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WHAT IF WE CAN'T AGREE?

WHY A WORLD TRADE DEAL EXIT FROM THE EU WILL BE BEST FOR THE UK

Economists for Free Trade
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The essential reasons for leaving the EU had to do with regaining control over our laws, border, courts, and finances. To achieve this requires leaving the Single Market and the Customs Union, regaining control over our borders, laws, and regulations, freeing ourselves from the Europeans Court of Justice, and having the freedom to establish our own terms of trade with the rest of the world.

Unfortunately, negotiating such an exit with the EU is turning out to be a roller-coaster ride the final outcome of which is hard to predict. Sober economic analysis of the interests of both sides suggests that they should agree on a mutually advantageous free trade agreement - if not bespoke, at least Canada +. But obtruding into the economics is the clash of political priorities, as well as plain political manoeuvring.

In the UK Parliament, Labour is divided but also is drawn by the irresistible lure of bringing down the Tory government. A dozen Tory rebels are passionately pro-Remain, while half a dozen Labour MPs are passionately pro-Brexit. The murky result this week for the 'meaningful vote' amendment suggests there still remains an uncertain period of 'ping-pong' between the two houses of Parliament. In the EU, there are 27 countries hoping to get a sensible economic outcome but an EU Commission that is religiously federalist and determined to show that 'exit means pain'.

Thus, we have to face up to a worst case scenario that any 'deal' turns out to be the status quo wrapped up a bit, or BRINO - Brexit in Name Only.

BRINO would lock the UK into current EU arrangements for an indeterminate number of years preventing the UK from embracing worldwide free trade and putting in place new pro-growth regulations. It also would prolong the ability of unskilled workers from the poorer countries of the EU to enter the UK labour market freely with full access to taxpayer-funded benefits inhibiting our ability to attract the best and brightest t from non-EU countries. Our calculations suggest it would lose the UK 7% of GDP - or around 0.5% growth per annum over the next decade and a half.

To avoid such an outcome, UK voters and MPs must be presented with a viable and advantageous alternative that the UK can adopt, regardless of the EU's potentially damaging proposals and intransigence.

This alternative is adopting a World Trade Deal. This Deal – as its name implies – involves ending the Government's current obsession with agreeing an EU trade deal - at any cost – and embracing trading with the non-EU world under World Trade Organisation (WTO) Rules, as we already do with some 60% of our world trade – eg, the US, Japan, Australia, and most of the rest of the world.

As Roberto Azevedo, Director General of the WTO has observed (Ref):

> *"About half of the UK's trade is already on WTO terms with the US, China and several large emerging nations where the EU doesn't have trade agreements. So it's not the end of the world*

if the UK trades under WTO rules with the EU . . . it's not like trade between the UK and EU is going to stop. There will be an impact, but I suppose it is perfectly manageable."

This approach has been represented by Remainers and in Civil Service leaks as a 'cliff edge' option that would lead to chaos and a recession. The leaked Civil Service Cross-Whitehall Report (Civil Service, 2018) has suggested that it will cost the UK 7.7% of GDP over the next decade and a half - in essence, the negative mirror-image of the gain we estimate from adopting global free trade under a full or 'clean' Brexit. More recently, another supposed leaked Civil Service report suggests our ports will close down within days if no trade deal is agreed with the EU and there will be no food in shops. These Project Fear Mark 2 conclusions are - we show below - are based on absurd assumptions about border costs and assumptions that the EU will behave illegally.

In this paper, we explain carefully just what a World Trade Deal operating under WTO rules is and why it offers an attractive exit strategy from the EU that the EU cannot damage. We show how the global legal and institutional framework established by the World Trade Organisation supports us in doing this and why the fears promulgated by Remoaners and the Civil Service are groundless.

Therefore, this report

- **Explains the World Trade Deal and the positive economic impact of implementing it under WTO rules**
- **Outlines the important positive impact of the WTO's legal framework and institutions**
- **Shows how the WTO legal and institutional framework will enable the World Trade Deal to be implemented successfully**

A WORLD TRADE DEAL AND ITS IMPACT ON THE UK ECONOMY

The Government's current aspiration is to negotiate a bespoke trade deal with the EU that will deliver a 'clean' Brexit. This is to be commended and if delivered on a timely basis would represent a good outcome for the coutry.

However, as explained above, with every passing day the probability of agreeing such a deal decreases. We are now confronting a much higher probability that we could exit into a vassal state BRINO – worse than remaining fully within the EU. Therefore, we must consider the relative attractiveness of leaving the EU without an EU trade deal and achieving global free trade under such circumstances.

A World Trade Deal would achieve this. The Government would change its strategy from obsessing about a 'frictionless trade deal with the EU" at almost any cost to a new strategy of leaving the EU without a trade deal and embracing global free trade under WTO rules, as we currently do for the 60% of our global trade that is growing the most rapidly.

Note that leaving without a trade deal does not imply 'walking away' from the Brussels negotiations, as there will; be many other aspects of the new EU-UK relationship that will need to be agreed – eg, airline landing rights. Note also that leaving the Article 50 negotiations without a trade deal does not preclude agreeing an FTA in future. Indeed, having regained our sovereignty and being free from the Article 50 time pressure, we might well find it easier to negotiate an attractive FTA as an independent third country at a later time.

Long-Term Positive Impact of a 'Clean' Brexit

Before going further with the World Trade Deal, it is useful to remind ourselves of the economic benefits from achieving a Clean Brexit - ie, leaving the Single Market and the Customs Union, regaining control over our borders, laws, and regulations, freeing ourselves from the European Court of Justice, and having the freedom to establish our own terms of trade with the rest of the world.

Over the past two years, we have reported at length on the long run effects of a Clean Brexit. Here we briefly recapitulate the arguments and findings from our research. A Clean Brexit produces long-run gains from four main sources:

1. Moving to free trade with non-EU countries that currently face high EU protection in goods trade
2. Substituting UK-based regulation for EU-based Single Market regulation
3. Ending the large subsidy the 'four freedoms' forces the UK to give to EU unskilled immigrants
4. Ending our Budget contribution to the EU

The gains under (1) come about because elimination of the EU's protection lowers consumer prices and increases competition in our home market, so raising productivity across our industries. With the economy at full employment and a flexible exchange rate, any jobs lost in industries where higher productivity releases labour will be offset by extra jobs in other (unprotected) industries where productivity is already high and where demand is projected to expand. For our calculations we assume that protection leading to higher prices of 10% in both food and manufactures is eliminated (even though detailed research shows prices inside the EU in both sectors currently are some 20% higher than world market prices). Our estimates, based on the Cardiff World Trade models, are that consumer prices will fall by 8% and GDP will rise by 4%, which is equivalent to a growth rate around 0.5% per annum faster over the next 15 years.

It should be noted that the lowering of protective barriers will not occur overnight but will be phased in over time through perhaps a combination of agreeing FTAs and unilateral initiatives in certain sectors. During this time, it likely that a competitive rate for Sterling will continue to provide support to less competitive sectors while they adjust to the new circumstances.

For (2), we rely on models of the economy developed by Cardiff researchers that assess the effects of regulation on the economy via their effect in raising business costs. We estimate that EU regulation has reduced GDP by around 6%; that probably about a third of this can be reversed giving us a projected gain of 2% of GDP, or a growth rate 0.15% per annum faster over the next 15 years.

For (3), we have examined the costs to the taxpayer of EU unskilled immigrants owing to the entitlement to the full range of tax credits and other benefits, including free education and healthcare. A further effect is that wages of UK unskilled workers are depressed; this represents a transfer from unskilled workers to the consumers who use their products. A further relevant distributional element is that the taxpayer burden and wage effect are both highly localised in areas of immigration. From these costs, we find that Brexit would save 0.2% of GDP in taxpayer costs. Furthermore, there would be a particular benefit to UK low-income households of about 15% of their living costs from the combination of ending this unskilled immigrant subsidy and the trade-led reduction in the CPI.

For (4), we have followed the standard calculations made by the OBR and others, arriving at around 0.6% of GDP.

In combination, these effects would add about 7% to UK GDP.

'No Deal' Impacts the EU Negatively

We also have examined in detail how leaving the EU without a trade deal under WTO rules and moving to mutual tariffs on the EU would affect both the UK and the EU - see Minford (2018 c). This scenario assumes that the UK agrees non-protective FTAs with the non-EU world.

Counterintuitively, the long run Brexit benefits to the UK explained above are unaffected by whether we have a trade deal with the EU or not. In other words, these benefits are the same in the World Trade Deal scenario under WTO rules (where tariffs are likely to be imposed both ways between the UK and the EU) as they would be if a trade deal were to be agreed with the EU – eg, an EU Canada + deal. This may seem strange, but it follows from the competition the UK will face from the non-EU world, which will dictate UK prices and, therefore, the prices our industry can charge.

To explain further, we conclude FTAs with major non-EU trading partners around the world that result in our eliminating our previous EU protection against these countries. In return, they give us better access to their markets. Consequently, prices in the UK market for food and manufactures will fall to the world prices at which these countries supply the UK. These prices will then dictate what our industries can charge; internal UK competition will mean that no firm gets more than these prices. Furthermore, any EU exporter to the UK will be forced to match these prices.

Even if tariffs are erected between the UK and the EU, UK prices will still be set by world prices: Therefore, because EU consumers (who sit behind the EU tariff wall) do not have access to products at world market prices, prices of our products in the EU will rise to reflect EU tariffs (in practice, these prices are likely to be much the same as they are today since the UK currently also sits behind the same tariff wall).

EU consumers will pay these tariffs to the EU Commission: the amount involved is about £5 billion. But, notice these tariffs have no effect on what UK producers get for EU exports. As explained above, EU exporters to the UK must match world prices to compete in the UK market. So, EU producers must take a lower margin, effectively paying the UK tariff to HM Treasury: the revenue is about £13 billion.

It often is asked if UK firms might relocate to the EU in order to avoid import tariffs. Overall, in the long-term, the effects on UK production will be the same as without tariffs, because prices in the UK will remain the same. Of course, in practical terms, we cannot say what individual firms will do: some may come, some may go. For example, if the UK were to agree attractive FTA with the US, many EU firms might be attracted to move to the UK. But, in the long-term, total UK production and employment will be the same all else being equal.

Therefore, what this World Trade Deal does is to pass £13 billion a year in UK tariffs from EU industry to HM Treasury. The EU tariffs force EU consumers to pay £5 billion to the EU Commission, not affecting the UK at all. In summary, the levying of MFN tariffs between the UK and EU boosts UK tax revenue at the expense of EU businesses. It also improves EU Commission revenue at the expense of

EU consumers. Thus, in total, EU businesses and consumers will pay £18 billion annually to the EU Commission, at no cost to the UK. However, these burdens on its own businesses and consumers will likely result in a political cost for the EU from individual countries whose citizens pay

Avoiding the 'Transition Period' is Economically Positive

Clearly, if we do not agree a trade deal with the EU, the proposed Transition Period will not come into force. We will leave the EU fully at the end of March 2019

Although elimination of the Transition Period makes virtually no difference to our long run economic gains from Brexit, there are additional economic advantages from avoiding it: we move immediately to a Clean Brexit in March 2019 – 21 months earlier. Thus, the gains from Brexit kick in earlier and there will be no requirement to pay further EU contributions during a transitional period, which has been the 'price' demanded for a trade deal.

The Government has made it clear that a Transition Period in which the UK continues to pay into the EU Budget as now is conditional on a bona fide trade agreement with the EU, or at the very least on a definite and assured outline of such an agreement. This eliminates a major part, if not all, of the proposed payment of some £40 billion.

We estimate the economic effect of leaving 21 months earlier is a gain to the UK of £650 billion in present value (Minford, 2018c).

We discuss the practical effects of no Transition Period on our borders procedures in the final section of this report.

Why the Cross-Whitehall Civil Service Report is Wrong

By contrast with our calculations, the leaked Civil Service Cross-Whitehall Report (CS Report) has come up with negative mirror-image calculation of the positive long-run Brexit effects discussed above. For their WTO option, which is equivalent to the focus in this report, they estimate a long-run loss to GDP of 7.7%. Almost all of this is due to trade; about 1.2% of the total amount is due to reduced immigration, offset by 0.2% in assumed gains from deregulation.

We have set out a detailed critique of the negative assessment in the CS Report - see Minford, 2018 b. A brief summary follows.

Leave on one side the immigration effect, which is based on the highly unlikely assumption that the UK will sharply limit skilled immigration. Ignore too their deregulation gain which is de-minimis, compared with the large gains widely thought to be available from better regulation of areas like the City, our labour markets, energy and innovation.

The large negative economic impact the CS Report finds in trade turns out to be primarily due to its assumptions that there will be massive costs at the UK-EU border, for three reasons. The first is that pure customs operations are assumed to cost around 6% of trade value - a huge overestimate as explained in the final section of this report. The second is that standards will diverge sharply under the WTO option and, in turn, conforming to these changes will create very large costs for traders: These costs are assumed to be 20% of traded value in each direction. Yet, as explained below, such divergences in standards standard would be illegal under WTO rules and so these costs would not be legally permitted to occur. The third is that tariffs will cause a 4.5% cost on trade in each direction; as explained above, our argument is these tariff costs will not fall on the UK.

The other part of the CS Report's gloom about trade effects comes from its failure to allow for a full range of FTAs with the non-EU world. They consider an agreement with the US and a few other (unspecified) countries and find tiny gains to GDP of around 0.3%-0.6%. However, a full range of agreements would imply, as explained above, that we would eliminate all EU trade barriers on food and manufactures, bringing down their prices by 20%, with consequent strong gains to GDP.

When we redo the CS Report calculations using the correct assumptions on these matters and the same World Trade Model that they themselves are using, we find their WTO Option generates a gain to UK GDP of about 3%, rather similar to our finding of 4%. In effect by twisting its assumptions absurdly and indefensibly the CS Report turns a gain in GDP into a large loss.

IMPORTANCE OF THE WTO's LEGAL FRAMEWORK AND INSTITUTIONS

The WTO was founded in 1995 as the successor body to the GATT. The original aim of the GATT was to organise large 'rounds' of cuts in trade barriers, which it did successfully until the last Uruguay Round concluded in 1994. However, it became clear after this that any new 'Doha' round would not be possible because, with almost all the world's countries by then involved, there would be objectors to any general reduction by particular countries or groups.

Therefore, the WTO was founded to pursue a rules-based environment to prevent tariff escalation, arbitrary acts of non-tariff protection through the setting of standards or creating other protective domestic regulation, and the creation of unnecessary costs or other inhibitors of trade through sheer inefficiency or bureaucracy in border controls. Associated with this rule-enforcing activity was a set of WTO courts that ruled on trade disputes. The most high-profile dispute was the suit brought by the US against the EU for keeping out GM foods. This was determined in the US' favour in 2006; the EU has modified its procedures for evaluating food innovations to take account of this judgement.

The WTO is therefore the main source of international law relating to commerce between countries. In addition to the WTO, most countries are signatories to international bodies that set standards for particular areas of commerce. These bodies in effect extend WTO principles into detailed areas of product and service provision.

The WTO has had a long-existing function to police non-discrimination in tariffs via the Most Favoured Nation (MFN) principle. If a country sets a tariff for one country, it must apply the same to all others, the only permitted exceptions being a free trade agreement (including customs unions). In recent years, the WTO has produced three path-breaking sets of rules to codify and enforce non-discrimination in trade standards for goods (WTO, 2018a), services (WTO 2018b), and for streamlined border procedures (WTO, 2018 c).

Because we surrendered our active role in the WTO to the EU when we joined in 1972 - 46 years ago - it is not surprising that the WTO's role and workings are little known or understood in UK public circles. One great benefit of the UK leaving the EU will be that we will be able to take up again our influencing position on the boards of such bodies.

After Brexit, Britain can be "more flexible in its approach and quicker to react within the WTO, as you don't have to coordinate with all the other members of the EU", observes Azevedo.

We will re-join as an active member when we leave the EU at end-March 2019. From then on we will become daily more familiar with this key organisation which will be the main source of and adjudicator of international law between us, other foreign countries and the EU, soon to be just another foreign power to be dealt with transactionally on a daily basis.

Some commentators seem to think the WTO is an irrelevant 'toothless' body that will be trampled on by large trading powers such as the US, the EU and China. However, this is plainly false as the reference above to the key WTO judgement on GM foods makes clear. Similarly, the WTO has just ruled in favour of Boeing against Airbus in a case involving illegal state subsidies.

Thus, the US has a strong interest in upholding the WTO because it can force the EU to open its markets to products that have been scientifically tested, such as GM foods. The precedent could then apply to other areas where the EU could be found to make arbitrary judgements on standards.

As for China the imprimatur of the WTO has always been crucial to underpin its massive export planning.

The EU in turn will want to use the power of the WTO to hold back or complicate as far as possible President Trump's tariff threats. Notice that any tariffs finally levied by the US must be consistent with MFN principles, which implies that any 'deals' must effectively become FTAs (and hence cover in principle a 'full' range of products).

The law in general is not easily shrugged aside in a world where trade practices are otherwise undisciplined. Countries generally choose to obey the law because then others will do the same.

HOW THE WTO WILL ENABLE A SUCCESSFUL WORLD TRADE DEAL

There has been much loose talk from Remainers and in leaks from the Civil Service that a World Trade Deal exit along the lines outlined above would create chaos in the short run, a 'cliff edge' and, in any event, time is too short to implement such an exit.

Naturally, there will be glitches and possibly sporadic disruption as systems change across many different areas of life. But this will not be because of WTO rules that, in fact, are designed to minimise such disruption. It will occur under whatever set of exit agreements are adopted. Even under an extended BRINO, all that will happen is the inevitable changes needed to accommodate the UK and EU as separate foreign states will be put off until later. While this may reduce short term glitches, it will increase policy uncertainty for a long period and inevitably delay implementation actions.

We illustrate below - in several areas where future disruption is often predicted - how the WTO legal and institutional framework will support the UK in implementing a World Trade Deal.

Preventing 'Chaos' At Ports

It is an article of faith amongst Remainers and most of the civil service that, without full alignment of UK- EU standards and unless a meaningful Brexit is delayed for as much as 3½ years from now (until possibly December 2022), chaos will reign at British ports.

Much of this belief is based on failure to appreciate the degree to which advanced customs and border procedures mandated by the WTO in 2014 have taken hold rapidly throughout the developed world. In addition, the great advantage the UK enjoys from already being compliant with EU standards (including those behind the border) is under appreciated, or ignored. Furthermore, there has been a failure to recognise that meeting standards is a commercial decision made on a company-by-company basis – just as UK companies currently do when they export to the US or China.

***Standards*.** When it comes to the UK and EU's trade relations after Brexit, WTO law is very clear. There can be no discrimination in standards laid down by the EU or the UK. Once a 'domestic' standard has been imposed it must be generalised to all foreign countries' exporters, without discrimination between them. This dictates, for example, that if a UK exporting industry conforms to such a standard, it cannot be told there is another standard to meet. To do this, the EU would have to change the whole EU-wide standard that is being applied, which would, of course, provoke widespread opposition, given that the previous standard was a good one.

The same is true for the UK; it cannot suddenly 'keep out' EU products that previously satisfied UK standards. It can change its domestic standards for some good reason and then apply them without discrimination to the EU's and all other countries' exporters. Notice however that such changes can also be challenged by the WTO and other international standard-setting bodies.

Our export industries must meet EU standards in order to sell to the EU; similarly EU exporters must meet UK standards to sell here. Exporters, whether from the UK or the EU, must do the same wherever they export: if to the US they must meet US standards, if to Japan, Japanese standards, and so on. Exporting business build such requirements into their industrial planning and manufacturing processes.

Under the EU Single Market, UK and EU standards are generally harmonised – ie, they are the same. However, once the UK leaves the Single Market its domestic standards will be able to change. Companies will then be required to meet such domestic standards as they change, but will continue meet the export standards for different destinations as required. There will be nothing to prevent each company continuing to match EU standards on its EU exports; it is an individual company-decision. It is not a matter for governments at all. And, as we have seen, when companies do match these EU standards, they cannot be discriminated against.

Some standards concern 'behind the border' actions, like the testing of product quality. The principle above remains the same: if a company wants to export its products to the EU and the EU insists on some such testing or other internal procedures, then the company must follow them in order to sell to the EU market.

The important point is – unlike the situation while we remain in the EU – only those companies desiring to export to the EU will have to meet EU standards. The vast majority of companies that do not export to the EU will have no requirement to do so.

In much of the commentary on standards, the government's role is represented as central and necessary. However, government's role is in the background, as a guarantor of the (international) law should other governments fail to observe it, not as a layer-down of export standards for exporters: this is a matter purely for the exporters. The extraordinary panic of our civil servants about WTO-based trade post-Brexit is shown to be nonsense by the EU's flow of imports from the rest of the world. Starting at around a third of total imports, such imports have grown faster than EU internal trade in the years of the Single Market since 1993 (Burrage, 2017). The exports of fifteen non-EU WTO countries in particular grew at 3.6% pa against growth of internal trade by the EU 12 of only 2.3% p.a.

Border Procedures. WTO directives about customs procedures - as mandated in the WTO Trade Facilitation Agreement - are similarly uncompromising. Borders must be seamless and state-of-the-art technological practices employed. Developed countries with adequate resources are expected to install state-of-the-art border systems in order that trade should not be impeded (developing countries with limited budgets are understood to be less able to keep up). This new emphasis on streamlined borders comes from the commercial needs of supply chains and just-in-time systems.

These mandated changes were only ratified by WTO members in February 2017. Therefore, many commentators are unaware of their importance. However, as they were initially agreed in November 2013 and built upon existing best practice, most developed counties have been implementing such procedures for quite some time.

For example, the World Customs Organisation (WCO), an offshoot of the WTO, operates a 'SAFE' Framework of Standards to Secure and Facilitate Global Trade. Currently, 169 countries are covered by the scheme, including the EU 28. It is based on four principles (Longworth/Bannerman 2018):

1. Requirements for harmonised advance electronic cargo information
2. Consistent risk management approaches by governments towards security threats
3. Outbound inspections of high risk cargo and/or transport performed by the exporting nation using non-intrusive detection equipment to avoid holding up goods on arrival
4. Fast-track Trusted Trader Schemes for businesses that meet supply chain security standards and best practices – eg, the EU's own version is Authorised Economic Operators (AEOs)

Following this lead, most countries now permit traders to submit their customs documentation electronically in advance of the goods arriving at the border. Virtually all submissions of the EU's own Single Administrative Document (SAD), for declaring imports and exports, are now made online. This means that most trade arriving from countries that are members of neither the Single Market nor the EU Customs Union suffer little or no hold up at the border when entering the EU. There is no reason for this to change after Brexit.

Similarly, the trend with recent trade agreements is to build in systems that depend on organisations reaching AEO status. This status significantly helps reduce customs-based controls. Because obtaining such authorisation is more easily achieved by large businesses than small, additional procedures have been developed to support SMEs.

Figures from the World Bank's Logistic Report (World Bank, 2016) confirm that these directions have taken effect in a big way. The median developed country lets 98% of border traffic go through unchecked (as it has been already cleared via following the above directives) and the remaining 2% checked is cleared within a day.

The Government's proposed Maximum Facilitation border procedure is consistent with these high WTO standards and, in large part, existing practice at UK ports already reflect such standards. Furthermore, Channel-facing EU customs organisations have declared similar aims (see oral evidence to Treasury Committee on Tuesday June 5th given by port representatives from Zeebrugge, Calais, and Getlink (Eurotunnel) - https://www.bbc.co.uk/programmes/b0b7kcy0).

Thus, hyperbolic claims that leaving the EU without a trade deal are very wide of the mark.

Driving Down Costs at the Border

Recently, in oral testimony to the House of Commons Treasury Select Committee on May 23rd, HMRC estimated that the border cost to traders of the Maximum Facilitation system could be as much as £20 billion. This figure – representing only the cost of completing customs declarations and rules-of-origin certificates - has been seized upon by Brexit opponents as an argument for remaining in a customs union. Similar assumptions – as described above - have been used by the civil service in their modelling of Brexit outcomes.

Given the highly efficient best practice border procedures mandated by the WCO and generally already practiced by most developed countries, this calculated figure - about 5.6% of the value of the sum of EU-UK imports and exports – is implausibly high relative to the costs reported by other regimes that are on the order of 1% (Gudgin & Mills 2018). Moreover, some of these studies are dated and may not reflect the rapid reduction in computerised border costs driven by the WTO.

It should be noted that our proposed World Trade Deal would not require rules-of-origin certificates, since there would be no FTA with the EU. This subtracts £7 billion from the total HMRC cost; nevertheless, the resulting HMRC cost still represents a large 3.6% of the value of goods. It also should be noted that the HMRC figure overstates the absolute cost borne by UK companies by £6.5 billion because it includes the cost of both EU exports to the UK and UK exports to the EU. Thus, the total HMRC cost figure relevant to the World Trade Deal scenario is £6.5 billion, rather than £20 billion (albeit this does not reduce the percentage figure).

Against this, HMRC claims that they do not accept such 'top down' percentage cost estimates are applicable to UK-EU trade due to the preponderance of high-frequency/relatively low value shipments necessary to maintain supply chains. Therefore, their analysis is 'bottoms up', in which they multiply the volumes of customs declarations by an average cost per declaration. While their argument may have some merit at high volume Ro-Ro ports (primarily Dover and Eurotunnel), it cannot apply to UK ports generally. Given the high volume of overseas container shipments and high value consumer end products (eg, automobiles) passing through UK ports overall, HMRC's concerns about high frequency/low value shipments appears exaggerated and its analysis simplistic. And, they have not published any supporting documentation.

Finally, HMRC's use of such terms such as 'documentation' and 'certificate forms' are in some respects misleading – as such forms are, for the most part, now digitised as described above. Two of the three sources of HMRC's estimates for the cost of 'form-filling' are somewhat dated – a 2013 study by Nottingham Business School and a 2015 Study by Ipsos/Mori. It has been pointed out by industry practitioners that costs referenced in these studies were likely based on the prices levied by freight forwarders rather than the actual underlying costs of computerised systems. There is now a vast array of software systems on the market so that, once traders and freight forwarders/brokers have entered the required data, the system provides all the information and documentation needed for all aspects of the entire shipment on an end-to-end basis.

As customs declaration and rules-of-origin certificates (when needed) are only a small part of the total freight forwarders value added, it is misleading to carve their costs out of the system when calculating costs. Freight forwarders often regard this aspect of their service as a loss-leader; as such costs are only a small part of total shipment costs. Freight forwarder charges for customs and rules-of-origin documentation appear to have little relationship to the underlying cost. Over time, the costs and value added of freight forwarders will diminish as digitisation makes ever greater inroads into the shipping process.

A more relevant (Switzerland is not in the Customs Union or the Single Market) example of border costs is provided by the highly efficient Swiss border service that has estimated its EU-Swiss border cost to be less than 0.1% of traded value (BSS. Volkswirtschaftliche Beratung (2013). In fact, the Swiss figure for exports (which is the main concern for UK businesses) is only 0.05% - a factor of 100 less than HMRC's estimate. Moreover, the costs included in this study comprised <u>all</u> factors likely to influence the cost of importers/exporters (including, for example, the costs of waiting time in queues) whereas the HMRC estimates are based only on the cost of completing customs declarations' and rules-of-origin certificates.

Furthermore, it is likely that the Swiss cost could be lower today as it is derived from a study completed in 2012 that concluded there were significant cost reduction opportunities potentially available from the relentless march of computerisation.

It has been argued that Swiss border costs should not be compared to the UK situation because of the many bilateral agreements the Swiss have agreed with the EU that ameliorate some aspects of their not being part of the Single Market. Former Swiss customs officials are adamant that, if these agreements were not in force, there would be no impact on Swiss border costs. They furthermore argue that being a landlocked 'island' within the EU and being a member of the Schengen Agreement complicates their security issues, relative to the situation of the UK. Every working day, 46 thousand trucks pass across the Swiss-EU border, as well 300 thousand workers from neighbouring countries moving in and out and, perhaps, an additional 200 thousand tourists and other people in transit. While Switzerland may not be a perfect case study, it is difficult to believe that any differences could account for percentage cost differences of two orders of magnitude.

Thus, while it is not possible to nail down border costs precisely, HMRC's estimates do not appear credible. Given the rapid pace of digitisation and modern border procedures mandated by the WTO, border costs are likely to be increasingly insignificant.

Maintaining Northern Ireland's Flexible Border

The politics of the Northern Ireland border fanned by party political issues in the Republic together with manipulation of these issues by the EU have put trade across the Northern Ireland border at the centre of Brexit negotiations. These centre on the requirement of there being no 'hard' border requiring the use of border 'infrastructure'.

It is important to establish some basic facts:

1. There is already a border: it hasn't gone away. It is a tax, immigration, currency, political, international, excise and security border. (Recent examples of inspections)
2. This border is not one of Europe's weightier ones. Sixty-five per cent of Ulster's trade is internal to the province, 20 per cent goes to the rest of the UK, and merely 5 per cent goes to the Republic. A miserly 1.6 per cent of the Republic's exports go north, and only 1.6 per cent of its imports come from Northern Ireland.
3. To place these traffic flows in context, in an average month 177,000 lorries and 208,000 vans cross the Irish border, which seems impressive but it is dwarfed by the equivalent. In comparison, well over a million lorries pass across the Swiss-EU border on a monthly basis.
4. The bulk of the trade is highly regular, so it is simple to regulate. There are 13,000 border crossings annually solely for the production of Guinness. Likewise, movements in the milk trade are utterly predictable at both ends, and ideal for ease of monitoring.
5. Ireland currently conducts one of the lowest levels of physical inspection in the world (1 per cent).

Given the above, it is not surprising that HMRC has testified on multiple occasions before various select committees that they do not foresee the need for any changes in border procedures after Brexit and they see no requirement for physical infrastructure at the border.

Because of the very low volumes of goods and people crossing the Northern Ireland border, implementation of the Maximum Facilitation scheme using electronic customs clearing to avoid any new hardware on the Irish border should be straightforward; as well as wider adoption of trusted trader schemes, derogation for small traders (eg tradesmen crossing the border with their tools and equipment), and a system of self -assessment (which is set out in the EU Customs Code and which is the direction of travel for EU trade with third countries).

Note that, under the World Trade Deal approach discussed here, there is no need to negotiate a trade deal with the EU and, hence, the onerous 'backstop' requirement falls away. Furthermore, freed from the need to negotiate a trade deal with the EU, the UK's need to curry favour with the EU will disappear and the UK will be in a position to challenge the EU to follow their lead in establishing a 'soft' border.

Thus, if the EU were not to establish sensible border procedures thereby unilaterally causing disruption at the border, it would be a breach by the EU of its international commitments as WCO members. These WCO standards are now incorporated into the EU's own Union Customs Code.

Ensuring We are Ready to Leave

Those opposed to Brexit**,** including protectionist industrialists, have constantly made the case that more time is required to implement Brexit. First came a demand for a two-year transition period, now being followed by an appeal for an additional year's extension – a total elapsed time of 3½ years from now. While it is a certainty that such an extension will increase the climate of uncertainty, it is not at all certain that such an extension will eliminate the so called 'cliff edge'.

If the UK leaves the EU under the World Trade Deal scenario under WTO rules at the end of March 2019, it will formally adopt the current EU external tariffs as MFN status. It also will become a third country to the EU and so face these tariffs, as set by the EU. Thus, in principle, EU goods entering the UK would pay these tariffs, as would UK goods entering the EU.

HMRC has repeatedly stated that the new Customs Declaration Service (CDS) system for customs declarations will begin coming on stream in August of this year and will be fully ready by January 2019. In addition, the existing CHIEF system is being augmented to take up the customs declaration load in case there is any failure of CDS. In fact, it has already been decided that CHIEF will continue to operate for some time in order to allow sufficient time for existing users of CHIEF to adapt their own software interfaces to CDS. Note that, under a World Trade Deal exit scenario, there will be no need for rules-of-origin certificates, thereby lessening the future load on border procedures and systems.

Therefore, it is highly probable that UK border systems and procedures will be fully operational by March 2019.

In addition, it is striking that executives from the ports of Calais, Zeebrugge, and the operator of Eurotunnel testified to the Treasury Select Committee on June 5th (Ref) that, whatever occurs, they will find a way to be ready. It was clear that their perspectives were that of businessmen who want to run successful businesses and who do not consider failure to be an option. 'Can Do' spirit was very much in evidence.

Therefore, it is difficult to avoid the conclusion that UK border procedures and systems are very likely to be ready by March 2019. Furthermore, when we leave with no trade deal the government will have a €40 billion war chest that can go a long way toward ameliorating and compensating for any difficulties encountered.

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