

Implications of Brexit: Navigating the Evolving Free Trade Agreement Landscape

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SUMMARY BRIEFING OF THE 7TH ESRC FUNDED SEMINAR SERIES WORKSHOP DISCUSSIONS

BACKGROUND

Academics, business representatives and policy-makers debated Brexit negotiations and future UK trade policy based on the fact that the UK has expressed an interest in pursuing its trade relationships through free trade agreements (FTAs). Presenters discussed the following lessons that sum up and shed light on the current state of play and the future of Brexit, and focus specifically on the following issues:

CHALLENGES OF BREXIT AND POST-BREXIT NEGOTIATIONS

Negotiations with EU are likely to be lengthier than estimated

EU FTA negotiations last on average four years. The deal with Canada took seven years. Increasingly, the European Parliament and national parliaments (when applicable) are flexing their muscles in the ratification process, lengthening the process, as with the EU-Canada agreement in 2016.

The EU attempts to have a certain degree of coherence across all its trade agreements, and this can lengthen negotiations, as matters unrelated to the negotiation at hand, but of concern for future negotiations can 'pollute' negotiations.

Importance of sequencing and timing

A clear and detailed sense of the future relationship of the UK with the EU and an understanding of the importance of single market is necessary prior to undertaking FTA negotiations with other partners, to ascertain what the negotiating position and possible trade-offs will be with its partners.

Negotiating post-Brexit FTAs may not be as simple as envisaged

The UK will lack the large market that the EU and USA leverage in FTA negotiations to gain concessions from partners and impose their preferences. At the same time, as the world's fifth largest economy, the UK should be open to losing its predominance as trading partner and seeing that there is a threat perceived by the partners to certain economic sectors so much so that the trading partners may be reluctant to negotiate at existing terms and open their markets to UK competition through FTAs.

Trade policy and industrial policy

All trade agreements generate gains for some economic groups and losses. The Government's industrial policy White Paper fails to mention linkages to trade policy. An explicit reference to industrial policy linkage will be crucial in future negotiations as potential FTA partners could pursue market access in

manufacturing and areas covered in the industrial policy. The Government may like to consider how it will craft a trade policy that compensates sectors likely to lose out from future FTAs. Modelling these effects is being undertaken by the PI.

BUSINESS CONCERNS

Labour and migration

Regardless of what type of immigration regime is adopted, it is likely there will be diverse categories of migrants of EU origin, and the added complexity will add to business costs. Certain sectors, like care services, heavily reliant on intermediary labour providers, will be particularly affected by the additional costs of having to pay visas for workers, and care service costs will increase and burden the already stretched sector.

SMEs and business

Business representatives highlighted the critical need to ensure that certification processes and rules of origin certification are not overly complicated in postBrexit era, as this will add significant costs to businesses that have become accustomed to dealing with Amsterdam with as much ease as with Birmingham.

The Government will have to pay close attention to the needs of SMEs, not least funding needs, and how they are affected by Brexit and FTAs as they lack the capacity of larger companies to open branches abroad or to comply with disparate regulatory regimes.

PUBLIC PROCUREMENT

The UK has not signed the WTO's Government Procurement Agreement

(GPA), so upon leaving the EU, there is no certainty its firms would qualify for improved access to public procurement markets elsewhere. Speakers encouraged the Government to accede to GPA as soon as possible, and to do so prior to Russian and Chinese accession, as these states could then demand greater concessions from the UK in terms of access to its procurement market.

A public procurement expert highlighted that when designing future public procurement policy, the UK Government will have to decide whether to continue using EU mechanisms (tendering systems) and practices, or not. Departing from the EU system will create uncertainty for businesses and raise the costs of procurements for UK authorities, but it could allow for a system that takes into account certain domestic preferences, something that the current EU procurement regime does not provide for. The possibility of the UK signing up as new member to the WTO-GPA after exiting the EU was also discussed.

BREXIT AND DEVELOPING COUNTRIES

As a member of the EU the UK is party to preferential trade agreements with 54 countries around the world. Developing states benefit from preferential access to the UK market through trade agreements or through the EU's generalised system of preferences or everything but arms initiatives for developing states. A post-Brexit hiatus where these agreements no longer apply and before the UK has clarified its WTO schedules and its position towards developing states, would be detrimental to developing states, particularly small island states in the

Commonwealth that are heavily reliant on exports to the UK.

Participants urged the Government to initiate steps towards extending continued preferential access to the UK market to developing states, by firstly investigating what legislative and bureaucratic procedures would be required in partner countries to implement an agreement with the UK that is the same or similar in content to existing agreements between the EU and developing states, so as to prevent a hiatus. They also highlighted the complexity of opting for unilaterally granting developing states preferential access to the UK market, as this would require a WTO waiver. Whilst the government may choose to do this, this takes time, and that time needs to be factored in choices.

Alongside the danger of a hiatus, presenters highlighted the risk of preference erosion for developing states, if the UK opts in the future to unilaterally lower/remove tariffs for all countries. Supply chains are also at risk, if trade between the EU and UK is disrupted or lowers as a result of Brexit (e.g. fair trade chocolate produced in continental Europe).

An independent UK trade policy could offer the UK an opportunity to craft a more development-friendly trade policy. This could take the form of allowing for more cumulation in rules of origin, an early warning system to inform developing states of upcoming regulatory changes, improved impact assessment processes, and even including developing

states in standard setting decisions. The importance of UK overseas development aid was also highlighted.