

NON-TARIFF MEASURES WEEK
NTMs: The Good, the Bad, and the Ugly

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Brexit and NTMs

by

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UKTPO

UK TRADE POLICY
OBSERVATORY

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Day 1209: where are we now?

Where we started:

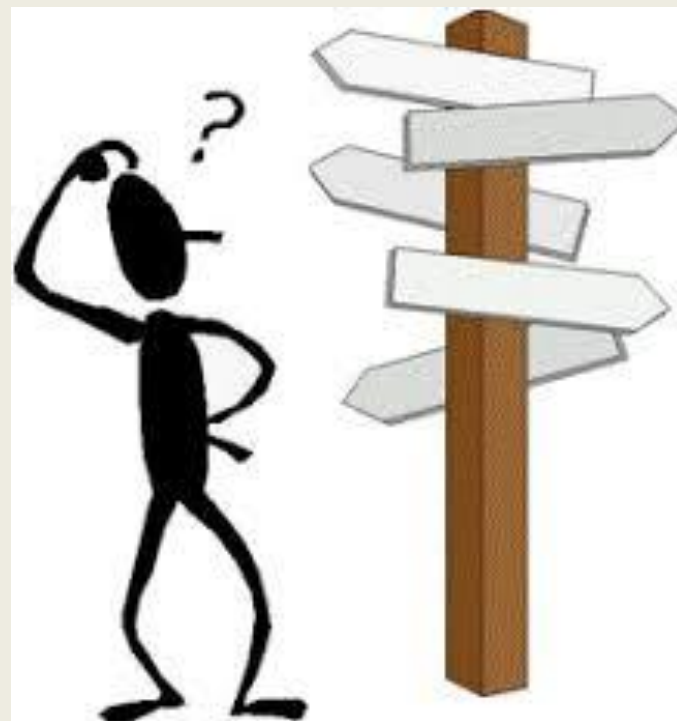
- ‘No deal’
 - Planned
 - chaotic
- FTA
- EEA + CU



Day 1209: where are we now?

And now:

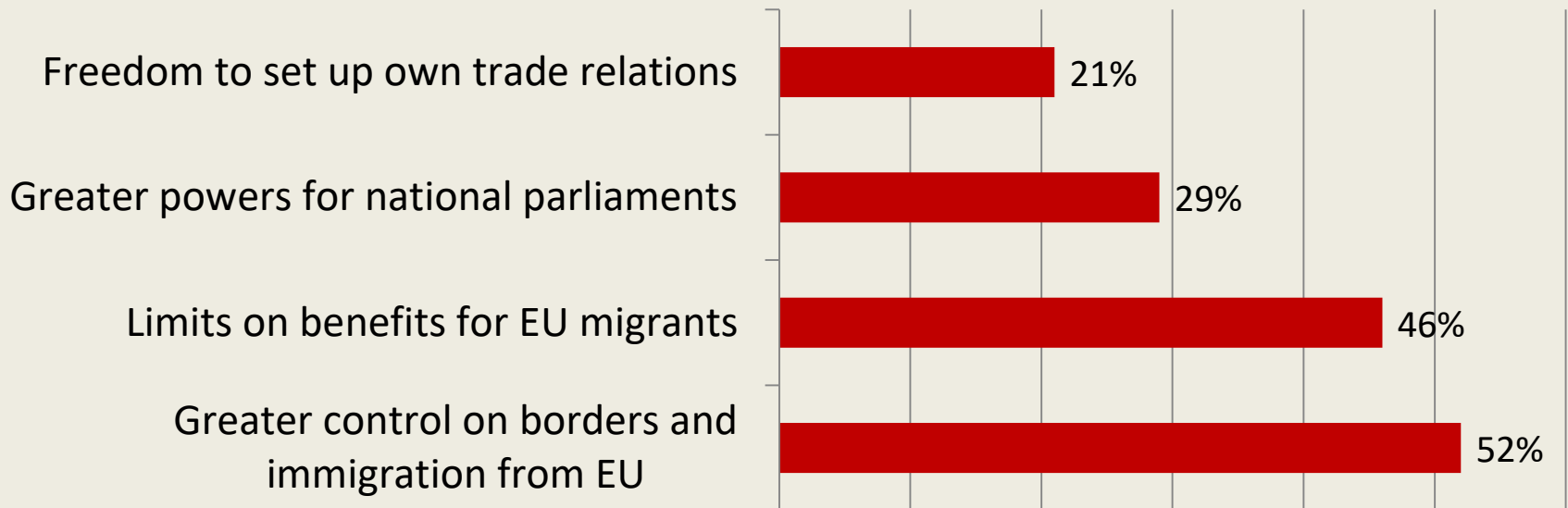
- 'No deal'
 - Planned
 - chaotic
- FTA
- **Withdrawal Deal 2018**
- **Or 2019?**
- EEA + CU
- **Remain**



Trade was not the big issue at first

Share of respondents who wanted:

(YouGov Poll, Nov. 2015)



But now it is iconic

- Said to be
‘the touchstone of an independent nation’
- The key to the ‘Irish problem’ is trading borders
- The key economic question for the whole UK is how to trade with the EU after Brexit

The EU is a

- Common market:
 - Freedom of movement of goods, capital, labour and services
- Single market (“regulatory union”)
 - Barriers to movement of goods and services may not just be at the border (eg tariffs), but are often behind the border:
 - Standards, government procurement etc...
 - The more you can eliminate these the more you have a single market (Single European Act, 1993)

The immediate problem: Irish border

- Introducing border controls between NI and RoI would be contrary to the commitments made to the ‘all island’ economy, under the Good Friday Agreement (1999).
- So the problem is: How do you leave the (i) the CU and (ii) the SM without introducing customs checks / border controls in the island of Ireland?

Backstop: what's the issue?

- The backstop says that *if* nothing else can be agreed and put in place by the end of the transition period (end of 2020), then:
 - The UK will continue to remain part of the “common customs territory” (therefore getting rid of the need for (i)).
 - NI will align itself with the relevant single market regulation (therefore getting rid of the need for (ii)).

And the problem was

- This proved problematic for parliament because:
 - If no solution to the backstop can be found then the UK has to stay in the EU Customs Union, and so does not have an independent trade policy
 - If no solution can be found then Northern Ireland stays in the SM but the rest of the UK does not, hence there is now effectively a border / barrier between two parts of the UK: NI and GB
 - And this supposed ‘vassalage’ could continue indefinitely

The Johnson government's alternative(s?)

- NI stays in the SM for agriculture and goods - which deals with (ii)
- The UK (ie GB+NI) leave the Customs Union. This does not deal with problem (i). The UK suggested this could be done with customs checks away from the border.
- The EU has said this is unacceptable.
- So now, perhaps, NI remains in the EU CU too?

What about Great Britain?

- Largely ignored in the current frenzy,
- But critically affected by NTMs if UK leaves SM
- Aerospace, automotive, chemicals, food and drink and pharmaceutical sectors write of "serious risk to manufacturing competitiveness".
- Collectively, employ 1.1 million have value added of £98bn p.a.

Smaller scale industry just as vulnerable

UKTPO Survey of 1000 firms + 25 interviews Summer 2018

- BEAMA (representing manufacturers of electrical infrastructure products) • turnover of £148 billion,
- GAMBIT (representing manufacturers of electrical infrastructure products) • 1.1 million employees on and
- The Engineering Council • >25% of total UK goods imports
- The Renewable Energy Association and exports
- The Catering Equipment Suppliers Association,
- The Federation of Environmental Trade Associations,
- The Manufacturing Technologies Association,
- The British Fluid Power Association,
- The British Pump Manufacturers Association,
- The Lighting Industry Association,
- The British Compressed Air Association,
- The British Plastics Federation
- The British Cables Association.

83% of respondents would prefer to stick with EU regulation. Only 11% want weaker

Large 86%

Medium 80%

Small 80%

Micro 73%

Interpretation

Big majority across EURIS membership, firms of all sizes more comfortable with EU regulation. Small minorities want looser or tighter

Over half of respondent's product sales are intermediate inputs

Interpretation

- Public may not be very aware of many EURIS firms and products
- Key part of supply chains; thus what affects EURIS members affects lots of firms they supply and vice versa.

77% of firms supply to over 50 firms

Interpretation

- Lots of customers, means most EURIS members face quite different conditions to some vertically integrated sectors like car industry
- The costs of setting up and carrying out transactions are important to EURIS members

31% of firms are considering changing their sources of input supplies

Interpretation

- Uncertainty over tariffs and other barriers are already causing firms to reassess business relationships

83% of respondents import inputs from
the rest of the EU.

Imports are over 75% of costs for 1 in 5
respondents

Interpretation

- Vast majority of firms import inputs from EU. For many it is an important element of their cost base. If imports become more expensive it will effect EURIS firms.

37% of respondents don't know if their products would satisfy EU rules of origin

57% of respondents don't know who their tier 2 and tier 3 suppliers are

Interpretation

A lot of firms will have major EU ROO compliance issues.

NTMs are the **main** trade issue

	EEA	ave FTA	No Deal
Assumptions AVEs			
Tariffs			EU MFN,
NTBs - goods	3-7%,	5-11%,	6-15%,
NTBs - services	1-3%,	3-14%,	4-18%,
Impacts on GDP			
trade + reg impacts	-1.40%	-4.90%	-7.70%
+ no net migration	-1.40%	-6.70%	-9.30%

Government's Analysis
(Nov, 2018)

Thank you

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