Study by the West India Committee on the Commonwealth Caribbean and the EEC (May 1970)

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Introduction

1. Obviously the entry of the United Kingdom into the European Economic Community could be an event of considerable significance for the Commonwealth Caribbean, because the U.K. provides a market for many of the Caribbean's main products. This booklet sets out to examine, on information at present available, the problems which would arise for each of the Commonwealth Caribbean's main products should Britain enter the European Community.

2. The Associated States who have or have had special relations with metropolitan countries mostly of a colonial nature are scheduled in the Treaty of Rome articles 131-136 and Annex IV, and the Convention of Association (YAOUNDE) between the EEC and those States defines this Association. The Association, in effect, regulates trade for mutual benefit in certain sectors between the Associated States and the Community, but those commodities included in the common agricultural policy are not covered by the Convention of Association.

3. The decision whether or not to apply for AOT status is entirely a matter for Governments in the Commonwealth Caribbean. However, it does seem that as far as the majority of products considered in this pamphlet are concerned, the granting of this status could be of considerable advantage.

Sugar

Present arrangements

4. Under the Commonwealth Sugar Agreement, those Commonwealth Caribbean countries who are members of the West Indies Sugar Association have an overall agreement quota of 900,000 tons (84 per cent of average annual exports), which can be sold at preferential prices in Canada or the United Kingdom. This total includes a negotiated price quota of 725,000 tons. The remaining 16 per cent of production is sold locally to the United States and to Canada.

5. The NPQ price, which is by definition a price reason-ably renumerative to efficient producers, was settled in 1968 for the three years 1969, 1970 and 1971. The price is at present £43 10s. per ton, to which is added a fixed element of £1 10s., replacing the old Colonial Preference Certificates, and a variable element, at present £2 10s., which moves from £2 10s. to zero inversely to the world price of sugar. The effective negotiated price to the West Indies is, therefore, at present £47 10s. a ton.

6. The WISA countries and British Honduras also have in 1970 basic quotas in the United States of approximately 147,000 and 11,000 long tons respectively. Although the price paid for sugar sold to the United States varies from day to day, since devaluation it has been considerably higher than the negotiated price for sugar under the CSA. West Indian and British Honduran sugar sold to Canada receives the world price plus a preference of a dollar per 100 Ib., a proportion of which is retained by the refiner. These world price sales are normally unremunerative to producers in the West Indies and British Honduras.

The Common Market

7. There are three main facts about the Common Market and the Community sugar policy which are important to the West Indies:

(a) The common agricultural policy, in general, aims at self-sufficiency within the Community of the Six. But the sugar regulations have resulted in large surpluses to be placed on the world markets with the help of subsidies. For the campaign 1968/9 - the first year in which the sugar regulations came into force - the surplus production of the Six was over 900,000 tons; the surplus for the current campaign is estimated at well over 1 m tons.

(b) The first Convention of Association (The Yaounde Convention) made no mention of sugar. The representatives of certain African territories, particularly the Malagasy Republic, pressed for its inclusion in the second Yaounde Convention, which was negotiated in 1969. But the renewed Convention does not offer any protection for sugar from associated states. The reason is of course that sugar is one of the commodities covered by the Common Agricultural Policy, and therefore no provision could be made for it in a convention of association without modification of the Common Agricultural Policy.
(c) The French Overseas Departments of Martinique, Guadeloupe and Reunion should not be confused with Associated States. The former are constituent Departments of France and their sugar is, therefore, regarded as part of France's sugar. These Departments thus in effect receive a country quota (see para 8) for their raw sugar.

8. The regulations for a common market in sugar came into effect in July 1968. They are in two parts; the first covers long-term arrangements for the regime; the second relates to a transitional period from July 1 st, 1968, to June 30th, 1975. During this period the rules are as follows:

The basic production quota for the Community is fixed at 105 per cent of estimated Community consumption during each campaign. This quota is divided and sub-divided into country and producer quotas, respectively. Up to the 1970-71 campaign, a ceiling of 135 per cent is imposed on individual producer quotas. Shortfalls are not redistributed. For up to 105 per cent of EEC consumption, producers receive a guarantee of market and price, the latter being the intervention price of about £87 10s. a ton (white sugar, post devaluation). Between 105 per cent and 135 per cent, they receive a guarantee of market outlet and of a price lower than the intervention price. Above 135 per cent, there is no guarantee of price or outlet. EEC sugar production is protected from competition from imports from third countries by means of a levy which brings the world price up to the level of the Community price. The target price is about £94 a ton for white sugar in the area of greatest surplus within the Community.

9. If Britain entered the EEC without making special arrangements for sugar, the West Indies would automatically lose its guaranteed outlet in the United Kingdom. Under the regulations, only Community sugar has any guarantee of outlet and price. The entry of the UK into Europe would make the Seven a deficit area, and if EFTA joined, that deficit would increase. There is already a surplus of Community sugar. Furthermore, the target price for sugar in the Community is so much higher than British Sugar Corporation UK prices that there is bound to be pressure to increase UK beet. These two sources could, therefore, threaten the outlet in Britain for West Indian and British Honduran sugar, and, for that matter, other CSA sugar. Moreover, under the existing regulations, any CSA sugar entering the Community could receive only the world market price (see para 8 above). Furthermore, the levy (see para 8) would go to the central agricultural fund. The White Paper on Britain and the European Communities: An Economic Assessment (Cmnd. 4289, February 1970) quotes the Commission's figures for expenditure on sugar from the Guarantee section of the Agricultural Fund in 1968/69 as £71 m for export restitutions ("subsidies" in English) and £55m for market intervention; a total of £126m.

10. In this connection, the importance of the CSA in the negotiations for Britain's entry int9 EEC has been publicly stated by the Prime Minister and his colleagues. The Prime Minister, in his statement to the House of Commons in May, 1967, recognized a duty to seek safeguards for the special problems of Commonwealth sugar-producing countries whose needs are at present safeguarded by the CSA. The Foreign Secretary in his speech at the Meeting of the Council of Western European Union in July 1967, emphasised that the Commonwealth Sugar Agreement was a contract until the end of 1974 which the British Government must fulfil. In a statement issued at the end of the talks 911 EEC in London in June, 1967 between West Indian, British Honduran and UK Government Representatives, Her Majesty's Government stated its absolute obligation to honour the CSA for its present currency, viz to December 31 st, 1974, and thereafter HMG would seek to attain the essential features of the Agreement, that is, access and price, should Britain enter

the Common Market. This was accepted by representatives of West Indian and other CSA Governments.

11. At the CSA negotiations in the Autumn of 1969, the parties to the Agreement tackled the problem of its extension in the context of Britain's application to join the EEC. The Agreement had been a rolling Agreement for eight years ahead. Any settlement had to leave room for Britain to negotiate with the Six and yet protect Commonwealth cane sugar exports. In the end it was agreed that the CSA should become an agreement of indefinite duration—that is an agreement not for so many years, but a continuing agreement subject to review at three-year intervals, with provision for six years notice to developing countries in respect of the provisions dealing with negotiated price quotas at reasonably renumerative prices. On the position of the CSA if Britain joined the EEC, it was agreed:

"The provisions of this Article (of the Agreement) are subject to the understanding that the United Kingdom Government, if it successfully completes negotiations for the accession of the United Kingdom to the European Economic Community,
(i) cannot be committed to continuing contractual obligations under the Agreement after 31st December, 1974;
(ii) shall, in the event that it does not accept such contractual obligations after 31st December, 1974, consult with the other Parties to the Agreement with a view to seeking means of fulfilling the objectives which those obligations would otherwise fulfil."

12. The recent White Paper (see para 9) summarizes the negotiating problem in these words:

"23. The adoption by the United Kingdom of the EEC arrangements for agriculture would lead to large changes in prices for producers and consumers of food here. The magnitude of some of these changes would be so great compared with previous experience that it is difficult to make a reliable forecast of the response to them in terms of production and consumption.
24. Apart from these inherent uncertainties, there are also the possible consequences of adaptation of the common agricultural policy on enlargement of the Community. In the statement to the Western European Union in July 1967 (Cmnd. 3345) the Government set out the main questions in the field of agriculture which they wished to discuss with the Community before entry. This statement referred not only to considerations affecting British producers, consumers and the balance of payments, but also to our obligations to Commonwealth sugar producers and to the special problems of New Zealand. Unlike the uncertainties described above, however, these are essentially matters for negotiation with the Community, and no allowance for modifications to take account of these problems has been made in this assessment."

13. The only conclusion which can be drawn from the above description of the Common Market system for sugar is that the one really effective way to protect the Commonwealth sugar-exporting industries in general, and the West Indian and British Honduran industries in particular, is to make the continuation of the CSA in its essential forward guarantees of contractual outlet and reasonably remunerative prices, one of the conditions of the UK's entry into Europe. The CSA has been strengthened by the 1968 negotiations and we have received solid assurances from the UK Government which have in effect been written into the CSA. But the negotiations must be expected to be hard and difficult and it will continue to be necessary for both the exporters' representatives in the CSA and their Governments to maintain pressure on the Government of the UK and never to relax their vigilance.

Rum

Present arrangements

14. The United Kingdom is the main buyer of rums from the Commonwealth Caribbean area.

15. During the past decade the United Kingdom has consumed annually some one and a half million proof gallons of rum from the West Indies, primarily from Barbados, Guyana, Jamaica and Trinidad. West Germany, the Netherlands, and to a small degree Italy, also import rums from the West Indies.

16. In the United Kingdom rum from Commonwealth countries enjoy a preferential rate of import duty amounting to only 2s. 6d. per proof gallon.

The Common Market

17. In the event of the United Kingdom entering the Common Market, it would be most important for the West Indies rum-producing countries of Barbados, Guyana, Jamaica and Trinidad to secure a form of Associated territory status (AOT) (which would have to be individually negotiated) which would protect the position of rum. Otherwise they face a common external tariff on all rums entering the enlarged EEC, including Britain, of **22s. 6d.** per proof gallon.

18. Thus, those countries without AOT status which protect their rum could expect a change representing an adverse swing from a preferential duty of 2s. 6d. per proof gallon to an **import duty of 22s. 6d.** per proof gallon in the United Kingdom. Such a heavy disparity of price would then exist between French and Commonwealth Caribbean rums that it could be expected that rums from French Overseas Departments would be serious competitors for the bulk of the rum trade in Britain.

19. Even if the Commonwealth Caribbean territories obtained the requisite AOT status, they would still be at a disadvantage as compared with French rums in France because of an element of discrimination in France due to indirect taxes. The EEC intends harmonizing excise and fiscal taxes between all members, but no timetable has yet been agreed for this, and at present it remains a long-term ideal rather than a practical possibility.

20. In addition to this protection, the French rum industry is both extremely powerful and well organised. Martinique, Guadeloupe and Reunion—the main areas of French production—distil annually over 10m proof gallons which is slightly more than the production of Barbados, Guyana, Jamaica and Trinidad. They will not hesitate to protect their own interests and seize every opportunity for expansion. With Britain in Europe their position as part of Metropolitan France would enable their rums to enter the United Kingdom freely as in any other part of the Common Market.

21. For the Commonwealth Caribbean rum producing countries the negotiation of satisfactory terms of AOT status in respect of rum is essential from two points of view—one defensive and the other offensive. They must seek to protect their historical and important United Kingdom market from domination by the French West Indian rum industry. Equally they must seek to open up an opportunity to compete themselves in Europe—particularly in France which is the largest rum market in the world.

Bananas

Present arrangements

22. Something like 96 per cent of the total Jamaican and Windward Islands production of bananas is sold in the United Kingdom market, where a preference of £7 10s. a ton is received.

23. The UK imposes quota restrictions on the entry of dollar area bananas (not Brazil). This quota is at present 4,000 tons per annum, but may be increased to 10,000 tons in periods of acute shortage.

The Common Market

24. If Britain enters the EEC and Jamaica and the Windward Islands do not apply for and get Associated

Status, or if alternatively, no special arrangements are made for their bananas with Britain in EEC, then their bananas would be subject to the 20 per cent common external tariff.

25. If AOT status is granted, then Jamaica and Windward Islands bananas would enter the UK and the Six duty free; and bananas from Martinique and Guadeloupe and AOTs, such as the Ivory Coast, would be free to enter the UK market. At present the 20 per cent external tariff applies to Commonwealth bananas.

26. France gets her bananas from the DOMs and AOTs and applies quotas in her own market. She also applies restrictions on the entry of dollar-area bananas. Holland, Luxemburg and Italy are being supplied from Central America, and Italy also has a special arrangement with Somalia. Germany has a special protocol entitling her to import duty free a certain quota of Central American bananas based on her 1956 imports and increases in consumption since that date, 50 per cent of which come from Ecuador.

27. It is obviously to Jamaica's and the Windward Islands' advantage, not only because of bananas but of other crops as well, to apply for AOT status, and we assume that this is the likely course to be followed. In which case, there seems to be two main courses open, either:

(A) to apply for a special duty-free quota for bananas in the United Kingdom market, the German protocol being the precedent, or

(B) to accept AOT status and seek the allocation of an import quota to the Commonwealth Caribbean equivalent to traditional exports from that area. This proposal in no way exceeds the protective measures extended by France to producers in the franc zone. In addition, it would afford protection against dollar producers who can easily surmount the 20 per cent common external tariff.

28. Course (A) might not be satisfactory because the German protocol only applies to about 80 per cent of Germany's bananas whereas the Windward Islands and Jamaica supply about 96 per cent of the UK market, and furthermore, it seems unlikely that quantitative restrictions against dollar-area bananas would be granted hand-in-hand with a special protocol. Therefore (B) is considered to be the most feasible course open.

Citrus

Present arrangements

29. The United Kingdom, as for bananas, imposes quantitative restrictions on the importation of canned citrus products from the dollar area, the present quota being £450,000 c.i.f. Restrictions are also placed on the entry of fresh citrus from dollar sources; the quota for fresh citrus being £1.15m c.i.f. for the months of December to September inclusive.

30. Fresh Caribbean grapefruit entering the UK has a preference of 5s. per cwt. there is no duty on the entry of canned products. Of the combined exports of canned and fresh citrus and citrus products from the Caribbean citrus-producing territories of Jamaica, Trinidad, Dominica and British Honduras, about 80 per cent finds a market in the UK.

31. There is virtually no possibility of Caribbean citrus ever being marketed in the United States, because of the high tariff wall which the US erects against non-domestic suppliers. Similarly, there is little likelihood of large quantities being sold in Canada because of the small margin of preference and because of the inability of West Indian producers to compete with their American competitors.

The Common Market

32. The Common External Tariff for grapefruit is 8.4 per cent, reducing to 6 per cent by January 1972. For oranges it is 15 per cent and 20 per cent depending on the time of year; for citrus juices 19 per cent, but in the case of orange juice 19.4 per cent reducing by annual amounts of 0.2 per cent to 19 per cent by January

1972; and for grapefruit juice 16.6 per cent, reducing by annual amounts of 0.8 per cent to 15 per cent by January 1972.

33. As far as citrus is concerned, it would obviously be of advantage to the Caribbean citrus-producing territories to apply for AOT status, and it is possible that special quotas could be negotiated for Caribbean citrus in the UK, as there is a precedent for this.

34. United States citrus and citrus products will still constitute a serious threat to the UK market with Britain in EEC, unless Britain is able to negotiate the continuance of the present restrictions on them.

35. It, therefore, seems that the best course open to the Caribbean would be to apply for AOT status and try to negotiate the continuance of restrictions on dollar-area citrus and citrus products, while at the same time negotiating a quota for citrus from the Caribbean.

Nutmegs and mace

36. Grenada sells about 20 per cent of her nutmeg exports to the United Kingdom, 28 per cent to Holland and 8 per cent to Germany. Of her mace exports, 76 per cent are sold to the UK and 5 per cent to Holland. At present, nutmegs from the Commonwealth enjoy a 10 per cent preference in the UK. In the EEC there is no duty on whole nutmegs or on mace, but there is a 15 per cent tariff on ground nutmegs and one of 12.5 per cent on ground mace. Therefore, if Britain enters the EEC Grenada will lose her 10 per cent preference in the UK market, whether or not she obtains AOT status and will have to compete on level terms with the East Indies, both in the UK market and in the Six. This she should be capable of doing though her profit margins will undoubtedly narrow.

Pimento

37. Jamaica exports about 5 per cent of her pimento crop to the United Kingdom, 15 per cent to the Soviet Union, 30 per cent to Western Germany, and 20 per cent to the United States and Canada. The present duty on pimento entering the European Economic Community is 18 per cent on c.i.f. value. The only other sources of pimento are British Honduras, Guatemala and Mexico, and the pimento from these sources is inferior to that from Jamaica who, during recent years, has regularly sold her total crop. If Great Britain enters the Common Market, sales of pimento from Jamaica and from British Honduras are unlikely to be adversely affected; on the other hand, if Jamaica and British Honduras take AOT status, they will gain an advantage so far as their sales to the Common Market are concerned over pimento from Mexico and Guatemala.

Arrowroot

38. Almost all the arrowroot production of St Vincent is marketed in North America (taking the United States and Canada together), the United Kingdom, and the West Indies, in descending order of importance. A small quantity, averaging a good deal less than 50 tons per annum, is sold to France, and a minute amount is sold to Germany. The total sales within the Common Market are at present an almost insignificant proportion of production. The member countries of the Common Market impose levies of varying magnitude on imported starches, in order to protect their domestic production, of which the most important part is potato starch. In addition imports must meet the value added tax in the case of France (and Germany), and import equalization tax (theoretically designed to match the domestic turnover tax) in the other countries.

39. If Britain joins the Common Market and is obliged to adhere without qualification to the EEC agricultural arrangements, St. Vincent arrowroot will find itself discriminated against in the British market in favour of continental starches, unless its customs classification is changed. There is a case for changing the classification because arrowroot has some different use from those of the other starches and competes with them only marginally. A temporary special arrangement for the free import of arrowroot into Britain would be of some value, but the aim of the policy should be to persuade the Common Market to give this

product a distinct customs classification. The result would do no harm to the sales of the other starches either in Britain or in the other member countries.

Cocoa

40. Grenada and Trinidad are producers of fine flavoured cocoa, which is sold principally to the United States, the United Kingdom and the Netherlands. Jamaica produces fine flavoured cocoa which she sells principally to the US and Canada. There is a 4 per cent Common External Tariff on cocoa beans in the EEC. In the UK, Commonwealth producers enjoy a preference of 2s. 4d. per cwt for raw cocoa and 3s. per cwt for roasted cocoa. As the only other major producer of fine flavoured cocoa is New Guinea, it is unlikely that Britain's entry into EEC will affect sales of cocoa from Trinidad or Grenada, or indeed any part of the Caribbean territories.

Coffee

41. The Common Market External Tariff for green coffee is 9.6 per cent. Trinidad and Jamaica are both exporters, Trinidad of robustas and Jamaica principally of arabicas. Trinidad exports primarily to the United States and Canada, Jamaica to the United Kingdom, where she has the advantage of a 10 per cent tariff preference, and to Japan. Britain's membership of the EEC would, therefore, have no effect on Trinidad's coffee trade, but Jamaica, if not granted AOT status would have to face the 9.6 per cent external tariff and might then feel the full blast of competition from other territories which produce and offer arabica coffees at substantially lower prices. This is, therefore, another reason for Jamaica applying for AOT status and it is likely that she could expand her coffee sales to Europe.

Jamaican cigars

42. Of her current exports of cigars, Jamaica sends 85 per cent to the United States and the United Kingdom, and only about 1 per cent to each of EEC and EFTA.

43. In the UK there is very little differential in duty between Jamaican cigars, Havanas and local manufacture, the rates being as follows:

Imported cigars	
from Commonwealth (e.g. Jamaica)	93s 3 1/2d per Ib.
from others (e.g. Cuban)	96s 3 1/2d per Ib.
Leaf (e.g. for British cigars)	87s 4 1/2d per Ib.

The higher duty on Cuban cigars, coupled with the fact that licences are only given for hand-made Cuban cigars, causes the consumer price to be much higher than Jamaican. At present Jamaican cigars represent about 20 per cent of the sale of the 7.5m luxury cigars imported by Britain each year (1.5m Jamaican and 6m Havanas).

44. At present in the six EEC countries, Jamaica enjoys no tariff preference, and the majority of Havana cigars sold there are the much cheaper, machine-made product. Thus the Jamaican cigar sells to the consumer at a considerably higher price than the majority of well-known Havana cigars. Furthermore, Government tobacco monopolies in France (Cuba's third largest market) and Italy have resulted in only one brand of Jamaican cigar being admitted for sale.

45. Jamaican cigars are relatively unknown in Europe and, despite recent marketing activity, have barely reached 1.5 per cent of the volume of 7m Cuban cigars imported by the six countries each year. Although some progress is being made towards making Jamaican cigars the 'connoisseur's choice' it will be an uphill

task to achieve more than a fractional share of the Cuban business.

46. The proposed EEC tariff against external cigars is 68-8 per cent for France, reducing to 52 per cent by January 1972. For Holland and Belgium the tariff is 30 per cent plus an excise duty of 16 per cent.

47. However, if Britain joins the EEC, and Jamaica applies for and obtains AOT status, then she would enjoy a substantial tariff advantage over Cuba. This would probably bring Jamaican prices down to mid-way between the Havana and Dutch cigar prices.

Sea island cotton

48. Raw cotton from the cotton islands is at present spun in the United Kingdom. There is no tariff in the EEC on imported raw cotton. There are, however, tariffs on imported yarn and cotton goods. Therefore, the entry of the UK into the EEC will not affect the Sea Island cotton industry, unless the manufacture of cotton goods takes place in the West Indies in the future, and the West Indies Sea Island cotton manufacturing islands fail to obtain AOT status and want to export their cotton goods to the UK and Europe.

Bauxite and Alumina Bauxite

49. Bauxite from Guyana and Jamaica enters the EEC duty free, as it does the United Kingdom and other EFTA countries. Therefore, membership of the Common Market by the UK should not affect the current pattern of the bauxite trade.

Alumina

50. Alumina produced in Jamaica and Guyana is exported to Norway and Sweden, and will be exported to the UK, to meet almost the total import needs of the aluminium smelters in those three countries.

51. As a result of the Kennedy Round tariff negotiations the EEC Common External tariff on alumina is in process of being reduced from 11 per cent **ad valorem** to 5£ per cent, or if the United States legislation concerning 'American Selling Price' is not repealed, to 8.8 per cent. As it is likely that Norway and Sweden will join the EEC if the UK does, any tariff on Jamaican and Guyanese alumina would represent a serious burden,

52. If, however, Jamaica and Guyana obtain AOT status, their alumina will enter Europe duty-free in the same way as alumina from Surinam. Failing such an outcome, it seems reasonable to expect that duty-free import quotas would be available to the UK, Norway and Sweden, especially as existing EEC sources of the material seem to be fully committed.

Lake Asphalt

53. This material can only be obtained from Trinidad and there is no EEC import duty on it; therefore, entry by the United Kingdom into the Common Market should not affect sales of Trinidad Lake Asphalt on the Continent.

Trinidad oil

54. UK membership 9f the EEC can be expected to have no effect on the Trinidadian oil industry. Petroleum products imported into the UK from Trinidad receive no preferential treatment at the moment, and the situation is unlikely to change one way or the other should Britain join the Common Market. Under present regulations petroleum products entering the UK do not attract duty, no matter whether they come from a Commonwealth country or not. Under EEC regulations the present zero tariff would be replaced by the Common External Tariff and products from all sources would be subject to an **ad valorem** duty of between 3£ and 7 per cent. Trinidadian oil would thus not be competitively affected vis-à-vis other possible supply sources.

55. In 1966, 10.5 per cent of Trinidad's exports of refined products entered the EEC and 9.6 per cent went to the UK. It is considered that this pattern is unlikely to show any significant variation should the EEC be widened to include the UK.