

THE RISK OF A MOST EXTREME BREXIT

di Wolfgang Munchau

su Financial Times dell'8 giugno 2020

Only a fool would put a probability on whether the EU and the UK will agree a trade deal.

What we do know is that there is, and has been for a while, a non-trivial possibility that the UK will not strike a trade deal before the end of this year. In that case, the UK's trading regime would default to that of the World Trade Organization.

Last week, the talks between the two negotiating teams reached an impasse.

There is no obvious way forward unless both sides drop some of their red lines.

By the end of this month, Prime Minister Boris Johnson has three options: ask for a one or two-year extension of the December deadline; go for a deal by October; or prepare for no deal preparations for a no deal are already under way.

The UK government has recently published its schedule for the new external tariffs that will come into force next year. The bottom line is that the average most favoured nation tariff — the one that applies to WTO members without a special trade deal — will go down from an existing 7.2 per cent, the EU's average common external tariff, to 5.7 per cent. Effective average tariffs are always lower than MFN tariffs because of the effect of bilateral free trade agreements.

According to the WTO, the trade-weighted average EU tariff on all goods, including agriculture, was 3 per cent in 2017.

With its new schedule, the UK did not go as far as some free trade supporters had hoped. The existing 10 per cent tariff on imported cars will stay. But many tariffs will be eliminated. Others will be simplified. According to calculations from the UK Trade Policy Observatory at the University of Sussex, 70.3 per cent of UK imports, in value, from MFN countries would face zero tariffs. That compares with 51.5 per cent under the EU regime.

In a no-deal scenario, EU imports would also come under this new schedule. In that case, only 44 per cent of imports from the EU would be free of tariffs, compared with 100 per cent right now. Since the EU is the UK's largest trading partner, average tariffs in the UK would go up if there were no deal.

Michael Gasioerek and Julia Magntorn Garrett, fellows at the Observatory, made one important point about the UK undercutting EU external MFN tariffs. It might contribute to a no-deal outcome because it raises issues over rules of origin, one of the most difficult technical points in international trade negotiations.

By lowering tariffs, the UK is clearly signalling to the EU that it seeks to increase competitiveness, one of the reasons why the EU is so obsessed with the level playing field.

The economic difference between a minimal, zero-tariff, zero-quota trade agreement and a WTO Brexit will not be all that large. The direct impact of tariffs on the UK economy would, I presume, be overcompensated for by a fall in the pound. It would be different if the UK and the EU were able to strike an agreement on regulatory alignment and on services. But that would entail a much broader deal, one the two sides may not be able to negotiate in such a short amount of time. The real benefit, even from a minimal trade deal, would be political: it keeps the pathway open for a future association agreement. As with all things Brexit, it is much harder to rely solely on economics because the gains and losses are contingent on the details of the deal and on future policies.

When the EU agreed its negotiating mandate, it did so on the assumption that the UK needs the deal more desperately than the EU, and that Mr Johnson would most likely fold. Some Remain advocates in the UK should ask themselves to what extent they played a role in cementing those expectations in Brussels and in other EU member states' national capitals.

It is one thing for a trade negotiator to try to seek an economic advantage. It is quite another to try to impose your own regulations on the other side, as the EU is seeking to do. I am not criticising the EU's negotiating mandate on moral grounds. Let the stronger side win. My problem is simply that it may be based on a misjudgment. I am relieved to hear that the EU is showing signs of flexibility on state aid. The UK will, in turn, need to accept that the commitment to the level playing field in the political declaration is serious. The EU needs to accept that it can't determine the level unilaterally. The job to find a compromise will fall to the EU German presidency, which starts in July. It is still all to play for.

munchau@eurointelligence.com