica was very surprised at the outcome of the referendum. The shock resounded immediately in the global financial markets.

Since then, the Ministry has been keenly watching the events unfolding in the United Kingdom and Europe as a result of that event and in particular, possible implication for Jamaica, CARICOM, CARIFORUM and the wider ACP Group.

Background

It will be recalled that the UK joined the then European Economic Community (EEC) in 1973. Prior to that, its application for membership was vetoed on two occasions, in 1963 and 1969, respectively. Its membership was ratified in a referendum in 1975 with a 67% vote in favour of remaining in the Community.

In the context of its membership of the EEC, the UK sponsored the developing countries of the Commonwealth, to join with former colonies of other Member States, in an association with the EEC. This led to the formation of the African, Caribbean and Pacific (ACP) Group of States and the negotiation of the first ACP-EEC Lomé Convention in 1975 as well as successive Lomé Conventions as the new European Union Treaty emerged, culminating in the current ACP-EU Cotonou Partnership Agreement.

The relationship between the UK and the EU has not been a very comfortable one over the years. Euro-scepticism has always been a factor in Britain. It should also be recalled that the UK is not a member of the Euro zone, nor is it part of the Schengen area which allows free movement of people and goods across the EU. The recent referendum was triggered in large part by growing concerns on the 'right' about the loss of UK sovereignty and its inability to control immigration. Prime Minister, the Rt. Hon. David Cameron gave a commitment during his 2015 election campaign that, if re-elected, he would hold an In/Out referendum on EU membership.

After securing a new EU deal for Britain in February 2016, giving the country new opt-outs and concessions, the Prime Minister honoured that commitment on June 23rd 2016. By a margin of 52% to 48% Britons voted to leave the EU. The vote has, however, divided the United Kingdom as Scotland, Northern Ireland, Gibraltar and the Channel Islands voted to remain in the EU. England voted overwhelmingly to leave, while Wales also voted to leave. Divisions were seen within political parties, classes and age groups.

In the aftermath of the referendum, Prime Minister Cameron, announced that he would step down as Prime Minister, and that the new leader and Prime

Minister will deal with the withdrawal process. We note, however, that Prime Minister Cameron has recently indicated that a committee has been established to begin to work out a strategy for Britain's withdrawal from the EU.

Legal Procedure for Withdrawal from the EU

Mr. President,

To begin its withdrawal, the UK will have to invoke Article 50 of the Treaty on European Union (The Lisbon Treaty), which sets out the withdrawal procedures. The UK is required to notify the European Council of its intention in order to trigger negotiations on the terms and conditions of its withdrawal.

It is envisaged that the process could take up to two years. The UK will remain a member of the Union during the period of negotiation of a withdrawal agreement. The UK membership of the EU would cease only after the entry into force of the withdrawal agreement, or two years after the notification of its withdrawal to the European Council. Thereafter, the UK would no longer be bound by the EU Treaties.

While leaders in the UK are indicating that the exit could be a slow process, EU leaders would like the separation to be swift in order to minimise any threat of contagion and to limit disruption. Reports coming out of the UK and the centre of the EU in Brussels, are indicating that if this matter is not handled carefully, it could lead to the disintegration of the United Kingdom and the European Union, which has been a model for regional integration arrangements around the world, including CARICOM, over the last 40 years. It could have serious implications for the global economy.

The implications of the Withdrawal for Jamaica, CARICOM, CARIFORUM and the ACP

Mr. President,

We in the Caribbean, must now look, as a priority, at our trading relations with the UK which are covered by the CARIFORUM/EU Economic Partnership Agreement (EPA).

The UK is a Party to the ACP-EU Cotonou Partnership Agreement (CPA) signed in 2000. With its withdrawal from the EU, the UK would cease to participate in this Agreement. The CPA is scheduled to expire in 2020 and negotiations for a successor arrangement should begin by August 2018. Once Article 50 procedures are invoked, the UK would not participate in those negotiations. ACP countries such as Jamaica and its CARIFORUM partners, would be required to explore new development cooperation arrangements with the UK, if so desired by that country.

Regarding the CARIFORUM-EU Economic Partnership Agreement (EPA) concluded in 2008, the UK would no longer be a Party to this Agreement once it has withdrawn from the EU. This could mean that the CARIFORUM countries would have to contemplate entering into a new trade arrangement with the UK.

UK Membership of the WTO

The UK would also be required to disengage from the EU within the World Trade Organization (WTO), although it is a Member in its own right. This could mean having to re-negotiate concessions with the members of the WTO to establish its

own schedules as an individual member of the Organization. This could prove costly for the UK both in terms of time and resources.

The Commonwealth

Mr. President,

Jamaica and the UK continue to be members of the Commonwealth, in which we cooperate on a wide range of issues, particularly through functional cooperation. As you will recall, the Commonwealth is headquartered in London and has a membership of 53 countries. Prior to 1973, the Commonwealth and Britain had a close economic relationship and operated the Commonwealth Scheme of Preferences. This was dismantled when Britain joined the EEC. The "**Leave** campaign" in the UK pointed out that leaving the EU could lead the UK to forge a closer relationship with the fifty-three countries of the Commonwealth, particularly Australia, Canada, India and New Zealand – notably all developed and emerging countries. This suggests the possibility of a redesigned Commonwealth.

Membership in Other International Organisations

The UK operates within the negotiating framework of the EU in the United Nations and many other international organisations. The new dispensation will mean that it will no longer do so, as it will not formally be a member of a functional group.

Bilateral Implications

We have a longstanding bilateral relationship with the UK both at the national and regional levels, **with active cooperation programmes in place**. In April, the UK/Caribbean Forum met in the Bahamas and this has been a biennial meeting

to discuss cooperation issues as well as to exchange views on regional and international issues of mutual interest. **It is expected that the cooperation initiatives with the region announced at the forum will remain intact.**

Forecasts of the bilateral implications fall largely within the realm of speculation, as, apart from the initial market impact, there is nothing to suggest what will be the long-term effects of the UK's withdrawal from the EU. This is a unique development.

However, the following are worthy of note, Mr, President:

- ***Financial and Economic Consideration***

There is concern that should volatility continue in the financial markets due to the uncertainty surrounding Brexit, and should the UK economy enter into a period of recession, there could be significant negative impact on the value of the Pound Sterling and the inflow of remittances and investments. In that regard there is reason to be concerned about the potential impact on remittance flows to Jamaica. Although financial markets seem to be settling, the uncertainty in the UK and EU, could continue until a new UK Prime Minister is appointed and the EU is notified under Article 50.

Because of the uncertainty surrounding the medium to long-term impact, tourism to the Caribbean could also be affected, both in numbers as well as in earnings, as visitors from the UK, which is one of Jamaica's main source countries, may become more cautious in relation to spending on overseas travel. Our Minister of Tourism, the Honourable Edmund Bartlett is scheduled to visit London in September, actively seeking to intensify our promotions in the UK, in preparation for the 2017 tourist season.

- **Trade**

The UK is a primary trading partner for Jamaica in the EU. The impact on Jamaica and other Caribbean countries will be felt primarily in the area of trade, as trade relations are governed by the CARIFORUM-EU Economic Partnership Agreement (EPA) of which the UK is a signatory. This also goes for other regions within the Africa, Caribbean and Pacific Group of States that have concluded EPAs with the EU. Britain's departure does not presage the unravelling of the CARIFORUM-EU EPA, as the region will still have duty-free access to the markets of the remaining 27 Member States. Given that the UK is a principal trading partner of Jamaica under the EPA however, the fallout could be significant for us, unless alternative trade arrangements can be quickly put in place with the UK. The UK is a principal market for Jamaica's exports to the EU, giving us a favourable trade balance. In 2015, Jamaica exported approximately US\$81m to the UK and imported approximately US\$72.4m. Jamaica's total exports to the EU was US\$283.4 m with imports being US\$425.5m, having a trade deficit of US\$142.1m.

The UK's priority will, of course, be to establish a new trading relationship with the EU. It is unlikely, therefore, that it will focus on the Caribbean and other small States in the Pacific and LDCs in Africa, as it seeks to negotiate and conclude bilateral trading relationships with much larger markets, such as Canada, USA, India and Australia. Nonetheless, it is not inconceivable that the UK might wish to start negotiations with those countries/regions which were involved in trade negotiations with the EU, e.g. Canada and ACP-EPA countries.

There could also be a further down-turn in the volume and value of exports from the Caribbean to the UK. The UK has been seen by investors as a gateway to Europe. With a reduced market size, however, the UK may be less attractive to countries seeking larger markets, for their goods and services, such as China.

Further, it may also be worth noting that the UK, like Canada, may consider itself at liberty to pursue trade agreements such as the Trans-Pacific Partnership Agreement (TPP), without being constrained by EU regulations. However, the UK may need to rebuild its domestic negotiating capacity as all trade negotiations were conducted collectively by the European Commission.

In the interim, I am satisfied that our current trade arrangements with the EU remain intact. We will continue to trade with the UK and the other 27 Members of the EU under the CARIFORUM/EU EPA until the UK officially withdraws from the Agreement. Nevertheless, CARIFORUM and the UK will have to determine the nature of their future trading arrangements.

- ***Development Cooperation***

Development cooperation is the other aspect of Jamaica's relationship with the EU that is directly related to the UK's membership. Britain has been influential in shaping EU development policy and how the EU spends its aid resources. About 10% of the UK's development assistance is channelled through the EU and the UK has played a key role in international discussions on global issues - climate change, financing for development and the Sustainable Development Goals (SDGs).

The EU has been the primary source of grant funding to Jamaica for quite some time. The UK is the 3rd largest contributor (after Germany and France) of approximately 14.70% to the European Development Fund, through which development assistance is provided to ACP States. There is speculation that UK's contribution to the EDF would either cease or that it could be granted a rebate when it withdraws from the EU. Until it ceases to be a member, however, the UK is obliged to make its annual contribution to the general EU budget. In the case of the EDF, it is to be noted that the EDF is not a part of the regular budget (although it is likely to be budgetized after 2020). To the extent that funds have been committed and allocated to ACP States, it does not seem feasible that those funds could be returned to the UK.

There are however legitimate concerns that over the next two years, the UK may turn inwards as it seeks to manage its adjustment process and to preserve current advantages.

As for concerns that Jamaica and other Caribbean countries will be losing an ally in the EU, we have to note that the UK has not always been our advocate in this forum. For example, when the EU rolled out its new development assistance strategy in 2012 with an emphasis on support for those countries most in need - The UK was among those countries that strongly supported the policy change at the time, in favour of greater support for LDCs and diminished support to Middle Income Countries, such as those in the Caribbean.

Mr. President,

Obviously, there can be no guarantee that the current levels of assistance which Jamaica receives through DFID, for example, in areas such as

security, economic development support and regional programming, will be maintained. However, I feel confident that those arrangements between the ACP and the EU for development support under the Cotonou Partnership Agreement (CPA), will also remain in place until the UK's formal exit from the EU. We keep in mind also however, that the CPA will expire in 2020. It is unlikely that the UK will be part of any new negotiations between the EU and the ACP group for a post 2020 arrangement and adds another new consideration for that series of negotiations.

- ***Diaspora***

The immigration concerns which many consider to have contributed significantly to the outcome of the Referendum, are applicable to the Jamaican Diaspora as much as to other ethnic communities. The current composition of the UK population reflects a significant change over what obtained when it joined the EU. An acceptance of the role that immigration fears played in the referendum could well be a wake-up call for decision-makers in the country. At the same time, it could fuel xenophobic tendencies from those who blame the immigrant populations for the outcome.

On the other hand, it could also result in a further haemorrhaging of qualified professionals from Jamaica. A complaint from the "**Leave** campaign" was that EU migration laws restricted the EU from recruiting talent from third countries such as Commonwealth countries like Australia, New Zealand and the Caribbean.

Conclusion

The issue of the UK's decision to withdraw from the EU is now an item on the agenda of the 37th Meeting of the CARICOM Heads of Government Conference to be held in Georgetown, Guyana, 4th-6th July 2016. Prime Minister Andrew Holness will be leading Jamaica's delegation to this meeting. We will be taking the opportunity to examine this matter and to start to chart a way forward amidst all the uncertainties.

Jamaica will also be assuming the Chairmanship of the ACP CARIFORUM in July. We will ensure that the CARIFORUM addresses this matter and begins to forge a strategy to address not only the implications of BREXIT, but also the future of the ACP and the ACP/EU relationship.

Mr. President,

We are, indeed, in interesting times. We have to be alert to all the dynamic events occurring in our world which can present both challenges and opportunities. While grappling with the challenges, we must be alert to the opportunities that present themselves.

It is our hope that the UK and the EU will be able to arrive at a mutually beneficial arrangement in the interest of the peoples of the UK and the EU. I am also confident that, an EU of 27 members and others waiting in the wings to join, will weather this storm and will emerge a better and stronger Union

Jamaica continues and will continue to work with our partners on both fronts, building stronger ties in our mutual interests.

Thank you.