



# **The World Trade Organisation (WTO) & UK Trade Policy after BREXIT**

Professor Fiona Smith, University of Warwick

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## 1.1 UK Trade with the EU

- The EU is the UK's largest trading partner:
  - £220 billion of goods & services exported from UK to the EU = 44% of all UK trade (2016)
  - £291 billion of goods & services imported from the EU into the UK = 53% of all UK imports (2015)

*Source: Institute for Fiscal Studies: The EU Single Market: The Value of Membership versus Access to the UK, 2016, p5*



## 1.1 UK Trade with the EU

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- “UK exports to the EU27 countries are worth about 13% of the UK economy; EU27 exports to the UK are worth around 3% to 4% of those countries’ economies (taken as an aggregated whole).
- The UK has a deficit on trade in goods with the EU27 (£89 billion in 2015) but a surplus on trade in services (£28 billion in 2015).
- The UK’s trade deficit in goods with the EU27 is very unevenly distributed among EU27 countries and is largely accounted for by just two countries (Germany and the Netherlands).”

*Source: House of Commons International Trade Committee: UK Trade Options Beyond 2019, (March 2017), p.22*



## 1.2 UK's Current Relationship with the EU

- UK is a member of the EU
- EU is a Customs Union
- EU is a Regulatory Union
  - Product safety standards
  - Product quality standards
  - Labour standards
- EU has a single Common Commercial Policy
  - Trade in goods
  - Trade in services
  - Commercial Aspects of Intellectual Property
  - Foreign Direct Investment
  - EU acts on behalf of its member states in the WTO

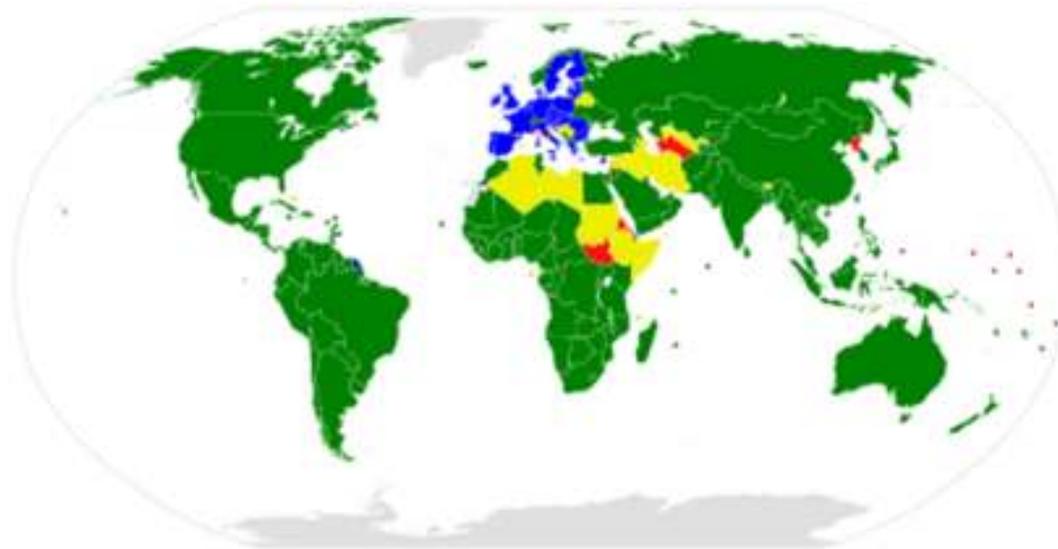
## 2. What is the WTO?

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## 2.1 Membership of the WTO

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## 2.2 The WTO's Regulatory Framework: Agreement Establishing the WTO

### Annex 1: Trade Rules

- Annex 1A Goods: GATT, other Agreements & Decisions
- Annex 1B Services: GATS, other Agreements & Decisions
- Annex 1C Intellectual Property: TRIPS

### Annex 2: Dispute Settlement

- Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)

### Annex 3: Trade Policy Review Mechanism

### Annex 4: Plurilateral Agreements

- Agreement on Government Procurement
- International Dairy Agreement
- International Bovine Agreement

## 2.3 Settling Disputes in the WTO

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## 2.3 WTO: Jargon Buster

- GATT, GATS, TRIPS, DSU, Plurilaterals, TFA
- WTO Schedules
- MFN Tariff (NB tariffs are not placed on services)
- Bound Tariff
- Applied Tariff
- Tariff rate quota
- Mode 1, 2 3 & 4 (for trade in services)
- Modification, rectification and certification of Schedules

## 3. Options for BREXIT?

### a. 'Clean' BREXIT: a bespoke deal between EU & UK

“..So we do not seek membership of the single market. Instead we seek the greatest possible access to it through a new, comprehensive, bold and ambitious free trade agreement.

That agreement may take in elements of current single market arrangements in certain areas – on the export of cars and lorries for example, or the freedom to provide financial services across national borders – as it makes no sense to start again from scratch when Britain and the remaining Member States have adhered to the same rules for so many years.”

Source: Prime Minister, Theresa May, *The Government's Negotiating Objectives for Exiting the EU*, 17 January 2017.

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### 3. Options for BREXIT?

b. Scope of an ideal 'Clean' BREXIT agreement:

- i. Reciprocal tariff free deal with the EU
- ii. 'Mutual recognition' of standards or 'equivalence of standards'
- iii. A reproduction of the right of establishment and mutual recognition of professional qualification
- iv. An equivalent to 'passporting' for financial and broadcasting services
- v. Special sectoral arrangements for key industries eg cars

*Source: House of Commons International Trade Committee: UK Trade Options Beyond 2019, (March 2017), 62-63.*

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### 3. Options for BREXIT?

#### **b. No deal = Trading on WTO Rules**

- i. UK export of goods to the EU will be subject to EU tariffs eg 10% on vehicles; 4.5% on components; 59% on beef
- ii. UK goods exporters must demonstrate that their products conform to EU standards
- iii. UK will lose 'passporting rights' for financial services
- iv. Setting up subsidiaries or branches of companies in the EU will be more difficult after BREXIT
- v. UK trade to non-EU countries under existing EU Free Trade Agreements (FTAs) may cease unless the UK renegotiates the terms of those agreements
- vi. Institute for Fiscal Studies predicts trade between the EU and the UK will drop by up to 29% (£58billion) BUT potential for:
  - Expanding trade with the Commonwealth
  - Expanding developing country access to UK markets



## 4. Conclusions

- The UK government is seeking a 'bespoke' trade deal with the EU, but the scope of that deal remains unclear.
- It is also unclear whether an EU-UK trade deal will be finalised by the time the UK leaves the EU in 2019.
- If the UK concludes a trade deal with the EU before BREXIT in 2019, the trading environment may not change substantially.
- If the UK does not conclude a deal with the EU, the cost of exporting to the EU will be affected by tariffs (goods) and prohibitions on market access (services) and increases in customs checks.
- All aspects of UK domestic trade policy must comply with WTO rules post-BREXIT
- Any trade deals the UK concludes with non-EU countries must comply with WTO rules
- Greater opportunities for trade with non-EU countries as the UK government rolls out greater support for exporting.
- The Great Repeal Bill is designed to make the transition from EU to BREXIT as smooth as possible so change in products standards etc will not happen in the short term,.
- Over time, there could be less bureaucracy as the UK gradually rolls back some EU rules and regulations.