Brexit

EU-UK Trade options

The resignation of Sir Ivan Rogers highlights the uncertainties likely to follow the UK's invocation of Article 50 - and Mrs May's 17 January speech highlights the possibilities for a new UK-EU trade deal. Whilst any eventual outcome will be unique, there are basically seven broad options for the negotiators to pursue.

As the UK Permanent Representative said, "free trade does not just happen". Trade is under greater pressure than for many years. Trade is a key driver for growth and jobs, and increasingly depends on compatible regulatory and technical standards, rather than on political bargaining. Yet voters are increasingly protectionist as witnessed by the Brexit debate on reducing migration and outside legal jurisdiction, e.g. the European Court of Justice (ECJ).

Freedom of movement and the role of the ECJ are central to the Single Market (SEM). Yet the first option is for the UK to remain part of the SEM. This is the most business friendly, soft 'Brexit', route, with least risk of extra trading costs. The Scottish Government backs this solution but not Mrs May. Here the UK would effectively revert to its former Membership of 'EFTA', now the European Economic Area (EEA).

The benefits for business in remaining within the SEM would be great. The UK could still negotiate separate trade deals, and the EEA does not cover agriculture or fish. Remaining part of the SEM, avoiding a 'hard border', would also support the Irish 'Good Friday Agreement', overwhelmingly endorsed by voters in both parts of Ireland: should the electorate of part of its next door island have the right to override that?

The UK would still have to make a significant financial contribution to the EU, yet would lose its voice in Brussels and any say in the future development of the SEM. "No taxation without Representation" was a key rallying cry for Britain's American colonists in the 1770s.

For some keeping freedom of movement and the power of the ECJ is of greater concern. For business a major drawback would be the need to apply complex "Rules of Origin" (ROO) for exports either way, which the OECD estimates could add up to 24% in extra costs. This is a major problem where components originate across several countries, such as in aerospace or even televisions - as seen with the growth of Global Supply and Value Chains. Although less key for oil and fish many EEA companies prefer extra duties to extra bureaucracy.

The second, Swiss, option might be close to what emerges, but is nobody's first choice. After the Swiss 1992 vote against joining the EEA a whole series of agreements followed that do not quite replicate the EEA. Neither the EU nor the UK would want to repeat that.

The third option, for the UK to remain in the Customs Union (CU), or to negotiate a partial customs union like Turkey, is important. Formed in 1968 the CU was the original "Common Market". It includes the EU28 and small states like Monaco - but not the EEA.

The key advantages for business would be that common external tariffs would apply and extra ROO export costs avoided. The Good Friday Agreement would be safeguarded, although without free movement of people. A partial CU is possible, but a problem for the UK would be that it could not negotiate trade deals ahead of the EU, and to date Turkey has not been that successful in playing catch-up where the EU has these.

With much ingenuity a fourth option – a Free Trade Area - could be based on EU agreements with the Ukraine, Georgia and Moldova, and proposed for Morocco and Tunisia. There would be no EU membership, no customs union, or free movement – but these are agreements designed to help neighbouring countries catch up. Bigger UK concessions would otherwise have to follow.

Fifth is the "Canada plus" option: yet following the CETA example is only really appropriate where the regulatory regimes are far from aligned, such as with the US (17% of UK trade) or China (4%): hardly relevant for Europe (44%).

Sixth is the WTO option, reverting to basic WTO rules and tariffs, or hard 'Brexit'. The UK urgently needs to establish its WTO schedules, but these would still add tariffs to most imports and exports, ranging from 4% to much higher levels for food and agriculture products, following which, as Sir Ivan inferred, specific trade deals can take years to negotiate.

Finally, any failure to agree or a walk-out would in effect lead to an unseemly dash back to the WTO option.

Extended version of the article is available on the Employers' Group website: http://europa.eu/!UP39RB

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