Written evidence – St Helena Government (OST0002)

Issue

In June 2016 the United Kingdom voted to leave the European Union. It is widely believed that the formal ‘Brexit’ will occur by April 2019, as Article 50 was triggered in March 2017.

Summary and Context

The territorial grouping of St Helena, Ascension and Tristan da Cunha is one of the United Kingdom’s Overseas Territories (UKOTs), directly associated with the European Union (EU) via the Overseas Association Decision (OAD) adopted by the EU in 2013. This evidence is submitted on behalf of the Government of St Helena only.

The overarching strategic objective for Saint Helena is to retain the benefits currently derived from the association with the EU, and to build on relationships already established to the betterment of the economy and the environment.

St Helena benefits directly from its relationship with the EU, both economically, primarily as a result of funding from the European Development Fund (EDF), and also from the perspective of the protection of the environment. As the relationship between St Helena and the EU deepened, so did also the benefits to St Helena from access to expertise in a range of fields. St Helena Government recognizes that the consequences of the UK’s decision to leave the EU are uncertain but wishes to maintain, as much as possible, the current benefits associated with the UK’s membership of the EU. We wish to maintain economic and financial support. Where such support will no longer be available from the EU we would wish the UK to fill the void such that we will retain the benefits both in the transitional period and immediately thereafter, maintaining alignment with EU policy makers.

Current Impact

St Helena is a net importer and prices are highly influenced by the Pound to Rand exchange rate. Between the day of the Brexit vote (June 2016) and the time of writing (July 2017) the value of the Pound Sterling decreased by 20% compared to the Rand. Meanwhile, the RPI in quarter 2 of 2016 was 120.78, and in quarter 1 of 2017 was 126.62, showing an inflation of 4.8%. This increase was driven by food price increases. The UK experienced inflation in the order of 1.7% in the same period; thus, St Helena’s economy is vulnerable to fluctuations in the exchange rate because St Helena relies on South Africa’s imports of food, building materials, fuel, etc. For example, as a result of the exchange rate, a loaf of bread has increased from around £1.30 to around £1.70.

St Helena has received significant capital aid from the European Union, which has been as much as 10% of its GDP. The aid has allowed significant improvements to the island which would not have been feasible without the funding.

The EDF funding paid for cliff stabilization, wharf widening, customs and freight terminals, equipment for the wharf, Rupert’s Jetty (co-financed with DFID) and the Roads rehabilitation project (R1).
<table>
<thead>
<tr>
<th>Tranche</th>
<th>Funding (€M)</th>
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<tbody>
<tr>
<td>First Tranche</td>
<td>3,800,000.00</td>
</tr>
<tr>
<td>First Tranche</td>
<td>2,000,000.00</td>
</tr>
<tr>
<td>Second Tranche</td>
<td>2,000,000.00</td>
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<tr>
<td>Second Tranche</td>
<td>3,000,000.00</td>
</tr>
<tr>
<td>Third Tranche</td>
<td>2,400,000.00</td>
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<tr>
<td>Third Tranche</td>
<td>2,400,000.00</td>
</tr>
<tr>
<td>Fourth Tranche</td>
<td>800,000.00</td>
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<tr>
<td>Tranche Evaluation &amp; Monitoring</td>
<td>230,000.00</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>16,630,000.00</strong></td>
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</tbody>
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The territorial allocation from the current 11th EDF fund is €21.5m split between the three islands; St Helena, Ascension and Tristan da Cunha. For St Helena, the 11th EDF funding has been earmarked for a transformational project, to improve telecommunications connectivity to the Island. This will take the form of a sub-marine cable and is expected to contribute significantly to growth and service improvements in health and education on the island. This funding is therefore vital to the future prosperity of the island. St Helena is also able to access the €16 – 18m from the Thematic component of the 11th EDF which will fund projects related the Climate Change/Disaster Risk Reduction and Sustainable Energy. In June this year St Helena received a grant of €148,607.00 from the Overseas Countries and Territories Association (OCTA) Territorial Strategy for Innovation (TSI) project (funded by the 10th EDF) that will develop anaerobic digestion as a means to convert biodegradable waste into biogas and renewable energy as part of a holistic approach to waste management. St Helena has also been successful in securing project funding under the Voluntary Scheme for Biodiversity and Ecosystems Services in Territories of European Overseas – the BEST Initiative for environmental/conservation projects.

**Future Considerations**

It is vital that attention is given to the impact of Brexit on the OTs by the Department of Exiting the EU and it should be ensured that DEXEU has appropriately experienced staff to consider the impacts and suitable policies for OTs. The dialogue and consultation with the OTs should be maintained.

**Trade and Trade-related Issues**

Uncertainty over Brexit in the financial market and lack of confidence has caused a drop in the value of the pound against both the US dollar and the South African rand and this affects St Helena directly through a rise in import prices. Whilst trade from St Helena is relatively low by international standards, exports are one of the ways that the island will grow, and forms a key element of our economic development strategy. With high quality coffee and sushi grade fish, which are of particular interest to European partners, the growth potential in exports should not be overlooked. Tariff free access to European markets is essential to facilitate this growth.
Strengthening and Diversifying the Economy

St Helena’s economy is fragile. GDP for St Helena is estimated at just under $7,000 per capita in 2016. In comparison to other OTs, St Helena’s GDP is the lowest by some distance [does not include Pitcairn which does not publish its GDP]. However, significant investment in an airport has given St Helena the opportunity to grow. In order to protect its fledgling growing economy, St Helena needs the continued assistance of the UK Government and an assurance that the support previously received from the EU will be maintained by the UK. St Helena asks the UK Government to consider the significant positive impact EDF has had on the island and the benefits that this has brought. Past projects such as the wharf and road improvements have significantly aided the island’s infrastructure. St Helena welcomes the UK Government’s future support to infrastructure funding which will drive both economic and social development.

Supporting the Environment, Climate Change Mitigation and Sustainable Energy

St Helena is home to a third of the endemic species that can be found in the UK and its overseas territories around the world. Since its creation over 14 million years ago, St Helena has developed a unique biosphere protected by thousands of square miles of ocean. St Helena currently has about 500 endemic species, not including marine species. And more are being discovered every year. Protecting the environment is a key consideration for St Helena, and the EU has been instrumental in assisting in the many projects designed to do just that. This crucial funding must continue.

St Helena is also particularly susceptible to climate change. “The availability of water for public water supply, agriculture, industry and the environment can be severely limited on small islands, particularly in the tropics and arid areas, due to the marginal water balance and small land area to collect water. For many small islands the only source of water is from shallow groundwater lenses, which can suffer from saline intrusion.

In St Helena, relatively low annual rainfall and high evaporation losses result in low rates of runoff and limited water availability. Water rationing in some parts of the island was required in 2013 2015 and 2016 in order to maintain public water supplies. There are ongoing initiatives to improve reservoir storage to solve current shortfalls, but the demand for water is expected to increase once the airport is open and as the island’s economy develops further. Climate change is likely to place additional pressure on water supply due to higher temperatures and changes in rainfall patterns”

On St Helena heavy rainfall has contributed to soil erosion, rock fall and landslides. The variable and often extreme nature of rainfall leads to significant risk of rock fall, which is a major threat to life and infrastructure. Part Two of the Overseas Association Decision focuses on sustainable development. Chapter 1 considers ‘Environmental Issues, climate change, and disaster risk reduction’. The priorities outlined include: ensuring the conservation, restoration and sustainable use of biological (including marine) diversity; assisting the adaptation and mitigation of climate change in the Overseas Countries and Territories, supporting the them in becoming less dependent on fossil fuels, and helping the OCTs to reduce their vulnerability to natural disasters. St Helena Government is focussed on these issues but with limited resources. Assistance is required to help St Helena deliver on all these vitally important areas.

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1 Assessing Climate change and its likely impact on selected UK Overseas Territories: Steven Wade, Adam Leonard-Williams and Kate Salmon
Free Movement of People

Free movement is defined within Article 20 of the Treaty on the Functioning of the EU. Free
movement to travel, work and reside in the EU is an important benefit for St Helena, most of
whose residents are UK citizens. The ability to continue to move freely is a key consideration for
St Helena.

10 July 2017