

UKTPO

UK TRADE POLICY
OBSERVATORY

Which Brexit?

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Menu Restricted until Further Notice

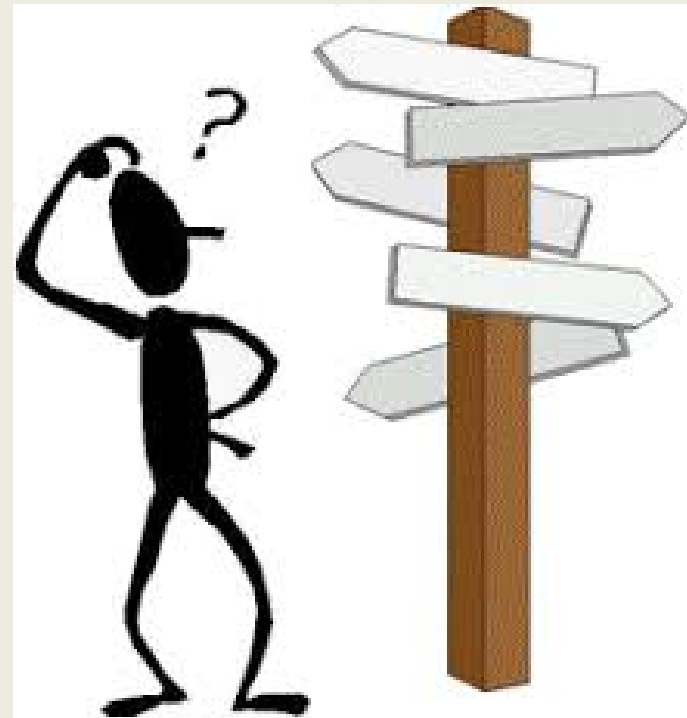
Correcting the Focus on Gross Exports

- Imports are what confers welfare
- The terms of trade matter as much as exports
 - Devaluation is NOT the answer
- Value added = incomes: net out imported inputs
- Trade policy operates on gross flows – cumulate
- Who/where the incomes accrue matters

Day 835: where are we now?

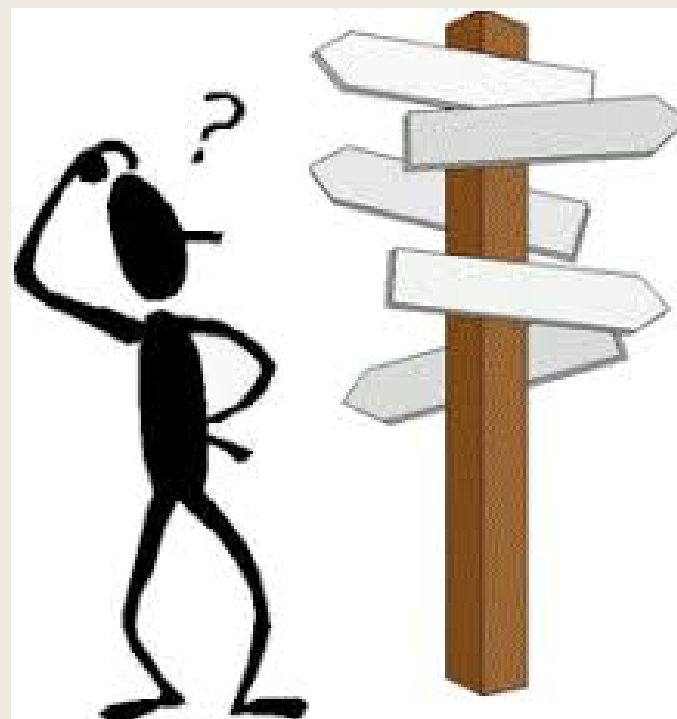
Where we started:

- ‘No deal’
 - Planned
 - chaotic
- Canada (+++?)
- Norway (EEA)



Day 835: where are we now?

- And now:
- ‘No deal’
 - Planned
 - chaotic
- ‘Super’ Canada
- ‘Super-Chequers’
- Norway (EEA)
- Remain



The Political Complexities

- EU seeks legally binding Withdrawal Agreement
 - Citizens, budget, all-Ireland economy (Single Market)
 - December's Backstop for Northern Ireland
 - disowned by UK,
 - It should be covered by the long-term trade deal
- Trade is to be covered by a political declaration
 - How binding? Trust
 - UK divided about what goes into it.

Chequers (White Paper) I

- Free flow of goods with the EU
 - Tariff-free access
 - Regulatory alignment for border checks
- But nightmarish ‘Facilitated Customs Arrangement’
 - Track imported goods
 - ROOs applied internally
 - Origin checks ‘around the country’ when $t_{\text{UK}} > t_{\text{EU}}$

Chequers (White Paper) II

- Independent Trade Policy? Barely, because of FCA
- Little commitment on ‘non-border regulations’
 - Working conditions, environmental practices,
 - Only firm commitment is on state aids
- Little on services
 - ‘Not have current levels of access’
 - Avoiding ‘unjustified barriers or discrimination’
 - Coverage in line with the GATS
- Labour mobility – little; matter of trade not of labour markets

Super-Chequers I

- Free flow of goods with the EU
 - Tariff-free access
 - ??? Regulatory alignment for border checks ???
 - Single Market in Northern Ireland (sea-route checks)
- *Replaced by Customs Union, until technology allows something different*
 - But nightmarish 'Facilitated Customs Arrangement' Track imported goods
 - ROOs applied internally
 - Origin checks 'around the country' which is > t_{EU}

Super-Chequers II

- Independent Trade Policy? **Services only (unrealistic)**
- **A bit more** commitment on ‘non-border regulations’ ??
 - Working conditions, environmental practices,
 - Only firm commitment is on state aids
- Little on services
 - ‘Not have current levels of access’
 - Avoiding ‘unjustified barriers or discrimination’
 - Coverage in line with the GATS
- Labour mobility – little; matter of trade not of labour markets

Why does 'no services' matter?

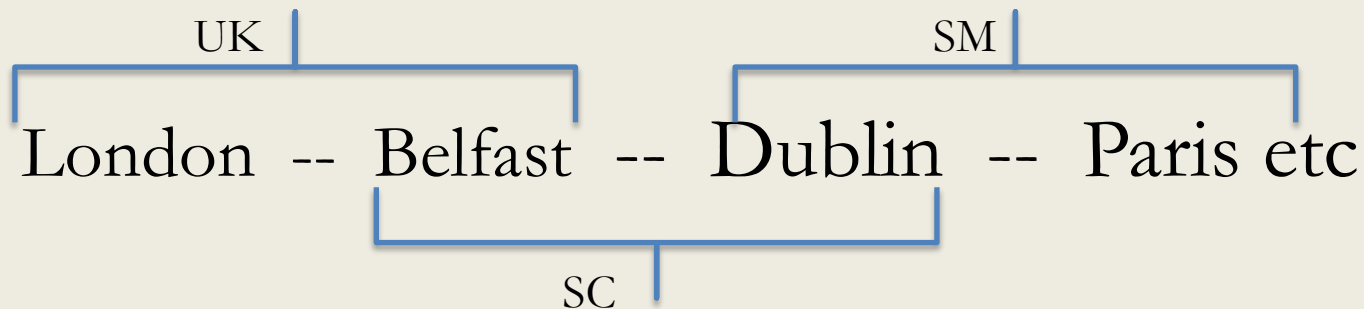
2014	Through exports by			
	Agri. and min.	Manufacturing	Services	Total
Value added from				
Agri. and min.	3.3	2.1	0.7	6.1
Manufacturing	0.2	22.9	1.8	24.9
Services	0.8	9.5	58.6	69.0
Total	4.4	34.5	61.2	100.0

Source: Authors' computations on WIOD, 2016 release (www.wiod.org).

- Bundling services and goods in exports
 - Movement of labour significant here

Why 'no services' upsets the EU

- Cheaper services than EU
 - competitive advantage in goods
- Bundling services and goods in exports
 - Complexities in providing packages
- Northern Ireland in EU and UK Single Markets



But Chequers will evolve – or die



Towards the EEA

- Full goods integration?
- Services integration
- Labour mobility
- CJEU
- EEA (Norway)

Towards Super-Canada

= Chequers + problems:

- Irish Border
- Rules of Origin
- Border formalities
 - Disruption
 - Time in transit
 - Paperwork
 - All → Risks
- Less cooperation

Border formalities for non-EU lorries

- 1 hr to decide if paperwork checks necessary
- 3hrs if paperwork checks
- 5 hrs if physical check

Towards Super-Canada

= Chequers + problems:

- Less cooperation
- Irish Border
- Border formalities
 - Disruption
 - Time in transit
 - Paperwork
 - All → Risks

But

- Cleaner conceptually and administratively
- More freedom and expense
- Can sign FTAs
- Can coordinate regulations, e.g. USA

How scary is Super-Canada? A Survey

- Industrial product supply sector*:
 - Turnover £148 billion,
 - 1.1 million employees and
 - approx. 20% of UK goods exports
- 34 questions
- 20% response rate
- Interviews with a diverse sample of firms of varying sizes and sectors

* EURIS ‘*Securing a competitive UK manufacturing industry post Brexit*’, 12th September 2018

Key Results

- Over half of respondent's product sales are intermediate inputs
- Over three-quarters of firms supply to over 50 other firms
- 83% of respondents would prefer to stick with EU regulation. Only 11% want weaker
- Unpredictable delays at borders would be a significant or major cost for 77% of firms

More key results

- 83% of respondents import inputs from the rest of the EU.
- Imports are over 75% of costs for 1 in 5 respondents
- 37% of respondents don't know if their products would satisfy EU rules of origin
- 57% of respondents don't know who their tier 2 and tier 3 suppliers are

Thank you

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