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Post-withdrawal,

agreement on free UK - EU trade is inevitable

The absolute clarity of the legal/constitutional position, combined with the UK's status as the remaining EU's biggest single customer worldwide, with which the EU enjoys its biggest trade surplus anywhere, mean that, post-withdrawal, the remaining EU and the UK will ensure that trade between them will continue to be free of customs duties (tariffs) and non-tariff-barriers.

The EU Lisbon Treaty contains at least three separate Articles (3, 8 & 50) which oblige the EU to negotiate Free Trade Agreements ("FTAs") with the departing country. Two years ago, the EU already had FTAs with 63 non-EU countries, was negotiating FTAs with another 63 non-EU countries and contemplating opening negotiations with a further 12 non-EU countries. That makes 138 countries in total: around 80% of all the non-EU countries in the world[1]. Even if the structural imbalances in UK-EU trade[2] – heavily, grotesquely in the EU's favour - are ignored, it is difficult to imagine circumstances in which, on UK withdrawal, the EU would not seek to negotiate free trade with the UK.

In 2011 the UK continued to be by far the Eurozone's & EU-26's **single biggest customer worldwide**, both for all credits on current account (goods, services, income & transfers) and for goods only[3].

The **biggest trade surplus of the Eurozone (and most probably EU-26) worldwide in 2011 was with the UK**. The Eurozone and EU-26 have a massive continuing structural surplus on their trade with the UK[3].

The EU's most influential member-state, Germany, has a massive continuing structural surplus on its trade with the UK. In the five years 2007-2011, the cumulated German surplus on its trade with the UK was € 108 billion[4].

Most of the economies of the Eurozone are moving towards or are actually in recession, meaning redundancies, short-time working, lower tax revenues, worsening levels of deficit & debt, & social problems. The Eurozone's existential crisis may take years, even decades, to "fix". The UK is the EU's second-biggest trading nation (after Germany, ahead of France). **EU-26, the Eurozone & Germany all desperately need a healthy, growing British economy, be it inside or outside the EU, with its chronic propensity to import far more than it exports.**

What if, despite everything, the EU declined to enter into an FTA with the UK post-withdrawal ? What, for example, would be the consequences for cars ?

Such a decision on the part of the EU – Council, Commission, Parliament, European Court of Justice, umpteen advisory committees – could not, would not be taken without the wholehearted support of its most powerful member state, Germany.

Germany's flourishing car industry is perhaps _*the*_ emblematic symbol of German post-war recovery. Any decision by a German government to seriously damage its own car industry is practically unthinkable, but, however improbable, let us assume, for the sake of this "*What if ?"* exercise, that that is what the Chancellery, the Bundestag, the Bundesrat, the regional Länder, perhaps the German Constitutional Court as well, would all decide to do.

Let us imagine the 'phone call from the German Chancellor to Martin Winterkorn, CEO of the Volkswagen Group in Wolfsburg, Europe's biggest car maker, announcing the EU decision:-

Chancellor: *"Good morning Herr Winterkorn. I have some bad news for you, & for your employees. Now that the UK is outside the EU, and there's no UK-EU FTA in place, despite the British offer to scrap duties altogether, the EU and therefore Germany will charge ten per cent customs duty on car imports _from_ the UK, and the UK will charge ten per cent customs duty on UK car imports _from_ the EU & therefore from Germany. So, from tomorrow, all of your exports to the UK (374,000 in 2011, including lots of high-end high-margin Audis) will henceforth be ten per cent more expensive. What's more, the UK being outside the EU has abolished its duties on car imports from China, Japan, Korea and from all other non-EU countries. It's a pity you've spent 60 years making VW market leader with a 19% share of the highly-profitable UK market, but that's life. Sorry about all this but that's EU politics for you........Tschüss !"*

Herr Winterkorn: *"Donner und Blitzen !"*

Next, the Chancellor puts in a call to Norbert Reithofer, CEO of BMW in Munich.

Chancellor: *"Good morning Herr Reithofer. I have some bad news for you, & for your employees. Now that the UK is outside the EU, and there's no UK-EU FTA in place, despite the British offer to scrap duties altogether, the EU and therefore Germany will charge ten per cent customs duty on car imports _from_ the UK, and the UK will charge ten per cent customs duty on UK car imports _from_ the EU & therefore from Germany. So, from tomorrow, all of your exports from Bavaria to the UK (130,000 high-end BMWs in 2011) will be ten per cent more expensive, no doubt giving Jaguar cars produced in England quite a lift. Oh, and just to make your day, all those high-margin Minis you produce in Oxford for export to the EU (156,00 in 2011) will also have to bear the ten per cent EU duty, making them significantly less competitive in Germany, France and elsewhere in the EU. As for your Rolls Royces, even wealthy EU buyers might jib at paying the upwards of £10,000 extra that the ten per cent duty will cause. Sorry about the triple whammy, but that's EU politics for you.....Tschüss !"*

Herr Reithofer: *"***!!***!!"*

The preceding imaginary scenario (except for the statistics, which are real[5]) illustrates the extreme improbability of Germany ever supporting an EU proposal, following UK withdrawal, to impose customs duties on UK goods imports into the EU.

Moreover, as far as the UK car industry is concerned, even in the absence of arrangements for free trade between the UK and the EU, there is very little downside, and plenty of upside, to being outside the EU. **The value of UK car exports to countries outside the EU already exceeds the value of UK car exports to the EU**[6]. The UK, as a substantial net importer, with no significant British-owned manufacturers, could optimise its citizens' economic welfare by abolishing customs duties on imports from all non-EU countries, and focus the country's export energies on the 95% of global population and the (soon to be) 85% of global GDP which lie *outside* Continental EU.

The alleged "ten per cent" EU customs duty on cars

The "ten per cent" EU duty on car imports from outside the EU is often cited as an example of the difficulties the UK would face if the UK left the EU.

That "ten per cent" figure is a nominal theoretical one. The actual average real-world rate of duty charged by the UK in 2011 under the EU Common External Tariff on car imports from outside the EU was **FOUR TIMES smaller: 2.5%**[7]**.** The difference between the nominal ten per cent and the average real 2.5% is accounted for by the fact that many of the non-EU countries (e.g. South Africa and South Korea) from which cars are imported into the UK have free trade agreements with the EU and therefore with the UK. Such cars thus enter the UK with duties much lower than ten per cent, or zero.

It is overwhelmingly probable that, on UK exit from the EU, arrangements for free trade in cars with the remaining EU would be in place (see above). There are no British-owned volume car producers. The bulk of UK car imports, exports, production and consumption is accounted for by indigenous Continental EU manufacturers: VW, BMW, Mercedes, Renault, Peugeot, Citroën etc., and non-European multinationals with major plants in the EU such as Ford, GM, Honda and Toyota. **It is they who would stand to lose from "unfree" trade, and they who would insist that duty-free trade in cars with the UK continued following UK exit.**

Other UK sectors apart from cars:

just as unlikely to suffer on UK withdrawal

In 2010 the average rate of customs duty actually charged by the UK on all imports of non-agricultural goods (including cars) from outside the EU was **one point four per cent: 1.4%**[8]**:** about half the average rate charged on imports of cars alone). In the event that the utterly improbable happened, and that, post-withdrawal, there were no arrangements for free trade with the remaining EU, British goods exports to the remaining EU might then in theory have to surmount an average duty of similar magnitude. (UK export & import mixes differ, so the average duty charged by the remaining EU wouldn't be precisely 1.4%. Perhaps 1.5% ?)

References

1. Global Britain Briefing Note No 61, *"The EU has to negotiate Free Trade Agreements with Third Parties – and it does*", 7.1.11, www.globalbritain.org > Briefing Notes

2. Global Britain Briefing Note No 80, "UK *trade in 2011: healthy surplus outside the EU, massive deficit with the EU*", 7.9.12, www.globalbritain.org > Briefing Notes

3. Global Britain Briefing Note No 79, "*Eurozone Trade in 2011*" 27.7.12, www.globalbritain.org > Briefing Notes

4. Global Britain Briefing Note No 75, "*German Trade in 2011*", 27.7.12 www.globalbritain.org > Briefing Notes

5. Numbers of cars imported into & exported from the UK: data from the Society of Motor Manufacturers & Traders

6. In 2010, the value of UK car exports to the EU was £ 7.8 bn; the value of car exports outside the EU was £ 9.5 bn. Source: ONS, UK Trade, March 2012 Dataset, *"UK's Top 30 Export Commodities in 2010, by EU & non-EU area"*

7. House of Lords: Written Answers: 17.7.12, Col WA 39, HL 1388

8. Global Britain Briefing Note No 81, *"UK Customs Duties: very low on average & reducing",* 7.9.12, www.globalbritain.org > Briefing Notes

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