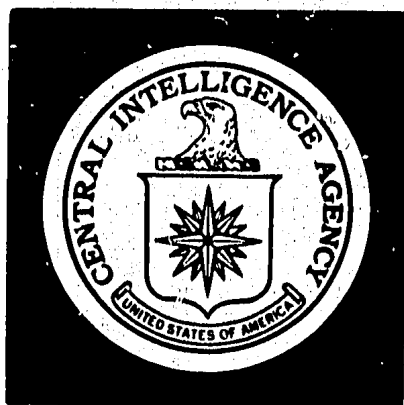


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Caribbean Commonwealth Members:

Implications Of Britain's Possible Entry Into The Common Market

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1970

INTELLIGENCE MEMORANDUM

Caribbean Commonwealth Members:
Implications Of Britain's Possible Entry
Into The Common Market

Introduction

The United Kingdom's renewed bid to enter the European Common Market (EEC), which is expected to get firm support from the new Conservative government, raises questions about the future of the Commonwealth Preference System and the economic fortunes of certain Commonwealth members. Some observers have been concerned about the effects on the Caribbean Commonwealth region* (see the map), particularly since black nationalism threatens at the same time to scare off tourists and discourage foreign investment. This memorandum examines the region's economic relationships with the United Kingdom and assesses the impact of British accession to the EEC.

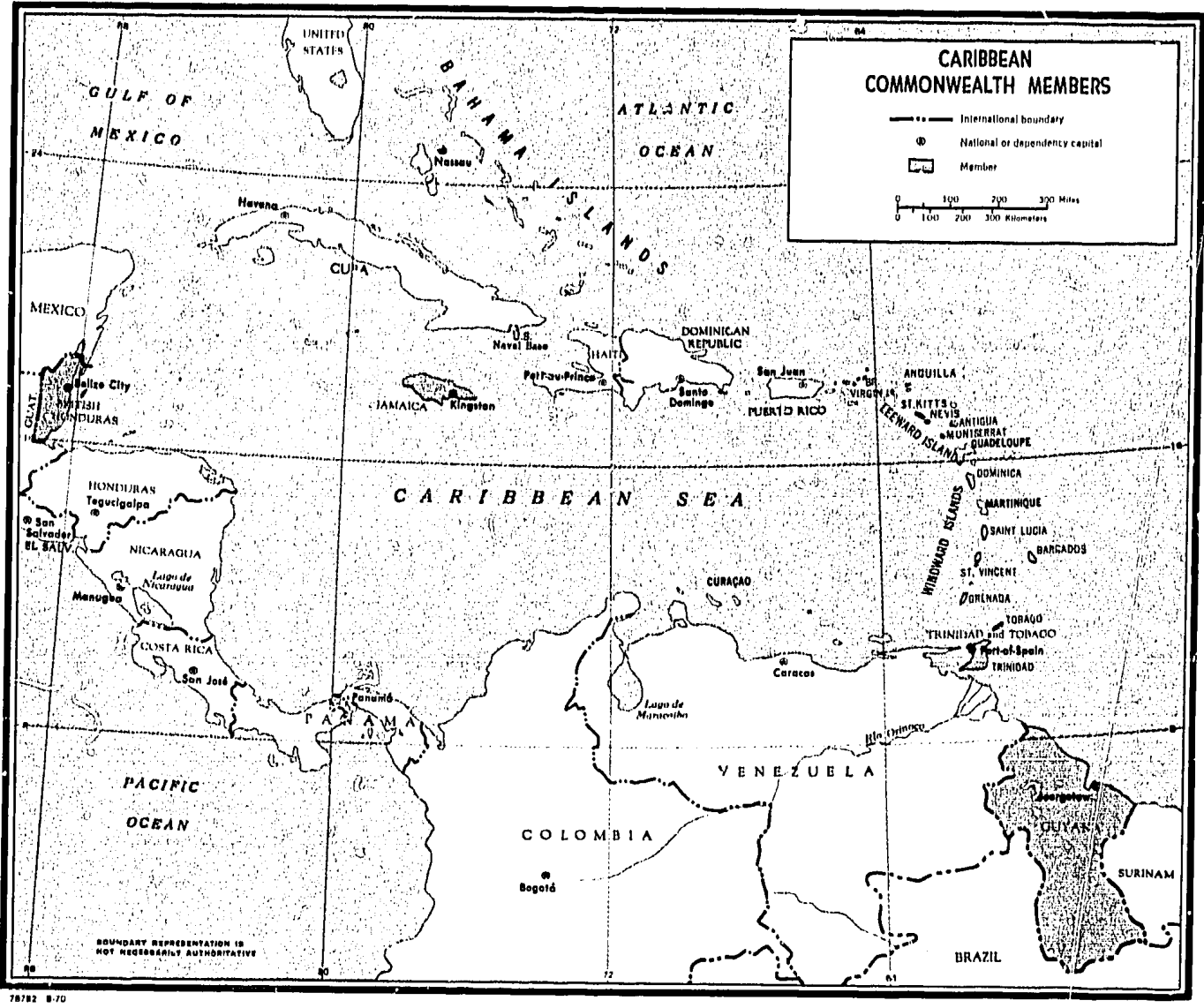
* As used in this memorandum, the term Caribbean Commonwealth region embraces: (a) the independent states of Barbados, Guyana, Jamaica, and Trinidad-Tobago; (b) the individual Associated States of the Windward Islands (Dominica, St. Lucia, St. Vincent, and Grenada) and Leeward Islands (Antigua and St. Kitts, Nevis, and Anguilla) -- all of which are self-governing but rely on the United Kingdom for defense and diplomacy; and (c) the colonies of British Honduras, Montserrat (in the Leeward Islands), and the British Virgin Islands. The Bahamas and Bermuda would not be affected significantly by Britain's joining the Common Market and are not discussed in this memorandum.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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Background

1. The Caribbean Commonwealth economies are characterized by narrow resource bases, very small markets, strong population pressures (especially in the islands), and heavy dependence on foreign trade. Agriculture remains the dominant activity, providing a major portion of the food supply and some exports. Bauxite in Jamaica and Guyana and oil in Trinidad-Tobago are the only important mineral resources. About four-fifths of the region's 4.7 million people inhabit the islands, which have a population density approaching 500 persons per square mile -- 14 times the Latin American average. Although Guyana and British Honduras have lightly settled hinterlands, arable land in the islands is in increasingly short supply. Population growth typically amounts to 2% to 3% annually, and unemployment amounts to between 15% and 25% of the labor forces. Annual per capita output ranges from only \$215 in the Windward Islands to \$770 in Trinidad-Tobago (see the table).

2. The region's import needs are relatively large, equaling about 40% of gross national product on the average. Exports consist mainly of bauxite, petroleum, sugar, and bananas, and cover only about two-thirds of the import bill. Additional foreign exchange is obtained from tourism -- a particularly important industry in Jamaica and Barbados -- and from foreign aid and private investment. The region's closest economic relations are with the United States, the United Kingdom, and Canada.

3. Although the predominantly Negro populations of the larger Caribbean Commonwealth members have in most instances won independence since the late 1950s and have elected black-led governments, long-standing social and economic grievances have spawned influential black nationalist movements. Capitalizing on widespread discontent with economic progress and domination of business by white citizens and foreigners, nationalists have condemned the governments as black fronts manipulated by white power and have precipitated sporadic violence. Government efforts to counter the nationalists' highly emotional appeals may well hamper economic expansion. The regimes in Guyana and Trinidad-Tobago have demanded greater equity participation in the bauxite-alumina and petroleum industries, respectively. Similarly,

Caribbean Commonwealth Members: Selected Economic Characteristics a/

	Jamaica	Trinidad-Tobago	Barbaços	Guyana	British Honduras	Windward Islands	Leeward Islands b/
Area (square miles)	4,410	1,980	166	83,000	8,870	826	367
Population (million persons)	2.0	1.0	0.26	0.75	0.12	0.39	0.14
Economic growth rate (average percent, 1964-68)	4.6	4.3	2.9	4.3	N.A.	N.A.	N.A.
Unemployment rate (estimated percent)	20-25	15	15	20-25	15	15-25	15-25
Per capita gross national product (US \$)	550	770	430	310	390	215	340
Value of exports c/ (million US \$, f.o.b.)	219	244	26	104	10	22	8
Principal export items	Bauxite, alumina, and sugar	Crude oil, petroleum products, and sugar	Sugar, rum, and molasses	Sugar, bauxite, alumina, and rice	Sugar, lumber, and citrus fruits	Bananas, sugar, and spices	Sugar and molasses
Principal export markets	United States, United Kingdom, Canada	United States, United Kingdom, CARIFTA countries	United Kingdom, United States, CARIFTA countries	United Kingdom, United States, Canada	United Kingdom, United States, Mexico	United Kingdom, United States, Canada	United Kingdom, United States, Canada
Net earnings from tourism (million US \$)	76	4	15-1/2	-3	N.A.	2-1/2 d/	5 d/

a. Data are for the most recent year available, generally 1968 for population and foreign trade data but as early as 1964 for certain gross national product estimates.

b. Including British Virgin Islands (population, 11,000; area, 69 square miles).

c. Excluding reexports. For Trinidad-Tobago, exports of petroleum products derived from imported crude oil are valued at the "processing fee" negotiated by the government and the oil companies.

d. Figure for 1962; earnings are substantially larger now.

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the Jamaican government is pressuring the bauxite-alumina industry for a larger profit share and more effective participation in operations.

Importance of Commonwealth Trade Preferences

4. The Commonwealth Preference System provides guaranteed quotas, reduced tariff rates, and preferential prices for members' agricultural exports to the United Kingdom. Consequently it is now of major importance only for the smaller Caribbean islands, where most exports still consist of agricultural commodities. Sales under the preference system make up 80% of exports for the Windward Islands, 64% for Barbados, and 58% for the Leeward Islands. Once equally important in the exports of Trinidad-Tobago, Jamaica, and Guyana, preferences have become less consequential as the countries developed mineral exports. The share of exports aided by the preference system now approximates 20% for Jamaica, 16% for Guyana, and 7% for Trinidad-Tobago. British Honduras exports mostly sugar and canned citrus products, but preferential sales to Britain make up only 26% of total exports.

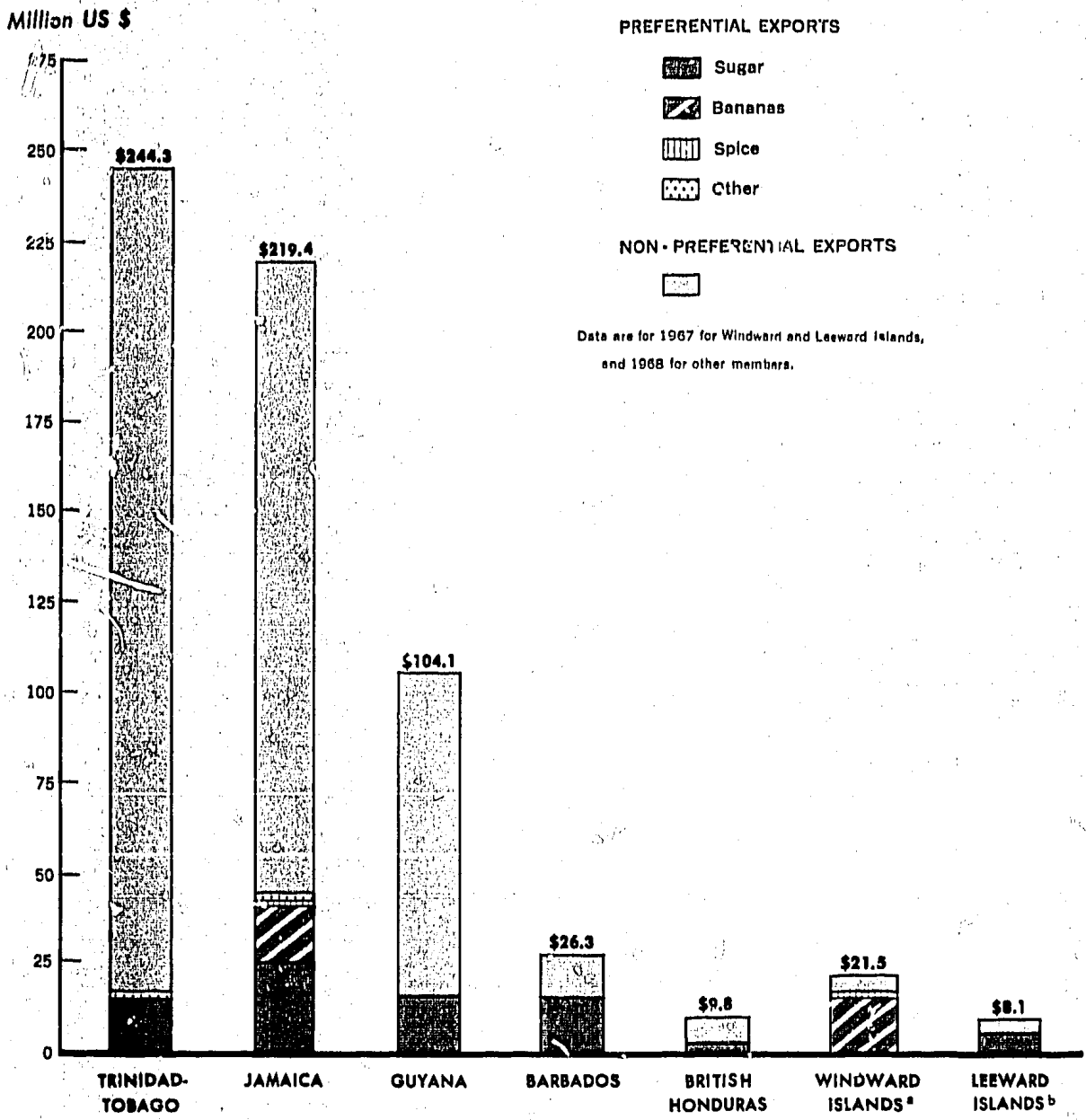
5. Sugar and bananas are the region's main agricultural exports and chief beneficiaries of preferences. Under the Commonwealth Sugar Agreement, the region has a quota for raw sugar exports of 757,000 metric tons annually in 1969-71 and probably will receive similar quotas for 1972-74. These sales are made at a preferential price renegotiated every three years. During 1968-69, deliveries to the United Kingdom averaged some 730,000 metric tons annually, or about two-thirds of total sugar exports. Britain paid 5.1 cents per pound for this sugar, or 1 to 3 cents above the fluctuating world market price during this period. Preferential sugar exports account for only 13% of the region's total exports but 58% of the Leeward Islands' exports (see the chart).

6. Bananas are exported under a quota system that assures the Commonwealth Caribbean 90% of the British market. While there is no price guarantee, exclusion of competitors, particularly those in Latin America, results in prices substantially above world market levels. Banana exports to the United Kingdom totaled about 330,000 metric tons in 1968

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EXPORTS * OF THE CARIBBEAN COMMONWEALTH REGION



* Excluding re-exports
 * Dominica, Grenada, St. Lucia, St. Vincent
 ^ Antigua, St. Kitts, Montserrat, Br. Virgin Islands

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and provided 5% of the region's total export earnings. Nearly 80% of the Windward Islands' exports and about 8% of Jamaica's exports consisted of bananas sold to the United Kingdom. Spices, fresh citrus fruits, and a few other tropical crops also are exported under the preference system but earn only a million dollars annually.

British Aid to the Caribbean

7. British aid to the Commonwealth Caribbean totals only \$15 million to \$25 million annually, consists mostly of grants, and goes mainly to the smaller islands as well as to British Honduras. Budget support for current expenditures, confined almost entirely to the smaller islands since the mid-1960s, totaled \$5.6 million in 1968. In addition, all members except Jamaica and Trinidad-Tobago receive grants for capital projects. In 1968, development grants approximated \$11 million and accounted for two-thirds of the capital expenditures of the smaller islands and British Honduras. Britain also provides funds for 150 technicians' salaries and for various other small assistance programs.

Implications of British Entry
into the Common Market

8. British membership in the Common Market presumably would require revision and, eventually, the ending of the Commonwealth Preference System. The impact on the larger Caribbean members -- Jamaica, Guyana, Trinidad-Tobago, and British Honduras -- would be small because the transition period probably would be long and they no longer depend heavily on preferences. The smaller islands' exports to the United Kingdom could be hurt seriously. But with a combined population of only 800,000 people, they would require only moderate foreign aid receipts or trade concessions from other countries to make up the difference.

9. Since EEC members have temporarily retained some special economic relationships with their former colonies, Britain probably will try to obtain similar arrangements for the less developed Commonwealth members. The Commonwealth Sugar Agreement almost certainly will be maintained through 1974 and might be retained in modified form for several years

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thereafter. Continuing preferences for Caribbean banana exports to Britain should also be possible, inasmuch as several EEC countries have such arrangements. The EEC has the ultimate goal of establishing a single policy for imports of agricultural products, but various temporary preferential arrangements may last for many years.

10. Even if Britain joined the EEC soon and dismantled its preference system promptly, only the smaller Caribbean islands' exports probably would be hit hard. If forced to sell sugar at the world market price, most if not all of the Caribbean governments would have to subsidize the industry to sustain production levels -- a common practice around the world. If the region received 3.25 cents a pound* for sugar now going to Britain instead of the 5.1 cents that it actually pays, exports would fall by about \$30 million, or 5% of the 1968 total. For Barbados and the Leeward Islands, however, export earnings would drop by 23% and 21%, respectively. Without preferential access to the British market, Jamaica and the Windward Islands likewise would have difficulty selling their bananas. Competition from Latin American and African producers probably would substantially reduce Caribbean banana exports, which now amount to \$30 million to \$35 million annually.

11. For several economies, the impact of reduced export earnings on import capacity would be softened by relatively large receipts from tourism, remittances from abroad, and capital inflows, unless nationalism and violence depressed them. In recent years, net receipts from nontrade transactions have equalled over half of Jamaica's and Barbados' exports and perhaps exceeded the Leeward Islands' exports. Loss of all preferential exports to the United Kingdom probably would reduce the region's foreign exchange income by only 5% to 6%. The impact would be greatest for the smallest islands, because their export loss would be substantially higher than the

* This is the minimum price objective of the International Sugar Agreement. The world market price ranged from 1.9 to 8.5 cents on an average annual basis during the 1960s and recently has approximated 4 cents.

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regional average and nontrade sources of foreign exchange in most instances are relatively small.

12. Because of pressure from domestic sugar producers and foreign policy objectives elsewhere, the United States would find it difficult to substantially increase the Commonwealth Caribbean's present sugar export quota of 206,000 metric tons (4.7% of the quota for all foreign suppliers). US sugar demand grows only slowly; domestic producers share in the increase by law; and unused quotas generally are allocated proportionately among Western Hemisphere suppliers. Presidential authority to make special allocations of unused quotas for Puerto Rico and other suppliers, if they are judged to be in the national interest, has been exercised only for the Dominican Republic's benefit. It is even possible that the overall quota for foreign deliveries will be reduced when the US Sugar Act is revised in 1971, because domestic producers are pressing strongly for a share of Puerto Rico's shortfall, which rose to some 700,000 metric tons in 1969. Bananas and most other Caribbean crops have unrestricted access to the United States, but US producers no doubt would oppose efforts to reduce tariffs on fresh and processed citrus fruits from the Caribbean.

13. If Commonwealth trade preferences were ended completely -- or were substantially cut back during the next few years -- the smaller Caribbean islands probably would need foreign aid to maintain essential imports and government services. Because the populations are so small, aid requirements would be of moderate size. Annual earnings from preferential exports to Britain total only about \$40 million for Barbados and the Windward and Leeward Islands, and alternative markets probably could be found for some of the commodities. The United Kingdom should be willing to boost its aid to these members if there is an abrupt change in the preference system. Furthermore, if the Commonwealth Caribbean becomes associated with the EEC, as some former French, Dutch, Belgian, and Italian colonies have, it presumably would be eligible to receive aid from the European Development Fund. The United States also could ease the smaller islands' adjustment problems by moderately raising or at least reapportioning its aid to the Commonwealth Caribbean, which has averaged \$21 million annually in recent years and has gone mostly to the larger countries.

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14. Agreement on British entry into the EEC probably would not mean an abrupt end to Commonwealth trade preferences. But even if it did, it would not be a heavy economic blow to the Caribbean's larger Commonwealth members -- Guyana, Jamaica, Trinidad-Tobago, and British Honduras. Having acquired important mineral industries or shifted sugar sales to the United States and Canada, these economies now receive only 7% to 26% of their export earnings from agricultural sales under Britain's preference system. The shares of total foreign exchange income obtained from preferential exports are still smaller, because net receipts from nontrade transactions -- notably including tourist earnings for Jamaica -- are relatively large. Although British entry into the EEC could cause transitional strains for these economies, depending on the arrangements made for phasing out preferences, it seems a less worrisome problem than the deteriorating atmosphere for foreign investment and expansion of tourism.

15. The smaller islands (Barbados and the Windward and Leeward Islands) are far more dependent on preferential sales to the United Kingdom, drawing from 60% to 80% of export earnings from this source. These economies are vulnerable to any sweeping change in the preference system and would have difficulty adjusting to it even over a prolonged period because of resource deficiencies, tiny internal markets, and population pressures. Unless alternative trade concessions could be arranged, these islands would need more foreign aid to sustain essential imports and support government budgets. Financial requirements would be small, however, since the islands have less than a million people, many of whom live on subsistence farms that are unaffected by Commonwealth trade preferences.

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