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The “Plan B” that UK Exporters Need

Economics & politics in the UK & Europe are combining to move the UK to the periphery of “Europe”, in spite of the pro-EU stance of the three main Westminster political parties.

Threat or opportunity for the UK ?

There is no certainty that the eurozone crisis can be solved. Chancellor Merkel, former President Sarkozy & former Prime Minister François Fillon have all stated publicly that if the eurozone breaks up the European Union itself will be in danger. Their proposed solution is deeper “integration”. Twenty-five EU countries (17 eurozone countries plus eight non-eurozone EU countries) are negotiating a new EU-25 treaty to put those integrationist measures in place. The UK & the Czech Republic are not directly involved.

The European Commission, the European Central Bank, the International Monetary Fund and eurozone governments profess to believe that deeper “integration”, under *de facto* German leadership, will work. **It is accepted that such “integration” will not – cannot – be restricted to fiscal & budgetary questions, but will inevitably be applied to areas such as trade, regulation, social policy, energy policy & much else.** What is planned by EU-25 is the unitary Single European State that supporters of “European Union” have been striving for since the 1920s. It is doubtful that the British electorate would want to be part of such a state, let alone in a sort of no-man’s land at the periphery.

In either scenario – a eurozone/EU break-up, or the UK declining to join a tightly-integrated Continental union – the UK, for the first time in half a century, will have to examine its options, trade-wise, as an independent sovereign state. This Briefing Note describes how the UK, outside the European Union, would fit into the rapidly-evolving world trading system.

The UK in the World Trading System post-EU withdrawal

- Outside the EU & the EU Customs Union/Single Market, the UK should plan for its new global trading arrangements to last for at least the next 40 years, providing long-term legal clarity, stability & certainty for domestic & international trade & investment.
- The UK was a founder-member of the GATT in 1948. The GATT's successor organisation, the Geneva-based World Trade Organisation¹ (WTO), dates from 1995. Currently, it has over 160 member-countries accounting for 90 per cent of world trade. Post-EU withdrawal, the UK will continue to conduct its trade under the WTO's supervisory umbrella.
- The UK was the world's fourth-biggest exporting nation in 2009, behind the USA, Germany & China². The UK will continue to be a global leader in trade in goods, services & foreign direct investment. The value of its trade with the world outside the EU is already 50% higher than its trade with the EU³. On present trends, within the next decade (irrespective of the fall-out from the eurozone crisis) UK trade outside the EU could be 60% to 70% bigger than UK trade with the EU.
- International trade now occurs with zero or minimal tariffs⁴ (or customs duties). The UK's average tariff on imports from outside the EU is now under one per cent. Only agricultural products are now subject to significant tariffs.
- The last two decades have seen rapid growth in the number of WTO-compatible Free Trade Agreements⁵ (FTAs) and in international production networks ("offshoring"). At the same time, developments in logistics (IT, shipping, satellite tracking, customs procedures etc) continue to benefit manufacturers, supply chains & customers by shortening delivery times, minimising stock levels & reducing transport & administration costs.
- The WTO recognises that customs unions, as a form of "preferential trade agreement" (PTA), are the past, and that FTAs are the future⁶. The EU Customs Union is the developed world's only customs union.

- The WTO & its member-countries consider tariffs⁷ & Rules of Origin (RoO) as issues of diminishing salience. Tariffs (except for agricultural produce) are now tending to zero worldwide. Although the process of harmonisation of RoO worldwide has stalled at the WTO, extensive regional & cross-regional harmonisation of RoO continues. One transcontinental example, involving forty-seven countries in Europe, Asia, Africa & North & South America, is the *System of Pan-Euro-Med Cumulation of Origin*⁸, which provides for common RoO amongst European, Mediterranean North African & Middle-Eastern countries (including EU & EFTA countries & Turkey), as well as South Africa, Mexico & Chile. On UK withdrawal from the EU, the UK will remain in the Pan-Euro-Med system with exactly the same RoO regime as at present.

References

1. www.wto.org; Global Britain Briefing Note No 5, *The World Trade Organisation*, 19.11.99, www.globalbritain.org > Briefing Notes
2. Global Britain Briefing Note No 73, *UK Fourth-Biggest Exporter in the World in 2009*, 29.7.11, www.globalbritain.org > Briefing Notes
3. Global Britain Briefing Note No 73, *92% of the UK Trade Deficit in the last five years was with EU-26, Table 1*, 16.12.11, www.globalbritain.org > Briefing Notes
4. “...average tariffs have fallen markedly in recent years, making tariff preferences a more minor motivation for entering into preferential trade agreements (PTAs)”. Pascal Lamy, WTO Director-General, in World Trade Report 2011, p. 3, WTO, *The WTO & preferential trade agreements: From co-existence to coherence*, www.wto.org

“...84% of world trade takes place on a non-discriminatory most-favoured nation (MFN) basis....half of world trade is already subject to zero MFN tariff rates.....preferential trade agreements (PTAs) tend to exempt high MFN-tariff items from preferential treatment & trade these products at MFN rates..... For most large exporters, preferential tariffs matter little for the bulk of their exports.” Ibid, p. 7

The average tariff charged by the UK in 2010 on all UK debits on current account with the world outside the EU was under one per cent (author’s calculation, unpublished, using National Statistics data). See also Global Britain Briefing Note No 70, *EU Customs Duties*, 7.1.11, www.globalbritain.org > Briefing Notes

5. *“In the last two decades, the number of preferential trade agreements (PTAs) has increased more than four-fold, to around 300 active agreements today.”* Pascal Lamy, WTO Director-General, in *World Trade Report 2011*, p. 3, WTO, *The WTO & preferential trade agreements: From co-existence to coherence*, www.wto.org

6. At the end of 2010 customs unions accounted for 8% of the world’s preferential trade agreements (PTAs); the other 92% consisted of full or partial FTAs. *World Trade Report 2011*, Figure B4, p. 62, WTO, *The WTO & preferential trade agreements: From co-existence to coherence*, www.wto.org. *“Amongst other things, countries may find it less desirable to form customs unions as these require the establishment of a common external tariff & harmonisation of external trade policies, & hence imply a much higher degree of policy coordination & a loss of autonomy over national commercial policies.”* Ibid, p. 61.

7. *“As preferential agreements have evolved over time...the lowering of tariffs is no longer the main focus of PTAs.”* Ibid, p. 114.

8. Box C4: *Lessons from the EU experience in relaxing rules of origin*, Ibid, p. 109.
See also European Commission, *System of Pan-Euro-Mediterranean cumulation*, http://ec.europa.eu/taxation_customs/customs_duties/rules_origin/customs_unions/article_783_en.htm, & Global Britain Briefing Note No 11, 19.1.01, *Free Trade across the European Continent*, www.globalbritain.org > Archive.

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