A WORLD TRADE DEAL

The Complete Guide

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Introductions and Acknowledgements

As widespread opposition has grown across the political spectrum in the UK Parliament and outside to the Chequers proposals for exiting the European Union – and, as the Government continues to maintain its position that the only options available are (1) the Chequers proposals or (2) leaving the EU without a deal on trade, attention is now turning toward the implications of these options.

This pamphlet provides a practical and we hope easily readable Guide to the only way of exiting from the EU under these conditions that guarantees a Clean Brexit - that is, a World Trade Deal under WTO rules.

Under a World Trade Deal, the Government would redirect its strategy from a singular focus on achieving an ideal, comprehensive and 'deep and close' relationship deal with the EU, at almost any cost, to a new focus of leaving the EU. This means the UK would aim at embracing global free trade under World Trade Organisation (WTO) rules.

A World Trade Deal would allow us to leave the Single Market and the Customs Union, regain control over our borders, laws, and regulations, free ourselves from the European Court of Justice, and have freedom to establish our own trading relationships with the rest of the world.

Such a deal does not imply 'walking away' from the Brussels negotiations, as there are other aspects of the new EU-UK relationship – e.g., airline landing rights, electricity supply to Northern Ireland, citizen rights - that need to be agreed. Contrary to simplistic remarks from some government ministers and the Remainer media, a World Trade Deal' only implies that there will not be an EU *trade* deal' – not that there will be no deal on anything at all.

The following pages address the common questions that are often raised about the UK embracing such an approach and attempt to provide clear, understandable answers. We provide a summary 'Pocket Guide' in the following four pages that is linked to the full answers in the latter part of the pamphlet.

While the team at Economist for Free Trade prepared the document and must accept responsibility for any errors or omissions, we are grateful for the very useful contributions from some of our Advisers - Martin Howe QC and the Rt Hon Owen Paterson MP - as well as David Campbell-Bannerman MEP, Professor David Collins, Dr Lee Rotherham, Robert Thomas and others – all of whom were acting in an individual capacity.

A World Trade Deal

The Pocket Guide

1. **What do you mean by a 'World Trade Deal'?**

   The Government would redirect its strategy from a singular focus on achieving an ideal, comprehensive and 'deep and close' relationship deal with the EU, at almost any cost, to a new focus of leaving the EU and embracing global free trade under World Trade Organisation (WTO) rules. Such a deal does not imply 'walking away' from the Brussels negotiations, as there are other aspects of the new EU-UK relationship – e.g., airline landing rights - that need to be agreed. *(See p 9 for more information)*

2. **Given the Chequers proposals, why is a World Trade Deal relevant?**

   Given the widespread opposition in the UK Parliament and outside to the Chequers proposals and the Government's repeated position that the only options available are (1) the Chequers proposals or (2) leaving the EU without a deal on trade, attention is now turning toward the implications of the only way of exiting from the EU that guarantees a Clean Brexit - that is, a World Trade Deal under WTO rules. *(See p 9 for more information)*

WTO and Trade

3. **What is the WTO?**

   The WTO pursues negotiations amongst its 160+ member countries with the aim of achieving free trade amongst, policing the international trading system, adjudicating disputes and enforcing penalties where necessary. *(See p 9 for more information)*

4. **What do we have to do to join the WTO?**

   Nothing.

   We were a founding member of the WTO and remain so independent of the EU. *(See p 9 for more information)*

5. **If we were to operate under WTO rules, wouldn't this be a leap into the unknown?**

   No.

   It would be a leap into the normal as we already do about half of our trade under WTO rules. *(See p 10 for more information)*

6. **Wouldn't leaving without a trade deal leave us without a legal framework for trade?**

   No.

   It simply would mean that we would trade under WTO rules that are comprehensive and backed by a well-respected world legal system. *(See p10 for more information)*

7. **But – in practice – aren't there few 'pure' WTO deals? Is not most WTO trade done under Mutual Recognition Agreements?**

   This often is technically true and anti-Brexit campaigners make this claim, but the distinction is not very relevant - the central trading relationship is the same WTO rules deal. *(See p 10 for more information)*

8. **Do non-EU countries perform well trading with the EU under WTO terms?**

   Yes

   The four non-EU counties with the fastest growing exports to the EU all trade on WTO terms. *(See p 11 for more information)*

9. **If we trade under WTO rules, what tariffs must we apply?**

   This is for us to decide.

   WTO rules require only that we not increase tariffs above the existing Common European Tariff rates and that we treat all countries equally, unless we have agreed a Free Trade Agreement (FTA) or customs union with them. We could, for example, eliminate all tariffs or impose zero tariffs on products we do not produce in the UK. *(See p 12 for more information)*

10. **Does the WTO require physical customs checks, meaning lengthy delays at our ports and borders?**

    No.

    Specific WTO agreements and the Kyoto Convention of the World Customs Organisation commit to make border processing activities as streamlined as possible with no requirements for border checks and, if physical inspections are necessary, they be intelligence-led. Mobile and remote customs controls are permitted and are already used widely for goods coming from outside the EU Customs Union. The UK currently checks only 4% of goods arriving in the UK from non-EU countries, and Ireland just 1%. *(See p 12 for more information)*

11. **What about checks on food and animal products?**

    The WTO's Agreement on the Application of Sanitary and Phytosanitary (SPS) measures does allow for border checks to ensure the safety of imported food but stipulates that such checks should not be used as a surreptitious means of inhibiting cross-border trade. *(See p 13 for more information)*

12. **If we trade under WTO rules with the EU, does this stop us from having an FTA with other countries or the EU - for example, Canada +?**

    No, quite the reverse. (*See p 13 for more information)*

13. **Could we still negotiate a Canada+ FTA with the EU after we leave, having dropped the Chequers or 'Chequers minus' route?**

    Yes - probably even more easily than during the Article 50 negotiations. *(See p 13 for more information)*

Economic Impact of a World Trade Deal

14. **Is the game worth the candle? Are the long-term gains from a World Trade Deal worth all the hassle compared with the status quo?**

    Yes.

    The long-term gain to GDP would be about 7% over the next decade and a half, a half percentage point addition to the growth rate over this period. The average household would gain around 8%, while the poorest household will be 15% better off. The Treasury will receive about 10% extra revenue - around £80 billion. *(See p 14 for more information)*

15. **Wouldn't WTO rules inevitably lead to tariff and other trade barriers between the EU and the UK thereby leading to a big reduction in our trade with the EU?**

    Not on a long-term basis. *(See p 15 for more information)]*

16. **Won't prices inevitably go up?**

    No, in the long-term, they will go down by a substantial amount *(See p 17 for more information)*

17. **This may be ok for the long-term but won't prices inevitably go up in the short-term?**

    Not likely – and a *de-minimis* impact with the right policy decisions *(See p 17 for more information)*

18. **Wouldn't Foreign Direct Investment (FDI) into the UK inevitably fall?**

    No *(See p 18 for more information)*

19. **Wouldn't opening the UK up to global competition spell disaster for British manufacturing?**

    No, quite the opposite *(See p 18 for more information)*

20. **Won't new free-trade deals pose a threat to British farming?**

    Not if sensible post-Brexit policies allowed by WTO rules are adopted *(See p 19 for more information)*

21. **Is it not vital to the City that there is a trade deal, preserving existing market access?**

    No.

    The City is the world's No 1 financial centre and there are two key elements in the City's future success: that its markets continue to be worldwide and the need for it to have an efficient pro-business regulatory system. In recent weeks, UK financial institutions appear to have come to terms with the likelihood that no special financial services deal is likely to be agreed and - in effect – are preparing for a World Trade Deal scenario. *(See p 20 for more information)*

22. **What about market access for services in general?**

    As there never has been an EU 'single market' for services, there is not much to lose *(See p 21 for more information)*

23. **But, won't we be the economic losers relative to the EU?**

    No, to the contrary *(See p 21 for more information)*

Potential Problems after Leaving

24. **If we leave the EU "without a deal" won't this bring chaos across a broad front of daily activities?**

    No.

    Having no trade deal is not the same as having no agreements on a wide range of non-trade areas where there have to be arrangements *(See p 22 for more information)*

25. **But, what about the short-term negative impacts reported daily in the media and even by some Government Ministers?**

    While short-term 'speed bumps' may be encountered in any major policy change of the magnitude of Brexit, they need to be placed in perspective and compared to the long-term strategic gains. Brexit will not depress our economy by up to 10% of GDP as forecasts based on absurd assumptions by the Treasury and other civil servants have claimed. Hysteria about 'shortages' of goods assumes the UK would create self-harming and illegal non-tariff barriers (that do not exist today) against the importation of goods from the EU27. Other non-EU countries have managed very well without EU membership and have dealt successfully with technical barriers to trade. *(See p 23 for more information)*

26. Would a World Trade Deal under WTO rules not mean that the EU would make it difficult for our trade by not agreeing to our product standards and complicating border procedures?

Not unless the Commission decides to violate international law *(See p 23 for more information)*

27. What if - despite this - the Commission still wants to make a political point?

It is not impossible that elements of the EU Commission might try to behave badly, but it will be subject to a number of constraints including (1) international agreements to which the EU is party including WTO Agreements that form an integral part of the EU legal order, (2) practical reasons why the EU would not want to disrupt imports from the UK (e.g., importation of drugs made in the UK), and (3) self-interest expressed by national governments and vested lobby groups within the EU that will act as a strong brake on cavalier actions affecting livelihoods and business interests. *(See p 24 for more information)*

28. But surely there will be problems over standards in the future as we and the EU change our standards?

Not really

Sovereignty over regulations for international partners is already widely recognised in all EU FTAs, Commission delegated powers exist to pass regulations that recognise non-EU goods as conforming to internal EU standards, 'regulatory divergence' is already being managed for EU trade deals to date, and export firms on both sides are quite used adapting to such changes all over the world where they have export markets; it is an accepted cost of doing export business. Our exporters will deal with these changes just as they do with standards changes in China, the US, Russia and the rest of the world. *(See p 24 for more information)*

A World Trade Deal

The Complete Guide

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A World Trade Deal would allow us to leave the Single Market and the Customs Union, regain control over our borders, laws, and regulations, free ourselves from the European Court of Justice, and have freedom to establish our own trading relationships with the rest of the world.

Such a deal does not imply 'walking away' from the Brussels negotiations, as there are other aspects of the new EU-UK relationship – e.g., airline landing rights, electricity supply to Northern Ireland, citizen rights - that need to be agreed. Contrary to simplistic remarks from some government ministers and the Remainer media, a World Trade Deal' only implies that there will not be an EU *trade* deal' – not that there will be no deal on anything at all.

2. Given the Chequers proposals, why is a World Trade Deal relevant?

There is widespread opposition across the political spectrum in the UK Parliament and outside to the Chequers proposals. The EU is expected to make counter-proposals that push these ideas closer to the current Single Market status quo, including free migration and budget payments - forcing such a prospective deal yet further into the unacceptable region. The Chequers proposals may also be illegal under WTO law.

Given this and the Government's repeated position that the only options available are (1) the Chequers proposals or (2) leaving the EU without a deal on trade, attention is now turning toward the implications of the only way of exiting from the EU that guarantees a Clean Brexit - that is, a World Trade Deal under WTO rules.

WTO and Trade

3. What is the WTO?

The WTO was established in 1995, as the successor to the General Agreement on Trade and Tariffs (GATT). It is headquartered in Geneva and has a membership of over 160 countries. Its job is to pursue negotiations with the aim of achieving free trade, policing the international trading system, adjudicating disputes and enforcing penalties where necessary.

4. What do we have to do to join the WTO?

Nothing. We were a founding member of the WTO and remain so independent of the EU.

However, we must submit our own schedule of tariff commitments, which in theory need to be approved by the rest of the WTO Membership but since the UK intends to keep its tariffs as least as low as they were as Members of the EU this should not be a problem.

Some additional negotiations will likely be required regarding the UK's share of the EU's tariff rate quotas, particularly with regard to agricultural products but these should not cause great difficulties. In fact, the EU and the UK have been working harmoniously in this regard for some time. In July, the WTO circulated two draft membership agreements among WTO members, separating Britain's rights and obligations in merchandise trade from the EU - a separate split of services trade is expected to follow. This cooperation bodes well.

Once these matters are resolved, we merely need to retake our seat and resume setting our own trade policies and speaking on our own behalf about WTO matters, which we have not done since we signed over our trade policy to the EU when we joined the EEC in 1973.

5. **If we were to operate under WTO rules, wouldn't this be a leap into the unknown?**

No, it would be a leap into the normal.

WTO rules currently govern our trade with the non-EU world, which accounts for about half of our total global trade and is the part growing most rapidly.

Six out of the EU's top ten trading partners trade under WTO rules including at present China, USA, India and Japan. The only part of our non-EU trade that is not governed by WTO rules is trade with those countries where the EU has managed to secure Free Trade Agreements (FTAs).

FTAs are bespoke agreements amongst specific countries (sometimes bilateral, sometimes plurilateral, occasionally multi-lateral) that govern their trading relationships and enable the FTA parties to agree specific, exclusive arrangements that build on WTO rules (eg, tariffs, trade quotas, product standards). An FTA is a formal arrangement under WTO rules that requires the removal of a substantial number of tariffs (normally at least 90%) in order to be legal. This is because an FTA gives better terms to the parties of the FTA than to other WTO members (see Most Favoured Nation' in Question 6 below). FTAs should not be confused with the term, 'trade deals', which can apply to a looser arrangement – such as Mutual Recognition Agreements (see Question 7 below).

Under EU rules, we cannot negotiate our own FTAs, so we are dependent on the EU to do this for us. Unfortunately, the EU has not been notably successful in its attempts at major trade negotiations because it has so many diverse and conflicting interests to reconcile and its protectionist philosophy makes it a difficult negotiating partner. Consequently, there aren't many significant countries that have agreed FTAs with the EU. For example, the EU has no FTAs with the US, China, India or Brazil and they have only just concluded an agreement with Canada and even more recently an agreement with Japan that is still in a preliminary stage. Out of the twenty largest non-EU economies (representing two-thirds of the world economy), the economies of countries with EU FTAs represent less than 20% of the total.

6. **Wouldn't leaving without a trade deal leave us without a legal framework for trade?**

No, it simply would mean that we would trade under WTO rules that are comprehensive and backed by a well-respected world legal system.

The WTO has an enhanced set of reduced tariffs for certain WTO members under what is called MFN, or 'Most Favoured Nation' Rules. These rules mean that whatever terms are offered or applied to one WTO member, under MFN, must be applied to all. Thus, legally the EU would not be able to discriminate against the UK or force worse terms on us.

The reality is that the WTO sets the framework for global trade deals - not the EU. The EU merely works within this framework - the WTO is the spring for the rivers of the world's FTAs.

7. **But – in practice – aren't there few 'pure' WTO deals? Is not most WTO trade done under Mutual Recognition Agreements?**

This often is technically true and anti-Brexit campaigners make this claim, but the distinction is not very relevant - the central trading relationship is the same WTO rules deal.

Exporters of goods and services the world over comply with the market requirements and standards of the countries to which they export – just as UK exporters currently do for the approximately 60% of our foreign trade that is exported to non-EU destinations. These decisions are made by each exporter on a country-by-country, product-by-product or service-by-service basis. The important point is that such standards need not apply to all manufacturers or service suppliers – only those desiring to export a particular product to a particular country.

Conformity to standards in such cases is determined by well-established assessment procedures, undertaken either by testing or certification bodies in the importing country, or by recognised and approved systems in the country of origin. Such procedures are often enshrined in *ad hoc* Mutual Recognition Agreements (MRAs) that are not part of fully-fledged trade deals.

Upon leaving the EU, the UK may have to renegotiate existing MRAs that the EU currently has with other countries, but this should not pose any serious problems.

Devising Brexit-related MRAs with the EU – which need only confirm existing arrangements - ought to be even more straightforward as, unusually, the UK starts from a position of full compliance with EU standards as a current EU member, so these should be concluded rapidly. This is because the UK starts from existing compliance, trusted certificates, and trusted testing organisations.

WTO Agreements impose obligations on countries to agree mutual recognition where it is objectively justified. Refusal by the EU (or the UK) to agree MRAs for their mutual trade would be treated under WTO Rules as arbitrary and discriminatory, since each would be offering MRAs to other countries for the same products and services and would also be permitting domestic producers to sell these same products or supply these services in their home market.

8. Do non-EU countries perform well trading with the EU under WTO terms?

Yes.

It is striking that countries all around the world trading under WTO rules - including the US, China, India and Japan - export huge amounts of goods as well as services into the EU in spite of its tariff and non-tariff barriers.

If we rank the growth over the last 25 years in exports to the twelve early members of the Single Market in 1986 from the 22 outside countries whose exports exceed $10 billion, we find the top four countries all trade on WTO terms. The aggregate growth of exports from the 'WTO Countries' has been almost twice that of exports of these eleven non-UK EEC founding members amongst themselves, and four times larger than the growth of UK exports into the Single Market.[1]

To put this into context, the UK currently exports to over 100 countries on WTO terms, and since 1993 those exports have grown with a compound annual growth rate more than three times that of our exports to the EU and over one and a half times that of our exports to countries with which the EU has a trade deal.

Although these facts can be readily ascertained from UNComTrade and other cross-national databases, they have seldom attracted notice, or research. They were, however, stumbled across by European Commission researchers as long ago as 2007[2]. In a contribution to the Single Market review, they noted the *"slowdown of intra-EU trade growth relative to trade growth with third [country] partners"* and that that *"manufacturing since 1988 and until 2003 (latest available data) the share of extra-EU suppliers in apparent consumption has gradually increased at the expense of domestic production"*.

This report listed a long list of defects in the Single Market including the lack of '*business dynamism*', '*product markets (that) remain heavily regulated*', and regulations that '*constrain mobility of economic activity to more productive sectors*'. It was also noted there was a lack of specialisation in high-tech sectors, and a lag in ICT industries because of '*the failure to develop a competitive internal market in services (which are the main consumers of ICT) and to a European innovation deficit.*' The internal market has, moreover, not encouraged global investment flows and is '*losing its attractiveness for international R&D investment.*' This last point was strongly corroborated in an OECD report in 2014[3] that pointed to EU exceptionalism in this respect: '*one thing is clear: the collapse in international investment flows in Europe, both outward and inward, is more than just a passing cyclical phenomenon . . . and it's time to sound the alarm.*

The UK enjoys a surplus with many WTO countries including the USA and the majority of the Commonwealth whilst suffering a massive goods trade deficit with the EU of £96 billion, equivalent to the entire Bulgarian economy.

9. If we trade under WTO rules, what tariffs must we apply?

This is for us to decide and indeed the choice is a democratic gain.

Many people believe that, when we leave the EU, WTO rules will require the UK to adopt the current tariffs which the EU at present forces us to impose on imports from the rest of the world and impose them on imports from the EU as well. This assertion is simply not true.

The UK is currently in the process of 'rectifying' its tariff schedules at the WTO by copying-and-pasting the EU's current schedules. But those schedules do not specify the tariffs that we will have to charge on our imports: they specify only the *maximum* level of tariffs that we are allowed to charge. We will be fully free to charge lower levels of tariffs, or if we feel like it zero rate tariffs (ie, a tariff technically is in place, but the rate is zero).

What WTO rules do require, under the MFN principle, is whatever tariffs we decide to set must be charged equally to all WTO members (there may be a few exceptional examples where this is not the case), albeit these rules do not include countries with which we have agreed a customs union or an FTA. In a World Trade Deal scenario, we would be leaving the EU's customs union without a trade deal or a replacement FTA. Therefore, we would have to charge the same UK MFN tariffs on imports from the EU as on imports from the rest of the world. But those UK MFN tariffs can be *lower than the current EU-mandated tariffs* or *zero* ra*ted* if we want, on some or even all categories of goods.

We could, for example, upon leaving the EU choose to impose a zero tariff on any products we do not produce. This would apply to many items of food, clothing, textiles, and footwear that are not produced in the UK. An example where this might be done is orange and banana production, where there are EU (Spanish) producers but no UK producers; an automatic zero rating of tariffs from the high tariffs currently charged would be entirely beneficial.

Another example is, we could eliminate tariffs on component parts we import in order to support UK-based supply chains – eg, for cars or trucks.

10. Does the WTO require physical customs checks, meaning lengthy delays at our ports and borders?

No.

The WTO Trade Facilitation Agreement, the WTO Technical Barriers to Trade Agreement and the Kyoto Convention of the World Customs Organisation commit the EU and ourselves to making border processing activities as streamlined as possible[4,5,6]. There is no requirement for border checks and, where physical inspections are necessary, the Agreements require that they be intelligence-led and cannot be more trade-restrictive than necessary. For example, the UK currently checks only 4% of goods arriving in the UK from non-EU countries, and Ireland just 1%.

Mobile and remote customs controls are permitted and are already used widely for goods coming from outside the EU Customs Union. Some systems – including the Authorised Economic Operator scheme – will need expanding, but nonetheless provide a firm procedural basis for smooth, fast border crossings. There are existing schemes operated by EU member states in accordance with the Union Customs Code for trusted traders where certain companies pre-register in order to undergo faster and lighter touch checks, or to be able to remove goods from the border for inland clearance. The EU's own Customs Code requires customs declarations to be done online and allows these to be done with as little as one hour's notice.

A paper commissioned by the European Parliament confirmed such approaches in its *Smart Border 2.0* paper in 2017[7]. The former Director of the World Customs Organisation, Lars Karlsson, saw "an opportunity to develop a friction free border building on international standards and best practices". He discussed the ability of technologies including "automatic number plate recognition, enhanced driver's licenses, barcode scanning and the use of smart phone apps" to "reduce or even eliminate the need to stop or undergo checks". Crucially, Karlsson also demonstrated that his solution could be implemented "regardless of the legal framework for the UK's exit from the EU" including on WTO terms.

11. What about checks on food and animal products?

The WTO's Agreement on the Application of Sanitary and Phytosanitary (SPS) measures does allow for border checks to ensure the safety of imported food but stipulates that such checks should not be used as a surreptitious means of inhibiting cross-border trade. Checks must not, according to the Agreement, "arbitrarily or unjustifiably discriminate between WTO members where identical or similar conditions prevail . . . SPS measures shall not be applied in a manner which would constitute a disguised restriction on international trade."

Since we will have full conformity of standards immediately after we leave the EU, any new border checks could be kept to a minimum. It would be open to the UK to continue to recognise EU regulations and certification. Given the alignment of the substance of regulations and the known processes for enforcement and market surveillance in the UK, treating such imports from the UK the same way as imports from third countries and requiring meat and animal products to undergo veterinary checks at border inspection posts would arguably not be objectively justified and would constitute a disguised restriction on trade, giving rise to claim under the SPS Agreement.

12. If we trade under WTO rules with the EU does this stop us from having an FTA with other countries or the EU?

No, quite the reverse.

As soon as we leave the EU, we can negotiate and sign FTAs with whomever we want. Once we have secured an FTA with a particular country we trade with it under the terms of that FTA. For all other countries we would trade under WTO rules.

13. Could we still negotiate a Canada+ FTA with the EU after we leave, having dropped the Chequers or 'Chequers minus' route?

Yes - probably even more easily than during the Article 50 negotiations.

Once we are out of the EU with a World Trade Deal, we can negotiate with the EU about an FTA, just as we can and will with other countries. President Tusk offered the UK a Canada + arrangement on March 7th this year, as confirmed in the Council Guidelines of 23 March 2018, and M Barnier reiterated this position only in August.

However, in the current Article 50 negotiations, such an agreement is subject to the commitments made in the Joint Report on sufficient progress in December 2017, in particular in respect of the Irish border. Those commitments have been interpreted by the EU to require Northern Ireland to remain effectively in a customs union with the EU and in the single market, unless other solutions are agreed. This has become known as the 'Irish Backstop' and means essentially that the offer of a free trade agreement applies only to mainland Great Britain.

As a consequence - in order to avoid the operation of the backstop and have a solution that would apply to the whole of the United Kingdom - the UK proposed a 'deep and close' relationship in its July White Paper. As explained above in Question 2, these 'Chequers proposals' are unlikely to be accepted either by the UK Parliament or by the EU, as French President Macron, for example, made clear in an August speech.

Critically, a World Free Trade Deal means leaving without a Withdrawal Agreement, which means there would be no Irish backstop. It would be up to the UK and Irish authorities to take the necessary steps to ensure that the border remains open for trade. Both HMRC and the Irish Revenue Commissioners indicated at an early stage that they consider compliance activities can be carried out away from the border, without requiring infrastructure to be installed. Given the regulatory harmonisation in place at present, regulatory checks can also be carried out as they are now – in the market and by way of ongoing surveillance of market operators, with Northern Irish and Irish officials working together. This should always have been the UK government's position on the Irish border, and in a World Trade Deal; given the EU's commitment to supporting Ireland and the Belfast Agreement, it should also be the EU's position.

Such an FTA would preserve the gains from Brexit discussed in Question 14 below and would be in line with the Referendum result. Canada+ implies there would be zero or low tariffs between the UK and the EU (only one in four sectors of the UK economy would likely be subject to tariffs at all).

In practice, *non-tariff* barriers to UK/EU trade would be very limited because we are already fully aligned with the EU on standards and exporters would remain so, just as they do for any foreign market. Under an FTA, the UK would have freedom to determine whatever regulation and standards would be best for the UK home market – which would be applicable to imports and domestic production. At present, even though only 12% of the UK economy and 5% of UK businesses trade with the EU, the EU sets the standards for 100% of the economy and 100% of all businesses.

Of course, if we liberalised these standards to permit more goods from non-EU countries to be sold here, we could not discriminate against EU imports. Each EU exporter to the UK would be free to meet our new liberalised standards.

An additional advantage of negotiating a Canada+ FTA with the EU after leaving the EU is that we would have greater leverage than we currently have under the Article 50 negotiations. There would be no time constraints and the benefits of the Clean Brexit achieved through a World Trade Deal would start to become apparent. Whatever short-term bumps experienced during the disengagement process would be behind us. The EU would have new negotiating guidelines focused on trade and not political issues such as a financial settlement, Northern Ireland and EU Citizens rights. Such issues do not feature in normal EU trade negotiations.

Thus, doing a World Trade Deal now actually makes a better trade deal with the EU more likely later. This frees us in the immediate-term to concentrate on what really matters in the remaining time we have available for the Article 50 negotiations; for example, aviation, nuclear safety and the rights of citizens, as well as opening up the discussions necessary for cooperation between customs authorities to mitigate the impact of moving away from free circulation of goods.

A World Trade Deal is better than what can be negotiated on the basis of the Chequers model. And, crucially, there is little prospect of getting a quick Canada+ deal without also preparing for the WTO stepping stone in case of delays or EU intransigence. And, doing so will demonstrate that the UK has an attractive exit path without agreeing a trade deal with the EU.

Economic Impact of a World Trade Deal

14. Is the game worth the candle? Are the long-term gains from a World Trade Deal worth all the hassle compared with the status quo?

Yes.

First, we must not lose sight of the strategic reasons that drove the vote to leave the EU, notwithstanding any potential technical difficulties during the transition.

Second, with regard to economics, it is important when evaluating such a critical change in national policy, to focus on the long-term effects. This is because, being permanent, such changes will dominate national welfare; and also because trade patterns move mainly in response to long-run trends.

Leaving the Single Market and the Customs Union, regaining control over our borders, laws, and regulations, freeing ourselves from the European Court of Justice, and having freedom to establish our own trade deals with the rest of the world will produce important gains from free trade - one of the few economic propositions on which nearly all economists agree.

And remember that 90% of economic growth in the world over the next 10-15 years will come from outside the EU. The share of UK trade with the EU is forecast to fall to one third of exports from two thirds when we joined the EEC in 1973.

While various economists differ in quantifying the long-term impact, those who have modelled a Clean Brexit properly report long-term gains from free trade alone of 2%-4% of GDP[8,9,10], which is consistent with the actual reported experience of Australia over its 30-year experience with global free trade.[11] The long-term negative outcomes claimed by the Treasury and the January Cross Departmental Brexit Analysis[12] were produced by assuming implausibly high (and illegal) frictional UK-EU border costs, as well as hypothesising trivial gains from free trade with the rest of the world[13].

In addition to the benefits of global free trade, we can add the benefits of better regulation[14], regaining control of our borders enabling us to eliminate the cost of wage subsidies (20% of wages) paid to uncontrolled unskilled EU immigrants[15], and stopping entirely our approximately £12 billion a year (and increasing) net payments to the EU. Furthermore, because we will be doing all this without the encumbrances and constraints of the Withdrawal Agreement, we can accelerate the gains from a Clean Brexit (as there will be no transition period) and we can choose to take a strict position on the financial settlement and withhold most or all of the estimated £39 billion 'divorce payment'.

The long-term gain to GDP of all this together will be about 7% over the next decade and a half, a half percentage point addition to the growth rate over this period. The long-term effects on prices and wages mean the average household will gain around 8%, while the poorest household will be 15% better off. The Treasury will receive about 10% extra revenue - around £80 billion.

All of this will allow enhanced spending on public services and tax cuts by the early 2020s, further boosting the economy[16].

Clearly, macroeconomic models vary, and outcomes forecast by different economists will not be the same. But the important point to grasp is that those who have modelled the policies inherent in the Lancaster House speech have produced decidedly *positive* outcomes. This is in contrast to the decidedly *negative* outcomes produced by the Treasury and other civil servants who have not provided models based on Lancaster House assumptions and who tend to view Brexit as a damage limitation exercise. And there will be winners and losers – this cannot be avoided. But, the nation as a whole will be a winner as a result of free trade – whether implemented unilaterally or via FTAs.

15. Wouldn't WTO rules inevitably lead to tariff and other trade barriers in goods trade between the EU and the UK thereby leading to a big reduction in our trade with the EU?

No, not on a long-term basis.

As a starting point, the economically optimal trade strategy in most circumstances for the UK would be to eliminate all tariff and non-tariff barriers unilaterally with respect to all our trading partners - including the EU. However, whether or not such circumstances hold today, political interests driven by old-fashioned mercantilism and protectionist producers used to forty years of EU protectionism at the expense of consumers, makes implementing such a policy politically difficult.

Consequently, the UK's route to global free trade is likely to be primarily through agreeing FTAs with other countries, perhaps coupled with unilateral actions where we decide it is in our interests to take them. Examples of such unilateral actions would be removing tariffs on goods where there is no UK production to protect or on component parts for supply chains.

We can reasonably assume that under such an approach to Brexit, in the long-term via both FTAs and specific unilateral actions, both the *tariffs* and protectionist *non-tariff* barriers currently imposed by the EU on our trade would be removed with non-EU countries. The effect of this would be to reduce the internal prices of goods in the UK to the level of world prices – a substantial reduction. Therefore, all participants in the UK market would have to set prices competitive with world prices.

However, during the short-term, the issue may arise whether we impose tariffs against the EU (and consequently other countries). We have a choice in this regard. Significant EU-UK *non-tariff* barriers should not arise given that exports from both sides already satisfy the export standards the other side sets. And, creating new such barriers would be illegal under WTO rules.

Even if we choose to impose tariffs on the EU, we will work in parallel to eliminate trade barriers with non-EU countries through both FTAs and specific unilateral actions. Thus, in the long-term, as explained above, all participants in the UK market would have to set prices competitive with world prices. Under such circumstances, in order to maintain their market, EU producers will be forced to meet world prices in the UK market and consequently be forced to absorb the UK import tariff, reducing their profitability. In light of this lower profitability, they might consider switching their products into other markets but there would be no gain from this as these markets too will be subject to world prices. They could also cut capacity, but this would be an irrational decision on a marginal profitability basis. Furthermore, such collective decisions would tend to push the EU economy into operating at below potential employment that would tend to force offsetting monetary or fiscal policy. Thus, EU prices would fall into line with world prices and our EU import volumes would likely remain similar to pre-Brexit levels.

If we do not impose tit-for-tat import tariffs against the EU, then imports from the EU similarly will remain unchanged facing the same competition from non-EU producers.

With regard to our exports to the EU, UK producers will now be selling at world prices in the UK market and this will force UK prices of EU exports down to world prices. Consequently, any tariffs imposed by the EU on UK exports will simply be passed on to EU importers. On average, the decrease in UK producer prices (about 20%) will be greater than the tariffs raised by the EU (4% - 5%). And, in the medium-term, the devaluation of the pound would enhance competitiveness. Thus, UK producers would now be more competitive in the EU market. Therefore, in the broad sweep, UK producers should not suffer significant reductions in their trade with the EU. Of course, there always will be winners and losers in certain sectors.

Finally, it is important to put EU import tariffs into perspective. MFN tariffs under the EU's Common External Tariff (CET) have been calculated in a study by Civitas[17] to amount to about £5.2bn per year or under 4.5% on average. This reflects the fact that the UK's exports into the EU27 are mainly in low tariff areas that receive comparatively little protection against imports from the rest of the world in contrast with the EU27's goods exports into the UK that are concentrated in higher tariff sectors. The EU in contrast will have to pay £13 billion in tariff costs if the UK raises CET tariffs against the EU.

In summary, because all producers have a strong interest in retaining their markets, the main post-Brexit effect would be that both UK and EU-based producers would lower their prices in line with world competition to retain their market share. In the long term, as production expands in industries where profits rise and falls in previously protected ones where profits might fall, the pattern of exports and imports might change but in a way that depends on how the changing production is demanded around the world. For example, some EU imports might be replaced by local UK production or by importing goods from non-EU countries that would be cheaper as UK import tariffs are eliminated. According to analysis in the Cardiff World Trade Model, the pattern of our trade with the EU would change little, with change mainly taking place in our trade with the rest of the world.

16. **Won't prices inevitably go up?**

No, in the long-term, they will go down by a substantial amount.

As a member of the EU customs union, we already pay more for items purchased inside the EU than the rest of the world pays for these same items. These tariff and non-tariff barrier (NTB) walls drive up costs for consumers inside the EU.

The EU's trade barriers hit the UK particularly hard because the EEC's customs union was designed and built before we joined the EEC in 1973. The tariffs and NTBs were set to protect Continental producer interests, notably French farmers, German car makers, and Italian clothing and footwear manufacturers. Those were – and still are – the areas where the EU's external tariffs and NTBs are very high. These areas are also routinely protected in EU free trade agreements, reducing the benefits for UK consumers overall.

When we applied to join the EEC in 1972, we were not in a position to make the EEC change its whole trade policy to accommodate our consumers or our historic low food price policy which had prevailed since the repeal of the Corn Laws - which, just like the EU customs union, inflated consumer prices to protect producers.

Instead, part of the price of membership was to swallow the bitter pill of higher food prices. Indeed, Heath's White Paper advocating EEC entry in 1971 estimated that "*membership will affect food prices gradually over a period of about six years with an increase of about 2.5 per cent each year in retail prices*" - that is the Heath government accepted on our behalf a permanent elevation of about 15% in food prices as part of the cost of entering the EEC.

And this elevation of prices has persisted. Various studies have shown that the prices of basic foodstuffs are higher in the EU than in comparable countries, such as the US, Australia and New Zealand. This tallies with another estimate by Prof Patrick Minford that the combined effect of the EU's tariff and non-tariff barriers on imports is to raise prices of food and manufactured goods inside the EU to 20% above world prices on average[18].

Thus, under a policy of free trade as our existing tariffs against the non-EU world are abolished, long-term prices in the UK market would fall to world price levels. EU producers would be forced to match these lower world prices or face losing their markets. Even if the UK decided to raise tariffs against the EU, EU producers would be forced to absorb UK tariffs in order to keep their UK prices the same as world prices in the UK market.

This general fall in prices would represent a significant gain for UK consumers, which is estimated at 8% off the CPI. Wine that currently has a 32% EU tariff is a good example. If wine from Australia and America comes into the UK market at lower prices than wine produced in France, Spain and Italy will have to come down in price. So, under a rational policy, food prices – as well as prices for other basics – will go down, not up.

17. **This may be ok for the long-term but won't prices inevitably go up in the short-term?**

Not likely –a *de-minimis* impact with the right policy decisions

If we opt to impose the current EU tariff regime against EU exports, then it might seem that the initial effect would be to raise prices somewhat as we impose tariffs on imports from the EU that do not presently incur tariffs, while maintaining tariffs on imports from the rest of the world.

But the impact on prices should be small to trivial. For a start, EU tariffs currently average only 3% - 4% and we import a sizeable amount from non-EU countries. Thus – importantly - EU producers would face competition from world producers whose prices would not change. This competition means, if they raised prices, they could lose their UK market. This would hit EU producers hard and they would tend to restrain their price rises in order to maintain market share.

Furthermore, we could offset whatever short-term upward effect on prices there might be from newly imposed EU import tariffs by reducing tariffs on some imported goods, both EU and non-

EU produced. The most attractive ones to target might be goods that we don't produce at all, eg, oranges. Moreover, as we achieve FTAs with other countries, many prices in shops would fall. And, this would intensify pressure on EU producers to reduce their prices.

Admittedly, these effects could be complicated by changes in the value of the pound. If the pound fell following a Clean Brexit (or, more likely, following the announcement that this was going to happen), this would tend to raise prices in the UK, with the result that the inflation rate would spike higher temporarily. But, this would be far from a disaster as it would make our exports even more competitive.

However, such a fall in the exchange rate is not inevitable and would be temporary at most. Something like a Clean Brexit is already increasingly anticipated by the financial markets. Moreover, when markets see that a World Trade Deal can bring distinct advantages to the UK, they may well send the pound higher, thereby putting *downward* pressure on the price level.

Such a surprise rise in the pound happened when exchange controls were abolished in 1979. The pound was widely expected to drop but financial markets were so impressed by the confidence conveyed by this move that this, together with upward pressure on the pound from North Sea oil revenues, sent the pound higher. More fundamentally, the pound's fall in the past two years has already eliminated much of the UK's current account deficit, probably making any further devaluation excessive.

18. Wouldn't Foreign Direct Investment (FDI) into the UK inevitably fall?

No.

FDI (foreign-owned capital seeking to invest here or elsewhere) goes where there are good returns. The UK has always been a magnet for FDI because of its strong legal framework and generally pro-business climate. Although there possibly could be an initial hiatus - largely due to perceived uncertainty - it is instructive to observe that inward investment has continued to be strong following the Referendum and despite an unparalleled campaign of fear that continues to this day.

Once it is clear that the UK is moving to a system of free trade through a combination of FTAs with robust protections for foreign investors and unilateral tariff reductions, accompanied by less onerous regulations, FDI is likely to surge. Singapore operates a free trade policy and FDI has always been strong.

What could change after Brexit is the perception of the sectors where returns are perceived by investors to be most attractive.

19. Wouldn't opening the UK up to global competition spell disaster for British manufacturing?

No, quite the opposite.

During our membership of the EU, manufacturing as a share of UK employment has fallen from around 35% to 8% and a substantial part of the UK's £95 billion trade deficit is manufactured goods. So, it is wrong to say that the EU has been good for UK manufacturing. Neither is this decline a particularly British problem, as France has seen an almost identical recalibration away from traditional manufacturing industries over the last thirty years.

Most British 'manufacturing' is, in fact, high-tech and, in some cases, services-oriented – the type of business sectors that should flourish post-Brexit. And, many of these businesses already compete successfully with non-EU competitors and export globally – eg, JLR, Rolls Royce, and JCB.

Furthermore, benefits from the present lowered exchange rate could see the sector enjoy a multi-year transitional period with profits possibly higher than pre-Brexit levels. Analysis of the UK auto-manufacturing sector suggests this could happen. This would provide time for the industry to take advantage of the post-Brexit business environment, improve productivity, and so respond to the effects of a more competitive home market and the impact of any EU import tariffs before the effects of a lower pound wear off.

To achieve this on a manufacturing sector wide basis, productivity need only improve by around 0.9% per year, which should be feasible given that average annual manufacturing labour productivity growth since 1970 has been 2.9%. This reflects the ongoing process of manufacturing 'going up the value chain', away from low-value 'metal-bashing'. In our fully-employed economy, labour released by this process will be reabsorbed into other sectors.

Brexit is already stimulating substantial UK sourcing of manufactured components. It is said that Nissan has gone from 40% UK-sourced components to 60% UK components since the Referendum.

20. Won't new UK free-trade deals eliminate protection and pose a threat to British farming?

Not if sensible post-Brexit policies allowed by WTO rules are adopted.

The Common Agricultural Policy (CAP) is costly for consumers and taxpayers and damages international trade. The CAP absorbs almost 40% of the EU budget, when agriculture accounts for only 1.7% of EU GDP and 0.7% of UK GDP. It produces expensive and poorly directed subsidies. Only 75% of CAP money gets to a farm – the rest goes in wider rural development policies. Of the money that gets to a farm, 80% of it goes to the top 10% of farms in terms of farm income. It imposes high tariffs that raise EU food prices above world prices.

Freed from the CAP, the UK could spend the money in a way that makes more sense for our particular circumstances with its small farms and hill farms. And we could ensure that the money is properly audited and accounted for.

The EU's extreme technological risk aversion hampers farmers' efforts to increase productivity. The ECJ's recent ruling on gene-editing confirms their stance. The world's largest chemical company, BASF, has abandoned all further biotechnology research for the European market. Their entire blight-resistant potato project has moved to the USA. Bayer is soon to follow suit to take its biotech research elsewhere.

To boost productivity, we need to embrace the opportunities of innovation, offering farmers the greatest freedom to grow their businesses and employ the lessons from the liberalising policies (and spectacular successes) of Australia and New Zealand. For example, when New Zealand removed subsidies to sheep farmers in the 1980's, this encouraged reuse of the land for growing grapes and producing wine, leading to New Zealand's now buoyant world-class wine industry.

We can have confidence that the food-producing areas of the UK could be similarly successful in competing with the world outside the constraints of the CAP. The benign British climate, the length of our days and our soil quality provide some of the most productive land in the world. With economic growth in the developing world increasing the global demand for protein, efficient UK farmers could potentially increase such exports, as well as catering to local needs.

There is evidence that British consumers prefer to buy local, regardless of cost, with a recent study suggesting that 51% of consumers would buy the same amount of British produce (and 27% would buy more) when given the choice against a cheaper imported alternative[19].

In those areas where food production alone is insufficient as a source of income, systems of support can be maintained that reward farmers and landowners for public services they provide, which will be mainly improving the natural environment. The additional roles of providing national food security, maintaining the cultural landscape, improving biodiversity, increasing soil quality, producing saleable water and managing flood control can all be fully rewarded.

Measures such as these have been successful in Switzerland, where payments well exceed those of the CAP. Given that the UK presently pays far more into the CAP than it gets back, we will be well placed to make similar payments under new schemes which were, in broad terms, set out in the DEFRA consultation document earlier this year.

Whilst WTO rules do place restrictions on support mechanisms considered to distort the market – eg, price supports and subsidies directly related to production quantities – there are no limits on environmental and conservation schemes, research funding, training programmes and disease control measures since these measures are Government funded and do not distort prices for consumers.

Thus, under a Clean Brexit with WTO rules, farmers can be free to embrace the latest technology enabling fertile areas to continue competing with the rest of the world. More marginal areas can be supported with continued Government funding in a way that is fully WTO-compliant.

21. Is it not vital to the City that there is a UK-EU trade deal, preserving existing market access?

No.

It is noteworthy that, in recent weeks, UK financial institutions appear to have come to terms with the likelihood that no special financial services deal will be agreed and are preparing - in effect – for a World Trade Deal scenario. The Bank of England has announced, if the UK leaves the EU without a withdrawal agreement, it will allow EEA financial institutions currently passporting into the UK to continue operating here under a temporary permission regime (TPR) for up to 3 years, while they apply for full authorisation from UK regulators. This will allow the UK to remain the centre for financial services and wholesale banking for the European, Middle Eastern and African time zone.

The City is the world's No 1 financial centre, competing with New York, Singapore and Hong Kong. It has been estimated that only 9% of the City's revenues are vulnerable to the loss of 'passporting'. EU businesses are highly dependent on the City for access to London's efficient global capital markets. It is notable that the UK exports more financial services to the US than to France, Germany and the Netherlands added together - while Japan is the UK's 4th biggest financial service export market ahead of the Netherlands.

It follows that the UK can re-establish any former EU equivalence agreements with our major financial trading partners in the case of a World Trade Deal and revisit any countries applications that were denied equivalence by the EU Commission for non-financial reasons. This work can be started now as part of our preparation for leaving.

There are numerous ways in which businesses established in the City can provide services to EU27 customers in the absence of a deal, and vice versa. These include setting up small entities in the EU that trade with EU customers and those entities entering into mirror, or "back-to-back" trades with the UK parent. EU companies can also set up tiny entities in the UK to access financial services here, in the way that businesses do from the rest of the world. EU27 financial services companies and other EU27 firms will continue to be able to access UK financial markets and services via the reverse solicitation exclusion, which the EU has acknowledged is relationship based. This is how the City has operated successfully for decades (if not centuries) and is the standard way non-EU clients access the UK financial markets. There are many other such workarounds.

The EU has the ability to recognise the UK system as being "equivalent" across all financial areas where EU equivalence is available, as the UK and the EU have identical financial regulations. This helps reduce the cost and complexity of satisfying the regulation of the home state, where the service provider is established, and the host state, where the customer is established. It is likely that the EU will ultimately grant the UK equivalence, as it has granted it to 35 countries including the US, Japan and Saudi Arabia. Not doing so penalises EU citizens and businesses financially by increasing their cost of capital and limiting their access to financial services.

Indeed, a financial services trade deal is likely regardless of what the UK does for goods and other sectors. Barnabas Reynolds, a leading City financial services lawyer, has explained this and has set out how the City can thrive under a variety of models of UK-EU cooperation or lack of it in a series of publications for Politeia[20].

There are two key elements in the City's future success: (1) that its markets continue to be global and (2) that it continues to have an efficient pro-business environment. In particular it needs to continue to have a localised, focused and high-end regulatory system. The latter will be provided by the Bank of England and the UK regulators (PRA and FCA), as it was prior to our EU membership.

The EU has been seeking to federalise regulation and supervision, importing its own social values and ideological approach, which has incrementally been detrimental to the City's competitiveness and is likely to become far more so. There are many EU regulations that have had the unintended consequence of reducing financial market competition and financial access. In a World Trade Deal Scenario, UK authorities can act swiftly to review and adapt such regulations.

22. What about market access for services in general?

As there never has been an EU 'single market' for services, there is not much to lose.

The UK would certainly like to have market access for services, which would involve the mutual recognition of regulatory standards, qualifications of service suppliers and so on. However, the UK must not seek this at any price.

For various services areas, there are indications that the EU may wish over time to impose its unfolding rules on service suppliers from the UK on an ongoing basis. It also seeks to impose its rules on social standards, which are crafted for industrial business and do not fit well with the services environment. The justification given by some EU and member state politicians (particularly from France) is to prevent the UK from being competitive against the EU. This should be reason enough to reject them.

It is not just that the EU seeks to infringe the UK's sovereignty to regulate its own markets, but it could also result in a suppression of the UK's competitiveness as the world's second largest exporter of services. There is a tension in the negotiations along these lines, where the UK's interests in sovereignty and also in being competitive in the international markets are aligned.

It is becoming ever clearer that the EU is 'terrified' of a 'super competitive' Britain on its shores' (Katya Adler, BBC). It would prefer the UK to be an economic laggard, offering some measure of easy access in return for the UK not being overly competitive or successful. Over time, the UK's market position in services would be eroded, either by countries within the EU or, more likely, by other countries around the world which are not operating within a straightjacket of complex and ill-fitting restrictions.

23. But, won't we be the economic losers relative to the EU?

No, to the contrary.

Leaving the EU with a World Trade Deal - even assuming both we and the EU impose existing EU tariffs against each other – economically works to our advantage and to the disadvantage of the EU.

How so? As we will be leaving with a World Trade Deal incorporating a Clean Brexit, the advantages of global free trade with non-EU countries will be realised, as well as the benefits of better regulation, ending taxpayer subsidies to low-skilled migrants, and ending our annual contribution to the EU budget. In fact, under a World Trade Deal scenario, these benefits will accrue earlier because there will be no transition period delay. In addition, we will avoid the obligation to pay some or all of £39 billion to the EU in return for obtaining a transition period.

As explained in Questions 15 and 16, due to free trade with non-EU countries, in the long-term, competitive world market prices will prevail in the UK market. This creates a critical difference on the impact of tariffs in the EU versus the UK. EU exporters to the UK will be forced to absorb the tariffs we levy on their products in order to match world price levels in the UK market – ie, UK consumers will not be disadvantaged by import tariffs in the normal way because they have access to (lower) world market prices in their home market. On the other hand, EU importers will have to absorb the tariffs the EU levies on UK exports because of the same home market competition.

In other words, if we were to impose existing CET tariffs against the EU, HM Treasury would gain a bonus in tariff revenue but, importantly, the tariffs would make no other difference to our Brexit economic gains. This scenario would be extremely difficult for the EU: a £13 billion UK tariff burden would fall on EU exporters, while it would be EU importers who would have to pay the EU Commission its £5 billion in EU tariffs[21].

In addition, if the UK does not agree to pay a significant financial settlement, there would be an immediate financial crisis for the Commission in the current budget period with the loss of the UK net budget contribution beginning immediately and increasing world competition to EU sales in the UK market forcing the prices of EU products down.

In summary, discounting these figures from now into the distant future shows the equivalent of a present gain for the UK of about £650 billion versus a loss to the EU of about £500 billion – a £1.1 trillion difference.

Potential Problems after Leaving

24. If we leave the EU "without a deal" won't this bring chaos across a broad front of daily activities?

No.

Leaving "without a deal" means leaving without a *comprehensive trade* deal that is involved with much more than trade issues. Not agreeing a *trade* deal is not the same as having *no agreements at all* on a wide range of non-trade areas where there need to be arrangements. These include, for example, visas, citizen rights, security, airline permissions and much else that is needed for citizens of the EU and the EU to carry on their ordinary lives.

Counter to much of the rhetoric that has accompanied the EU-UK negotiations, the EU has many treaty deals with WTO members like the United States, China, or Australia. Many of these agreements are multilateral to which the UK can simply join. Most of the bilateral ones are not diplomatically contentious.

On top of these, there are a number of areas where the EU has already said it wants to continue cooperation with the EU. There is also the prospect of specific new bilateral deals being reached in particular fields, recognising that the UK and EU share a common starting point, high levels of professional standards, and a commitment to consumer protection. Such bilateral deals could allow certain existing arrangements to continue in a narrow area deemed to be of common benefit. Happily, these agreements are sanctioned by the 'Good Neighbour' clause of the Treaty on European Union and, if the UK takes decisive action at an early enough stage, the relevant mandates from the Council can be obtained to allow these international agreements to be negotiated.

Many of the lurid headlines in the media do not stem from the negotiations themselves but rather from anti-Brexit campaigning groups and politicians. A case in point is how such campaigners have distorted use of the list of 84 items for which the Government will be publishing papers purportedly explaining the situation in the event of 'no deal' – i.e., the absurd scenario of *nothing* being agreed at all.

Anti-Brexit campaigners have deliberately obfuscated the distinction between no *trade* deal and no deal of *any kind* - conflating leaving without a *trade* deal to be the same as leaving with no deal on *anything*. They have exaggerated a large number of highly unlikely outcomes affecting daily life – many of which are irksome rather than life-changing (eg, loss of pet passports to the EU) – in hopes of bouncing the populace into a paranoia about leaving without a *trade* deal.

One of these led to choreographed headlines about EU resident pensioners not being able to collect their pensions 'without a deal'. A moment's reflection shows that non-EU citizens currently resident in the EU - US, Japanese, Chinese - receive their monthly pension payments without fail. The extraordinary implication of these headlines was that wire transfers would cease to exist.

Failure to manage such basic things would be a dereliction of government duty that no government could risk.

25. But, what about the short-term negative impacts reported daily in the media and even by some Government Ministers?

Clearly, in any major policy change of the magnitude of Brexit, short-term risks exist. But they need to be placed in perspective.

For example, civil servants have claimed that 'frictional border costs' in a WTO trading scenario will depress our GDP by up to 7%. However, as explained above, such frictional border costs would not arise given advanced systems and processes that are used to manage a modern customs border and mandated by WTO rules. As our total EU trade amounts only to about 12% of GDP and only about 40% of it is from exports where we do not have control over policy and border procedures, such a claim is simply not credible.

Much of the hysteria about 'shortages' of goods, such as food and medicine, seems to be based on the idea that the UK, itself, would impose non-tariff barriers (that do not exist today) against the importation of goods from the EU27. Even if we wished to self-harm, such an action would not be permitted under WTO rules. In pursuance of WTO law, the European Union (Withdrawal) Act 2018 includes laws that provide, for example, that it is lawful to import into and sell in the UK medicines made in a factory in Germany under the supervision of the German authorities. So, as mandated by WTO rules, after 29 March 2019 there will be no legal barrier against the continued importation into the UK of goods made and certified under EU standards and rules.

Furthermore, in the short-term, under WTO rules, we have the authority to reduce/eliminate tariffs on our imports if we wish and wave through imports from the EU with minimal or no physical checks, as we do today. Thus, claims that there will be import shortages are completely baseless. Of course, under WTO MFN rules, we also would have to make such reductions available to non-EU countries.

Since it will be in our power to avoid short-term disruption of EU imports, the remaining potential trade disruption could be from actions by the EU against our exports. Here, the effect of the Withdrawal Act comes into play – i.e., Articles 34-36 of the TFEU (formerly the Treaty of Rome) on free movement of goods will continue to have effect after Brexit as part of retained EU law in the UK. These Articles contain general rules against imposing restrictions against the import of goods from other EU member states unless they are objectively justified.

And we must remember that other non-EU countries have managed very well without EU membership and have dealt successfully with technical barriers to trade. Brexit may create a 'speed bump' as leave, but the key is how we can best accelerate away after that.

26. Could the Commission obstruct our trade by not agreeing to our product standards and complicating border procedures?

Not unless the Commission decides to violate international law.

WTO rules on non-discrimination on standards mandate that, once the EU or any other WTO member has announced their proposed domestic standards, these must apply without exception to all foreign exporters. Because both UK and EU exporters satisfy the other's product standards (since both have been subject to the same EU standards for some 40 years), they must continue to have the relevant permissions to enter each other's markets without hindrance. If either the EU or the UK tried to keep out each other's exports where the products continue to comply with the standards in the domestic market or to apply burdensome certification procedure, this would be discrimination that could be challenged by the WTO legal process.

In addition, the WTO Trade Facilitation Agreement mandates a seamless (computerised, pre-cleared) border enabling trade to continue passing through ports with minimal checks, pre-cleared by computer, with all relevant information pre-entered at low cost straight from the loading logs. In practice, if an EU port – say Calais - were to attempt to complicate border procedures artificially to inhibit our exports, it is already apparent that other ports such as Zeebrugge would quickly fill the gap.

Customs officers will certainly have to 'handle' extra trade – namely UK-EU trade that they previously registered but otherwise ignored. But customs officers in the UK and around the EU in the key channel-facing ports have expressed confidence in their ability to adjust.

27. What if - despite this - the Commission still wants to make a political point?

While it is not impossible that elements of the EU Commission might try to behave badly, it will be subject to a number of important constraints:

- International agreements to which the EU is party, including WTO Agreements, form an integral part of the EU legal order. Quite apart from any remedies that could be pursued against the EU via the WTO disputes mechanism, internal action could be taken in the EU General Court by affected businesses that suffer from the Commission's failure to comply with the EU's international obligations. Compensation liabilities would arise in the event of clear and manifest breaches of EU law.
- There are practical reasons why the EU would not want to disrupt imports from the UK. The strongest case is medicines, where they are unlikely to cut off supplies of drugs made in the UK that would cause serious problems for patients within the EU27.
- Self-interest expressed by national governments and by vested lobby interests within the EU will act as a strong brake on cavalier actions affecting livelihoods and business interests

For these reasons, Armageddon type predictions that the EU would freeze out UK goods by refusing to recognise them as complying with EU standards in breach of WTO rules and in a worse way than it treats any other non-EU country are simply not realistic. The Commission's statements about the effect of the UK having third country status therefore contain large elements of political posturing intended to frighten the horses and should be treated as such, not swallowed without challenge.

28. But surely there will be problems over standards in the future as we and the EU change our standards?

Not really.

The EU itself jealously guards its own right to regulate in its free trade agreements; and sovereignty over regulations for international partners is already widely recognised in all EU FTAs.

Furthermore, in almost all fields, there are existing Commission delegated powers to pass regulations that recognise non-EU goods as conforming to internal EU standards. The fact that the Commission has not yet passed such regulations in relation to the UK does not mean that it will not. They are taking the line that technically they cannot pass them until the UK formally becomes a "third country" on 30 March 2019. However, the necessary regulations can be passed rapidly under delegated powers once that date passes.

Over time, the EU's and our standards will change and diverge. But 'regulatory divergence' can be managed successfully and is already being managed for EU trade deals to date. If changes by the EU or an international partner are too great, then the relevant clause or agreement may have to be renegotiated. This is widely understood.

Export firms on both sides are quite used to this as they have to adapt to such changes all over the world where they have export markets; it is an accepted cost of doing export business. In no country do politics and product requirements stand still, given the way consumer preferences and technology change. Export firms from the EU and elsewhere adjust as necessary, to continue to participate in external markets.

It is quite likely that we will liberalise our standards to modernise our economy post-Brexit. As such, exporters to the UK will probably not need to change much, if at all, as more varieties of products are deemed acceptable, subject to reasonable safety standards and the like. As for EU standards, how they will change will be a matter of EU politics. Our exporters will deal with these changes just as they do with standards changes in China, the US, Russia and the rest of the world.

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