

THE MESS BREXIT POLICY IS IN AND HOW TO CORRECT IT

Since the ill-fated Chequers Cabinet meeting, the glaring flaws in Theresa May's Brexit blueprint have been fully exposed by the publication of her White Paper this week.

- Her Chequers White Paper would see a large part of our economy continue to be ruled by the EU - subjecting UK farming and manufacturing to EU single market regulations
- When we attempt to enter into Free Trade Agreements with the rest of the world in these sectors, we would not be able to alter EU standards, many of which discriminate against non-EU suppliers such as the US. President Trump has now made it clear that this would kill any UK-US trade deal that otherwise would be the vital centrepiece of the UK's world trade strategy
- Although we could technically reduce or eliminate tariffs, we would not be able to eliminate the much greater burden of protection created by EU standards
- There are also serious doubts about the practicality of this proposal – effectively the New Customs Partnership Mark 2 – even though it supposedly makes setting lower or zero tariffs on non-EU FTA partners feasible
- The proposal also implies that there will be free migration in some degree from the EU

All these elements damage the UK's economic interests.

- Our FTA strategy will be less beneficial as we can eliminate less protection and also get less return access from other non-EU countries
- We will be unable to optimise regulations in major parts of our economy that will be subject to continued EU rule
- Finally, we will not gain control of our borders

The situation is aggravated by the fact that this lamentable proposal is the UK Government's starting point in negotiations that may well lead to further concessions against the UK's national interests thereby forcing us to retreat further into the clutches of the EU – something we have fought so hard to escape.

This short note deals with two questions. Firstly, why did Mrs May take this route? Second, what better route could be taken that would assuage her concerns?

WHY DID MRS MAY CHOOSE THIS ROUTE?

There is a short answer to this question: the UK farming and manufacturing industry wanted it – an 'industry' that constitutes only around 10% of the economy. Whether it was the CBI and such titans

as Airbus or JLR, or the Institute of Directors and Chambers of Commerce representing smaller businesses, or the NFU, or a host of individual trade associations, a more or less unanimous howl went up from them that they wanted existing regulations and standards to continue uninterrupted by any new bureaucratic uncertainty. For them, it was immaterial who set these regulations or how; they allowed 'industry' to do what it now does and industry did not want them changed.

This view was supported across Whitehall - most strongly by BEIS and the Treasury - that leaked the notorious Cross-Whitehall Brexit Analysis Report claiming that there would be huge costs to trade and GDP in border barriers between the UK and the EU if we had a Canada+ trade agreement; and still larger barriers of course in the event of No Deal. Only if industry stayed within the Single Market in goods could the threat of new barriers be removed. This industry has in addition a strong vested interest in maintaining the EU protection it gets from discriminatory EU standards.

Whitehall and industry combined to make a formidable lobbying force. Even though DExEU was preparing a White Paper built around adopting Canada+, this lobby managed to dominate Number 10's thinking. It also strongly influenced Tory ultra-Remainers such as Dominic Grieve and Nicky Morgan. It was put about that the 'interests of the economy' (in actuality only 10% of the economy) dictated a 'soft Brexit' in which industry stayed in the Single Market.

What is interesting and a matter for relief is that this argument was not deployed in respect of services, at least in recent months. It has become understood that services are different, that the nascent Single Market in services is of little importance, and the City, if it is to remain the competitive world financial centre it is today, requires UK regulation by the Bank of England - which recently has helped to emphasise this point. As services represent the vast bulk of the UK economy (some 80 per cent), the fact that they are not involved in these proposals means that direct regulation of services can be optimised by the UK Government,

The blunt truth is that the Prime Minister's Chequers plan would be Brexit in Name Only – BRINO. This 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. Happily, President Trump has recognised this vital point.

BRINO would also 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 from non-EU countries. Our calculations suggest this would lose the UK a good half of the gains available from Brexit, which could otherwise reach seven per cent of GDP – or an increased growth rate of around 0.5 per cent per annum over the next decade.

COULD A BETTER ROUTE BE TAKEN THAT WOULD DEAL WITH INDUSTRY'S CONCERNS?

There is of course a far better route: Canada+. We would have zero tariffs and zero non-tariff barriers between the UK and the EU, together with freedom to determine whatever standards would be best for the UK home market.

Standards on our exports to the EU would of course remain in place as those mandated by the EU. We would be free to determine standards on UK imports as part of our domestic decisions on standards. If we liberalised these standards to permit goods from non-EU countries to be sold here, we would not discriminate against EU imports - each EU exporter to the UK would be free to meet our new liberalised standards which would be more embracing of variety from around the world.

The Government's White Paper dismisses Canada+ because allegedly it would create a 'hard border' issue with Northern Ireland. We can dismiss the Northern Irish border with Ireland as a non-issue 'weaponised' by the EU and Ireland in order to maintain the status quo. Modern border procedures already avoid a 'hard border' for VAT and other checks; and can easily avoid it also for the small amounts of trade involved.

What then of the threatened surge in barriers between us and the EU? The simple point is that there is no such threat. Any such surge would be completely illegal under WTO rules. WTO rules together with the WTO Trade Facilitation Agreement requires border procedures to be seamless and effectively costless; if existing standards on both sides are met by industry, as they already are, then there can be no sudden withdrawal of trade permissions.

What has happened in our internal political debate is that extreme ignorance of how the WTO works has allowed a new aspect of Project Fear to take hold among industrialists and the Civil Service interacting with them. They have assumed that the WTO world is a lawless world in which 'hostile governments' can 'make trouble'. Yet WTO law is plain - it mandates seamless border procedures and outlaws discrimination on standards. Furthermore, no one in their right mind would claim that either the UK or the EU would defy international law: both make a particular point of adhering to it, given the centrality of international law to the Treaties on which both take their stands.

What's more, if no trade deal can be agreed and the UK opts for a WTO World Trade Deal, we would have the ability to seize significant economic gain. A 'no deal' scenario would have a positive net present value for the UK comprising a one-off gain of £39 billion on the EU budget, plus £180 billion from bringing forward the non-budgetary Brexit gains stemming from faster economic growth, plus £13 billion a year from EU tariff revenue – worth the equivalent in one-off present value in present of £651 billion.

HOW TO GET BACK ON COURSE

The present Chequers proposals threaten the UK's economic interests. They will damage our regulation, undermine our FTAs with the rest of the world, and perpetuate uncontrolled and subsidised unskilled immigration from the EU. Furthermore, they may lead to more compromises which worsen these aspects even more. We have not heard the response from the EU but it would be surprising if they did not demand such further compromises, ultimately they must hope leading to us staying with the entire status quo.

At some point, increasing compromises will alter these proposals so that they become impossible to get through the UK Parliament and will also raise huge concerns in the electorate. This could become a suicide mission for the Conservative Party. The outcome could well be a collapse into No Deal as Parliament refuses to ratify them. No Deal, as we have shown, would be a good outcome for the UK. But it could seriously damage the authority of this Government and create political chaos, with unpredictable results.

Somehow the truth needs to dawn on industry, the Civil Service, Ministers, and Tory Remainers why their fears about a plain Canada+ agreement with the EU are quite misplaced. Canada+ would give all the security over border treatment that would occur under the Chequers proposals. But it would also permit the UK to set its own regulations throughout the economy, sign FTAs with the rest of

world in the knowledge that less discrimination on standards and so freer trade can be in the policy mix, and recover control of its borders.

Once the Government has switched to the proposal of Canada+, the EU's reaction is known: indeed it offered this option some months ago. At the time, the UK was holding out for a special agreement on services; that has now been ditched. Why would the EU not offer this again? The UK will be a third country from end-March 2019; from a legal perspective, being outside all the EU's institutions, the only possible agreement for the UK is a trade agreement with the EU as a third country like Canada or Japan.

The problem all along with Mrs May's proclaimed and apparently sincere desire for a 'deep and close relationship' with the EU has been that this contradicts third party status. It is 'half-in, half-out'. Yet the irony is that one does not need to have 'deep, close' relations in order to trade with the EU in a frictionless manner, most especially when you start from a situation where all your goods industries satisfy existing standards for exports, in both directions. If either we or the EU were to stop goods at the border on the Friday after Brexit on the grounds that they do not satisfy required standards, when on the Monday before Brexit the very same goods satisfied them, it would be a blatant breach of WTO rules, leading to an immediate WTO court case to outlaw it.

CONCLUSION

So bad is the mess into which the poorly thought-out Chequers proposals have plunged the UK and so much worse is it likely to get as negotiations with the EU proceed, that course alteration looks inevitable and certainly highly desirable, as soon as possible. Over the coming months it is essential that politicians start to get a grasp of the WTO world and its workings. Once they do so, the Plan B of Canada+ will come into focus as the superior way to go.