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READY ON DAY ONE FOR GLOBAL TRADE

What our future relationship with the EU
and the rest of the world could look like

Priorities for UK Trade Policy

CHARLIE ELPHICKE MP

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Introduction

As the United Kingdom embarks on leaving the European Union, it is important that the UK ensures that it is ready for Brexit on day one.

One of the many key aspects we must get right is trade policy.

Inside the EU our trade policy is made in Brussels. Once we leave the EU, its Customs Union and Single Market, we will be able to decide our own trade policy and trade with the rest of the world on the terms we choose. This matters because the rest of the world is where 90% of global growth will be coming from in the future.¹

This paper makes the case for the UK to have a clear trade policy:

- 1) To secure (as we leave the EU) the independence and freedom to strike trade deals that are in the UK's national interest across the world.
- 2) To seek a deep and comprehensive free trade agreement with the EU to the mutual benefit of the UK and the EU – but to be clear on the UK's trade negotiating objectives in doing so. Especially that the UK should not be limited in regulatory divergence from EU rules in the UK internal market or in trade deals with non-EU countries.
- 3) To focus on increasing trade with nations outside the EU and be clear on our negotiating objectives for non-EU trade agreements.
- 4) To seek trade agreements that reduce costs for British consumers – especially the poorest – focussing on cheaper food, clothing and basic amenities.
- 5) To seek “free trade, fair trade” with developing nations to aid the growth of small nations and give British consumers a better deal.

¹ <http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2015-014997&language=EN>

Executive Summary

This paper answers the question about our future relationship with the EU and the rest of the world and what our negotiation objectives should be.

Britain is and has always been a great trading nation. One of the most exciting Brexit opportunities for our great country is that we will once again be able to set our own trade policy. There has been much discussion about doing deals across the world, yet less articulation of Britain's post-Brexit trade policy aims and objectives: the terms of trade, who we trade with and the benefit to our nation. And how we seek to change the balance of our industries for our long term economic sustainability and prosperity. Who, what, why and how – these are the key questions for Britain to be ready on day one for trade.

And we don't need to wait. Nothing is holding us back in defining our trade policy. Detailed legal analysis shows we have the legal power to negotiate our own free trade deals right now. Deals that can come into effect as soon as we finally leave the EU.

Who? Fast-growing economies.

Why? Because the EU's own forecasts say that 90% of global growth is set to come from outside the EU. Moreover, during the last four decades, the EU has fallen from 30 per cent of global GDP to 15 per cent today, measured by purchase price parity. By contrast, emerging markets and developing economies have gone from 36 per cent of global GDP to 59 per cent. It's not hard to see where our long term focus should be – forging closer trading ties with fast growing economies, we will be better placed to grow as they grow. In particular ties with the USA, India, China, Brazil and other emerging markets.

Trade is a two way street. To capture the full advantages, it's important that Britain is open for business. Nations that are weighing up entering into agreements with us will also weigh the benefits to them of access to the UK market. Ensuring a pro-competitive, open economy is important for our own prosperity. It is also essential to concluding successful trade deals. This is why it is necessary for the UK to have full control of trade policy in goods and services – a key reason why we must have unfettered control of all our domestic regulatory authorities.

The EU currently accounts for around half our trade. It is and will remain an important trading partner. So it is right that, as a matter of trade policy, we should seek a free trade agreement with the EU for mutual benefit. Yet we must also be clear on the UK's trade negotiating objectives with the EU. Especially that the UK should not be limited in regulatory divergence from EU rules in the UK internal market or in trade deals with third countries. Once we fully leave the EU, we should seek to step into the EU's existing trade agreements around the world.

Trade policy is not just about trade deals. It also means that we can decide the tariffs and terms of trade that work best for our own economy. Policy Exchange has highlighted how reducing tariffs on food could mean lower food bills for the consumer. The Legatum Institute think tank highlights how we can cut tariffs on unfinished goods to reduce the cost of supplies required by UK industry to make finished goods and boost the employment of UK based workers. The Solar Trade Association argues that cutting high tariffs on solar panels would help encourage the greater adoption of solar energy.

Trade policy is also about reducing regulatory barriers and behind the border protectionism. These barriers particularly affect UK businesses in the services sector. There is a lot we can do to help our own exporters by making sure that our regulatory system is more competitive. We can also help them understand the many ways they can boost exports through trusted trader programmes and the like.

The UK should promote fair trade, free trade. The freedom to make free trade agreements can form an extension of our international aid policy. We should promote a policy of “fair trade, free trade” with the African, Caribbean and Pacific nations that suffer most from poverty. Such a policy – especially for foods and goods we do not ourselves produce – will do much to support the economic development of those nations as well as get a better deal for our consumers.

Trade policy is important to the whole of government – not just a matter for the Department of International Trade. In deciding the balance of our industries for our long-term economic sustainability and prosperity, many Government departments are involved. Industrial strategy sits with BEIS. DEFRA is responsible for farming. The Treasury worries about banks. DCMS is responsible for tourism and the digital economy. Overall, Brexit negotiations are led by DexEU. Effective co-ordination in a silo system of Government is challenging yet critical. In times past, the link between trade and industrial strategy was well understood: indeed we had a Department for Trade and Industry. As we move forward, the question of how to best manage overall trade policy needs to be carefully co-ordinated and accountable to Parliament.

There are fewer than 500 days to go until we leave the European Union. The clock is now ticking ever louder. We need to be prepared for every eventuality. The right trade policy will enable Britain to grow faster by growing trade with growing nations. For the readier we are, the sooner we will be able to embrace the exciting opportunities for our nation that lie ahead.

The Benefits of Trade

Free trade is often talked up, yet the benefits of free trade are rarely explained. Free trade and free trade agreements are good for Britain and we must be stronger in making the case

Wider trading relationships give the consumer choice. Whether it's an orange from Brazil or a car from the USA, none of it would be possible without trade. This increases choice, quality and cuts prices for the consumer, as trade increases competition and incentivises efficiency through deeper markets and greater competition.

The more countries that are traded with, the greater the amount of competition, which leads to increased efficiency, resulting in maximised consumer benefits.² Currently, the UK's trade with the world is equivalent to over half of its GDP.³ During the referendum on the UK's membership of the EU the debate on free trade took centre stage. A strong argument in favour of Brexit was the UK's ability to strike free trade agreements throughout the world. This would have many advantages.

One of the advantages of a post-Brexit Britain engaging in free trade with the rest of the world will be cheaper food bills.⁴ According to Policy Exchange, EU agricultural tariffs average 8.5% and the cost of food is even higher once the EU's Common Agricultural Policy is taken into account. These tariffs are substantial in some sectors, such as dairy (33.5%), sugar (20.2%), animal products (15%) and processed chicken (88%).⁵

These tariffs exist to protect EU industries – often not aligned to UK industries' interests, despite the UK being a Member State – at the expense of the consumer, who pays for the higher cost of the protected industry. Examples include the increase of tariffs on oranges to 16% to counter South African competition, while tariffs have been imposed on items from umbrellas (4.7%) to unicycles (15%).⁶

The UK imports £34 Billion annually in goods and services from developing countries. Higher tariffs on third-party countries increase the cost of imports substantially, removing choice from the British consumer. The effect of this is higher prices, disproportionately impacting the poor.⁷

The Legatum Institute has highlighted how Britain could cut tariffs on unfinished goods to reduce the cost of supplies required by UK industry to make finished goods and boost the employment of UK

² <https://www.mercatus.org/publication/benefits-free-trade-addressing-key-myths>

³ HM Treasury, Customs Bill White Paper, p7

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650455/customs_bill_white_paper_print.pdf

⁴ Policy Exchange, Farming Tomorrow, p29 https://policyexchange.org.uk/wp-content/uploads/2017/07/Farming_Tomorrow.pdf

⁵ Policy Exchange, Farming Tomorrow, p25 https://policyexchange.org.uk/wp-content/uploads/2017/07/Farming_Tomorrow.pdf

⁶ The Times, Best hope for free trade is to have principles, Matt Ridley

<https://www.thetimes.co.uk/edition/comment/best-hope-for-free-trade-is-to-have-principles-7wgf2l7v>

⁷ Policy Exchange, Farming Tomorrow, p25-29 https://policyexchange.org.uk/wp-content/uploads/2017/07/Farming_Tomorrow.pdf

based workers⁸. Meanwhile the Solar Trade Association argues that cutting high tariffs on solar panels would help encourage the greater adoption of solar energy⁹.

The list goes on. Tariffs don't just raise costs for the British consumer. They also make it harder for developing countries to trade their way out of poverty, as tariffs disincentivise imports for poorer nations.¹⁰ This is why free trade should also be seen as an extension of the UK's international aid policy, as explored in the next section of this paper.

⁸ Brexit, Movement of Goods and the Supply Chain, Legatum Institute
<https://lif.blob.core.windows.net/lif/docs/default-source/publications/brexit-movement-of-goods-and-the-supply-chain-01.pdf?sfvrsn=0.49704595389451667>

⁹ <http://www.solar-trade.org.uk/why-eu-tariffs-on-chinese-solar-panels-need-to-end/>

¹⁰ Policy Exchange, Farming Tomorrow, p25-29 https://policyexchange.org.uk/wp-content/uploads/2017/07/Farming_Tomorrow.pdf

What is the UK's trade policy?

The Government has said the following about trade policy: :

“The Government will prioritise ensuring that UK and EU businesses and consumers can continue to trade freely with one another... [to] seek continuity in our existing trade and investment relationships, including those covered by EU Free Trade Agreements or other EU preferential arrangements... [and to strike] ambitious new trade arrangements and comprehensive trade deals that play to the strengths of the UK economy of today and the future, including in areas such as services and digital trade, as well as trade in goods.

“The Government will continue to be a proud champion of global free trade and a strong supporter of the rules-based global trading system. The UK was a founding member of both the General Agreement on Tariffs and Trade and the World Trade Organization (WTO). As we leave the EU, we will again take up our independent seat at the WTO. This means updating the terms of our current WTO membership. To minimise disruption, we will prepare schedules that replicate as far as possible our current obligations.

“We will ensure we protect our businesses from unfair anti-competitive practices... We will maintain our high level of standards and protect our public services... We will aim to make trade work for everyone... We will support developing countries to reduce poverty through trade... We will make trade transparent and inclusive.”¹¹

In October, the DIT released a report entitled ‘Preparing for our future UK trade policy’. It set out a desire to encourage free trade, new free trade agreements and using trade to support international development.¹²

Thus far the Government's statements have been more aspirational than detailed. This paper seeks to set out greater detail what the priorities for Britain's trade policy should be, the UK's trade negotiating objectives and how we can be ready on day one for when we leave the European Union.

¹¹ HM Government, Future Customs Arrangements, p4-6

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf

¹² Department for International Trade, Preparing for our future UK trade policy

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/651192/CCS207_CCS091700_0298-1_Prepating_for_our_future_UK_trade_policy_Report_H....pdf

Trade is Not Only a Matter for the Department for International Trade

Trade is often narrowly defined and viewed solely as a matter for DIT. However, trade policy is far wider than the DIT. It covers a broad vista of policy areas and must be addressed in a cross-government way.

Since its creation in July 2016,¹³ DIT has been given the responsibility for trade policy and promoting UK trade throughout the world,¹⁴ which it does through the UK's global network that stretches across 108 countries.¹⁵

DIT is responsible for:¹⁶

- Bringing together policy, promotion and financial expertise to break down barriers to trade and investment, and help businesses succeed;
- Delivering a new trade policy framework for the UK as we leave the EU;
- Promoting British trade and investment across the world; and
- Building the global appetite for British goods and services.

While it is appropriate for the DIT to develop policy in its field, it is also essential for trade to be viewed in a wider context, as many – if not all – government departments have significant stakes in the UK's trading performance too.

In particular, the Department for Business, Energy & Industrial Strategy (BEIS), Department for Environment, Food & Rural Affairs (DEFRA), the Treasury, Department for Digital, Culture, Media & Sport (DCMS) and the Department for Exiting the European Union (DExEU) have a clear interest in trade policy.¹⁷

DEFRA has responsibility for UK agriculture, which would benefit from better terms of trade to sell its produce. BEIS has responsibility for UK business which would benefit from lower tariff and non-tariff barriers to trade. DCMS has responsibility for the digital economy, while DExEU oversees the entire Brexit process.

The Department for International Development (DFID) has responsibility for the UK's commitment to spending 0.7% of GDP on international aid. For years international development policy has been about handing over money to projects – or governments – in developing countries. But trade offers a way to help developing countries grow much faster – with a hand up, rather than a hand out.

This is why trade policy should also be extended to cover part of the UK's international aid policy. With 'fair trade, free trade', free trade deals are struck with the countries that suffer most from poverty in Africa, the Caribbean and the Pacific. As these are the countries which suffer most from protectionism. This would help developing nations to grow and get a better deal for British consumers. A policy position supported by the DIT.¹⁸

¹³ Department for International Trade, An Introduction to DIT: A world of opportunity awaits, p2

¹⁴ <https://www.gov.uk/government/organisations/department-for-international-trade/about>

¹⁵ Department for International Trade, An Introduction to DIT: A world of opportunity awaits, p2

¹⁶ Department for International Trade, An Introduction to DIT: A world of opportunity awaits, p2

¹⁷ <https://www.gov.uk/>

¹⁸ Department for International Trade, Preparing for our future UK trade policy

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/651192/CCS207_CCS091700_0298-1_Preparing_for_our_future_UK_trade_policy_Report_H....pdf

Striking free trade agreements will enrich these poorer countries, will do it to a greater extent than foreign aid and be beneficial to British business and the consumer. International aid funding can assist the striking of these mutually beneficial deals, rather than aid being seen as an end in of itself.

Currently, the EU engages in a great deal of protectionism against many of its poorer African neighbours. For example, Africa made just under \$2.4 Billion from coffee exports, whereas Germany made \$3.8 Billion from coffee, despite the obvious fact that Germany doesn't grow coffee. Why is this? Because the EU levies tariffs on processed coffee but not on raw coffee (green, unroasted coffee beans). This allows Europe to import cheap raw coffee, process it, and then sell the final product at a far higher price, meanwhile the primary producers in poor nations are left with minimal profit.¹⁹

¹⁹ http://www.voteleavetakecontrol.org/speech_by_james_cleverly_mp.html

Brexit – Taking Back Control of Trade

Despite the UK's intention to trade globally after Brexit, trade with the EU will continue to play an enormous role in the UK's trade policy. The UK will continue to import and export significant amounts of goods and services to, and from, the EU post-Brexit. This ought to be maintained.²⁰

The EU will continue to be an important part of the UK's trade policy, but it will be exactly that, a part of the UK's trade policy, not the entire trade policy. This is why negotiating a deep and comprehensive free trade agreement with our European neighbours must be a key priority. However, this cannot include remaining inside the Single Market – which requires the retention of the free movement of goods, services, people and capital, nor can it include remaining in the Customs Union. This will be legislated for in the autumn through the Customs Bill, which will take into account the possibility of most negotiated scenarios as well as a contingency scenario.²¹

The EU's Customs Union consists of the Common External Tariff (or Common Customs Tariff) and the Common Commercial Policy. The Common Commercial Policy gives the EU exclusive competence in striking free trade deals with non-EU countries on behalf of the Member States.²² And the Common External Tariff²³ sets common customs duties on imports from outside the EU as well as common rules of origin requirements²⁴.

From this it is clear that Brexit must mean leaving the Customs Union, if not, then the DIT would be pointless and Britain would be unable to capitalise on the global trading opportunities available from Brexit.

This is a view shared by Open Europe, which argued that “Brexit means the UK must be able to shape its own trade policy” which can only be achieved by leaving the Customs Union. They also recommended in relation to the Customs Union that “the UK should not seek a ‘half-in, half-out’ arrangement, which would be the worst of all worlds” and that “no ‘half-in’ option is better than being fully out” of the Customs Union.²⁵

Open Europe also makes an important point that “free trade does not require a customs union and over half of UK trade happens without it. Most UK trade (51.5% in 2015) is not with the EU. Non-EU trade takes place without a customs union and is growing faster than trade with the EU. In 2015, the

²⁰ House of Lords, Brexit: The Options for Trade, p8

<https://publications.parliament.uk/pa/ld201617/ldselect/ldcom/72/72.pdf>

²¹ HM Treasury, Customs Bill White Paper

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650455/customs_bill_white_paper_print.pdf

²² House of Lords, Brexit: The Options for Trade, p8

<https://publications.parliament.uk/pa/ld201617/ldselect/ldcom/72/72.pdf>

²³ https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/what-is-common-customs-tariff_en

²⁴ http://ec.europa.eu/taxation_customs/40customs/customs_general_info/about/index_en.htm

²⁵ Open Europe, Nothing to declare: A plan for UK-EU trade outside the Customs Union, p2

http://2ihmoy1d3v7630ar9h2rsglp-wpengine.netdna-ssl.com/wp-content/uploads/2017/03/170323_Customs-Union-paper-FINAL-DRAFT_WITHOUT-EMBARGO_FORMATTED.pdf

US was the largest recipient of UK goods exports (16.6%). There is no EU-US FTA, let alone a customs union.”²⁶

It is also essential that the hands of the UK are not tied in any free trade agreement with the EU. Clearly for trade into the EU internal market, UK products must comply with EU standards. Yet the UK should retain the right to apply different regulations and standards for the UK’s own internal market – and for trade between the UK and the rest of the world. WTO rules require that regulations are not used as trade barriers. Regulatory alignment is not needed to maintain free trade with the EU, without this freedom non-EU countries will not consider a free trade deal with the UK to be worthwhile.

This may seem obvious, yet the EU has a concern that a newly independent and successful UK could vastly out compete the remaining EU nations. This is why it will be important for the UK to have regulatory independence.

The next section considers negotiation objectives in greater detail.

²⁶ Open Europe, Nothing to declare: A plan for UK-EU trade outside the Customs Union, p2
http://2ihmoy1d3v7630ar9h2rsglp-wpengine.netdna-ssl.com/wp-content/uploads/2017/03/170323_Customs-Union-paper-FINAL-DRAFT_WITHOUT-EMBARGO_FORMATTED.pdf

The UK's Trade Negotiating Objectives in Leaving the EU and for Future Trade Agreements

As discussed in the previous section, the UK must leave the UK's Single Market and Customs Union in order to ensure that trade policy is made in Britain rather than Brussels.

Yet careful consideration needs to be given to the UK's negotiating positions in leaving the EU and trade agreements around the globe. These issues fall into the following areas: trade in non-agricultural goods, trade in agriculture, trade in services. Since a services negotiation is a domestic regulatory negotiation, careful attention must be paid to regulatory coherence and regulatory recognition, as well as ensuring UK exporters do not face anti-competitive regulation. As well as these areas, the UK, as a major foreign investor, and with substantial IP based industry should seek strong investor protections as well as intellectual property protection in its agreements.

Trade in Goods – agriculture and non-agricultural goods

The key issue here are the UK's overall policy on tariffs, the origination of goods, trade facilitation, a special customs arrangement and cross border integration of customs systems.

Origination is important to prevent tax and trade fraud. For example were the UK to have a no tariff agreement with the USA on the importation of American cars and then agreed no tariffs on cars imported or exported from and to the EU it would be possible for US cars to get into the EU market without tariffs being paid through importation via the UK. To avoid this problem, it will be necessary to be clear on the origin of goods with strong but trade-creative rules of origin. Systems like Block-chain could also be introduced in the UK swiftly so that the origin of all goods in circulation can be checked. This already happens in effect with foodstuffs, so it should be possible to extend the principle to avoid the issue becoming a problem in the years to come. The UK Government set out proposals in this connection in the papers published by DexEU in August 2017.

Customs systems. This will mainly be an issue between the UK and the EU. There will need to be strong systems in place to ensure that the swift transmission of goods. This will entail trusted trader schemes, customs payment systems that marry up across the border from the UK to EU member states. It's also important to ensure that cross EU transit can continue as now. This is held out as a threat to the UK – however it is just as much in the interest of the EU and a sensible resolution of this is in the interests of both the EU and the UK.

Tariffs. The UK should move to zero tariffs on goods it does not produce and look to lower tariffs in an orderly fashion on those it does. Tariffs should be used to boost UK employment and get the best deal for consumers. Especially the least well off. The EU has high tariffs on food and clothing – the cost of which hits hardest the poorest in our society. The best way to manage this is to ensure that UK farmers are protected – yet where the UK does not make foodstuffs, such as oranges, tariffs should be reduced to nil. It is a similar case with clothing (and as mentioned previously in this paper, solar panels).

For British jobs, tariffs on industrial goods should be much lower – it encourages partly fabricated goods to be important for assembly in UK factories that provide UK jobs. On the other hand tariffs should not be used for the protectionism of UK industries that are inefficient as that will only make

the UK economy less competitive. Negotiators should give careful consideration to striking the best balance for the UK in this area.

Trade facilitation. The WTO trade facilitation agreement came into force in 2017. It was welcomed by the EU. The agreement requires nations to ensure they have the infrastructure and customs systems in place to ensure that trade is efficient and seamless. As we leave the EU the UK should not be afraid to require EU member states to make the investment necessary – in particular France which has grown used to the UK paying for border investment there. The UK for its part needs to invest to ensure that systems are in place to be ready for trade on day one of Brexit.

Technical Barriers and agricultural health matters. The UK must make sure that the EU does not apply technical rules or agricultural health rules in the case of agriculture to block UK exports even if zero tariffs have been agreed. Current technical barriers to trade are not all designed to promote health and welfare, instead many are protectionist, and these ought to be removed.

Market Access for Services

Seeking a level competitive playing field and market access for the UK's strong services sector around the world will be a key priority. The issues here are regulatory and sectoral.

Market Access and National Treatment. As the second biggest exporter of services in the world, the UK should seek the maximum market access and national treatment for its services sector with the EU and rest of world.

Regulation and open markets. The regulatory issues are the way nations attempt to stop competition to their home grown services industries. For example, UK banks could be granted market access and national treatment and still find it difficult to access EU markets if the EU does not recognise UK regulation – even if doing this would increase the cost of finance for EU companies and so make the EU less efficient. Showing how pro-competitive regulation and open markets are in the interest of all will be an essential.

Sectors. The UK should consider carefully the sectors it wishes to focus on for market access. Financial services is an obvious case.

Particular issues for any trade deal with the EU

The priority for the UK should be achieving the maximum access into EU markets, with the lowest possible tariffs while making sure the UK is not run by remote control through the UK/EU trade agreement.

Market Access. Currently the UK has full access to EU markets without tariffs. The ideal would be that this should continue. The UK should be vigorous in pointing out that the EU sells £100 Billion more to the UK than the other way round. So the EU would lose most from any fall in UK/EU trade or the imposition of any tariffs. See *Tariffs would Cost EU dear* (August 2017)²⁷. The UK should also not face technical barriers to trade that would take away the benefits of tariff reduction.

²⁷ <http://www.elphicke.com/downloads/tariffs-would-cost-europe-dear.pdf>

No rule taking. It is important for the UK that the EU cannot direct the UK as to policies (such as tax, environmental or labour policies) from the moment the UK leaves. If the EU decides to change its rules, the UK should not be required to change the rules in the UK home market or in UK trade with the rest of the World.

Divergence. Just as the EU may wish to change its rules over time, it is also important that the UK is able to change its laws and regulations as may suit the UK - this is known as “divergence”. The principle is that UK laws and regulations should be able to “diverge” over time from EU laws and regulations. So the UK might want to cut taxes, improve upon the EU tax environmental rules or make labour markets more flexible. The UK should be able to without the EU having veto.

Compromise. A third issue then arises which is that where there is divergence in the UK or rules changes in the EU, how is fair market access to be preserved? For example if the regulations for car airbags changes in the EU, should a UK airbag maker still be able to sell UK regulated airbags if the airbags are just as safe and effective? Compromise and mutual recognition for product standards and safety that are equivalent in all but technical respects will be important for manufacturers in both the EU and the UK.

Trading Opportunities Around the World

Once the UK leaves the EU and its Customs Union, the UK will be able to sign free trade agreements with non-EU countries once again. It is important to determine what Britain's priorities should be in trade policy with the rest of the world.

There is certainly no shortage of countries who would want to discuss trade deals with the UK. The following countries – as well as the EU27 – are some of those that have signalled their intention to strike a free-trade deal with a post-Brexit UK:

Australia; Argentina; Bahrain; Brazil; Bolivia; Canada; Chile; China; Colombia; Iceland; India; Israel; Kenya; Kuwait; Malaysia; Mexico; New Zealand; Norway; Oman; Pakistan; Paraguay; Peru; Qatar; Saudi Arabia; Singapore; South Africa; South Korea; Sri Lanka; Switzerland; Thailand; Turkey; United Arab Emirates; United States of America; Uruguay; Venezuela.

Moreover, the EU has also made free trade agreements with various countries around the world. To make a swift start and to minimise disruption, the UK should seek to “step into” these agreements on the date it leaves the EU. This can be done by accepting EU trade agreements wholesale – at least on a temporary basis – immediately following Brexit, either as a transitional or permanent measure, depending on whether the agreement is beneficial.²⁸

But it is important to recognise that in the EU, only 4% of UK trade is with countries who are part of the European Economic Area but not the EU; only 9% is with countries with an EU Free Trade Agreement; 21% is with countries currently negotiating a Free Trade Agreement with the EU; and 15% is with countries with no free trade arrangements.²⁹ 20% of UK exports go to the USA.³⁰

In addition, the UK Government should focus on agreeing trade deals, not only with large economies, but also small economies, in particular, emerging economies. These economies will become increasingly influential in the coming years and there are significant opportunities available for the UK to take advantage of. If the UK is able to negotiate favourable deals with these economies now, it would be in the best interests of the UK in the future and assist with economic growth for future generations. 90% of future world economic growth will come from outside the EU. Moreover, the EU has been in relative decline for the past 40 years. 40 years ago the EU accounted for 30% of global GDP; today the figure is just 15%.

Once the UK leaves the EU, it will also be able to sign its own free trade agreements, easily, with the 35 countries listed above, and many more.

²⁸ <https://www.thetimes.co.uk/article/theresa-may-wants-britain-to-piggyback-on-eu-trade-deals-after-brexit-56fjxst85>

²⁹ London School of Economics
<http://blogs.lse.ac.uk/brexit/2016/03/04/leaving-the-eu-would-mean-renegotiating-more-than-100-trade-agreements/>

³⁰ Lord Price, Speech at Reuters in New York
<https://www.gov.uk/government/speeches/lord-price-speech-at-thomson-reuters-in-new-york>

Implementation Period

The implementation period is expected to last two years³¹.

In its recent customs policy paper as well as the Customs Bill White Paper³², the Government stated that it was keen to explore with the EU a model for an interim period which would ensure that businesses and people in the UK and the EU only have to adjust once to a new customs relationship. It is argued that this could be achieved through a close association with the EU Customs Union for a time-limited period, based on a shared external tariff, without customs processes and duties between the UK and the EU.³³

This was then formalised in the Prime Minister's Florence speech on 22nd September 2017. The Prime Minister said that people and businesses would benefit from an adjustment period to allow for new arrangements to be transitioned in a smooth and orderly way. But this implementation will be time limited, and in both the UK and the EU's mutual interest as it would require people and businesses to only plan for one set of changes in the relationship. Therefore, during the implementation period the status quo should continue in relation to market access.

It was suggested by the Prime Minister that this period should be two years, as the necessary preparations should be agreed by then. In addition, she set out a double lock. A guarantee of an implementation period, and a guarantee that the implementation period would be time limited.³⁴ There is a case for an implementation period to provide the time needed to enable a smooth Brexit without disruption. However, the end state must be negotiated and agreed before any implementation period begins. Moreover, during this period it is important that the UK can negotiate trade agreements.

Some say that the UK will be unable to sign these free trade agreements until Britain actually leaves the EU.³⁵ Yet Francis Hoar, Lawyers for Britain committee member and barrister, argues that the UK can sign free trade deals prior to Brexit, as long as they do not come into force before withdrawal. In his view, the UK can negotiate and enter into an agreement before withdrawal.³⁶ This is also the position of the DIT, which said that the UK intends to negotiate trade agreements with non-EU countries during the implementation period, but not bringing them into effect during the period.³⁷

³¹ <https://www.thesun.co.uk/news/4250918/brexit-row-boris-johnson-liam-fox-philip-hammond-david-davis/>

³² HM Treasury, Customs Bill White Paper
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650455/customs_bill_white_paper_print.pdf

³³ HM Government, Future Customs Arrangements, p11
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf

³⁴ Prime Minister's Florence speech: a new era of cooperation and partnership between the UK and the EU
<https://www.gov.uk/government/speeches/pms-florence-speech-a-new-era-of-cooperation-and-partnership-between-the-uk-and-the-eu>

³⁵ <http://www.independent.co.uk/news/uk/politics/uk-trade-negotiation-deal-us-brexit-european-union-member-philip-hammond-a7548641.html>

³⁶ <http://www.lawyersforbritain.org/int-trade-before-exit.shtml>
<http://brexitcentral.com/francis-hoar-uk-legally-free-negotiate-future-trade-agreements-brexit/>

³⁷ Department for International Trade, Preparing for our future UK trade policy
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/651192/CCS207_CCS091700_0298-1_Preparing_for_our_future_UK_trade_policy_Report_H....pdf

