

UKTPO

UK TRADE POLICY
OBSERVATORY

The WTO and policy options for British agriculture post-Brexit

Professor Jim Rollo

Deputy Director, UK Trade Policy Observatory,
University of Sussex and Chatham House

j.rollo@sussex.ac.uk

The UKTPO (I)

- Created 28th June 2016
- In the University of Sussex but in partnership with Chatham House
- Sussex Academics and Associates from UK and around the world
- Aims to help the UK create an international trade policy post Brexit that benefits all in Britain and is fair to Britain, the EU and the world.

The UKTPO (II)

- Independent expert group that
 - initiates, comments on and analyses trade policy proposals for the UK
 - offers trade policy training for policy makers and others
 - Aims to engage with trade policy stakeholders across the spectrum

Overview

- Aim to cover two issues:
 - The strategic choices facing UK trade policy post Brexit including relations with the members of the WTO; relations with the EU 27; and bilateral relations with third countries beyond the EU
 - The Uruguay Round Agreement on Agriculture (AA) and moving from the UK the EU 28 schedules of commitment to UK stand alone schedules and their implications for financial support for the UK agricultural sector and for agricultural trade
- This presentation draws heavily on discussions in, and publications by, the UKTPO. In particular I am grateful to Professors Alan Swinbank and Alan Winters. I have borrowed shamelessly from them (see in particular Alan Swinbank's excellent UKTPO briefing paper (no 7 <https://blogs.sussex.ac.uk/uktpo/publications/>) . All errors however are my own.

Trade Policy Strategy

- The formation of the new British Trade Policy will need follow the sequence of:
 - first adjusting our status in the WTO;
 - Second negotiating a new bilateral trade agreement with the EU they are after all the source of
 - third negotiating bilateral agreements with third countries (in three main categories: those with whom we already enjoy FTAs as part of the EU, those governed by the Generalised System of Preferences (GSP); third countries without as yet an agreement with the EU).
- Ideally this process should begin as soon as possible and in parallel with the central negotiations under the Article 50 rubric and specifically on agreeing the new UK and EU Schedules of commitment in the WTO and beginning the shaping of the new EU-UK trade architecture.
- This may not prove possible. The rhetoric of the European Commission is that we will not be legally able to have the necessary negotiations until the UK has left the EU and hence the Common Commercial Policy. So far there is no sign of any break in ranks on this interpretation between the Commission and the Council . If indeed negotiations on WTO arrangements and the EU-UK agreement that raises difficult problems as to the UKs trade policy until such arrangements are agreed.
- The WTO and the future EU arrangements are intertwined not least by the agricultural trade relations

What are the problems in the WTO?

- The issues with the WTO schedules revolve around dividing the UK's commitments from the EU's in:
 - Ad valorem tariffs – not technically difficult but the splitting of the EU 28 market may be seen as generating loss of access for third parties and request for cuts in bound mfn tariffs
 - Specific tariffs – similar to ad valorem but also often very high and some members may try to reopen the original Uruguay round agreements
 - Tariff Rate Quotas (TRQ) – potentially a major problem because
 - first specific third country reduced duty rate import quotas may need to be split between the UK and EU.
 - Second that if EU-UK trade is governed by WTO rules (hard Brexit) as threatened by Mrs May there will no TRQs for the EU into the UK or the UK into the EU meaning that such trade might breakdown given the height of the mfn tariff. A solution to this could open up the whole issue of TRQ in the WTO (see next bullet)
 - WTO members who joined after the AoA was signed have no access to TRQ and may ask for existing allocations to be reopened especially if the UK and the EU27 are looking for new TRQ
 - Disciplines on aggregate measures of Support (AMS) which might be controversial both between the EU and the UK and with third countries
- Resolution of these issues will require agreement or at least acquiescence from the rest of WTO members. It will also require active diplomacy on the behalf of the UK and EU and ideally cooperation between them

And for the EU-UK relationship?

- The negotiations between the EU27 and the UK over the future relationship will be determined by the political red lines not the economic benefits (see UKTPO briefing Paper 5, <https://blogs.sussex.ac.uk/uktpo/publications/>)
- On the UK side these are:
 - no free movement of people,
 - no oversight by the ECJ,
 - independent trade policy (no customs union),
 - no compulsory budget contributions.
- On the EU side the all encompassing “no cherry picking”

What does the UK want?

- **Easier to see what is excluded:**
 - The EEA (Ag excluded, no tariffs, with Rules of Origin(RoO) but no conformity assessment (CA))
 - A full customs union and SM (no tariffs, no RoO, direct effect of EU law so no CA)
 - A Turkish style Customs Union and partial SM (no Ag, no tariffs, no RoO, mutual recognition CA, no free movement)
 - Each of these falls at one or more of the UK red lines.
- **Included are:**
 - FTA with as many elements of the SM as possible but no breaching of UK or EU red lines (see White Paper page 8 (“...a new **strategic partnership with the EU, including a wide reaching, bold and ambitious free trade agreement, and will seek a mutually beneficial new customs agreement with the EU**”). (with or without Ag, with RoO, possibility of CA)
 - FTA for goods only (with or without agriculture, RoO and CA)
 - MFN (Hard Brexit, no deal better than a bad deal – but in economic terms this deal is worse than any above, with tariffs, no RoO but CA)
- **For Agriculture**, some form of wide ranging FTA with EU would broadly maintain existing trade flows with the EU but with RoO, and some degree of conformity assessment with consequent delays at possible, hard border crossings
- If these not resolved by the date of Brexit need a transition mechanism if not to fall off a cliff to mfn terms

Third Country Free Trade Agreements

- Via its membership of the EU the UK is currently a member of FTA with 53 countries around the world. There is also a number of EU bilateral agreements under negotiation such as TTIP, India, Japan, Mercosur and countries in ASEAN, negotiations in prospect with eg Australia and New Zealand
- In an ideal world these would be “grandfathered” on Brexit ie continued as now subject to mutual agreement to renegotiated
- However partners and perhaps the UK may argue that splitting the EU will change the balance of advantage in the agreements and they should be suspended subject to renegotiation
- The DIT is holding discussions with a number of these countries to explore the possibility of a through train for such agreements on Brexit
- Finally there is the possibility of agreements with Countries which the EU has no agreements with on the point of Brexit
- A number of potential partners will have aspirations for ambitious liberalisation of agricultural trade with the UK eg the US, Australia, New Zealand, Mercosur.

Developing Countries

- The EU has agreements with 92 developing countries under the GSP. These are non reciprocal ie the EU offers trade concessions but receives none in return.
- In the case of the 49 Least Developed Countries these concessions consist of duty free, quota free access to the EU
- These arrangements as they apply to the UK will become the responsibility of the UK on Brexit. These agreements include access for agricultural exports to the EU/UK most notably perhaps for cane sugar.
- Again grandfathering followed by any renegotiation seems the most sensible arrangement.
- The British approach to these arrangements and a good relationship with developing country members may be an important diplomatic tool in managing its new status in the WTO

Uruguay Round Agreement on Agriculture

- The AA applies direct constraints on WTO member states policies and spending on agricultural policy.
- These disciplines currently apply to the EU but after Brexit the UK will need to agree and abide by equivalent disciplines subject to the WTO dispute settlement procedures and its Appellate Body.
- The AA disciplines divide member states expenditure on expenditure on support to farming into three categories
 - Green box for policies with no (or at most minimal) trade distorting effect on production. There are no limits on these expenditures
 - Blue box which are direct payments under production limiting programmes. There are currently no limits on these expenditures
 - Amber box: all other support which is subject to limits – currently €72.4bn for the EU28 and which the UK will require some share on Brexit
- According to Swinbank (UKTPO Policy Brief 7 table 2) the current EU declarations (for 2012-13) are substantially below that limit even if the EU's decoupled direct payments were counted against the limits.

Will the AMS limits catch the UK?

- Swinbank speculates that post Brexit UK agricultural policy will become more exposed (and I would add a stalking horse for approaches to a smaller EU?). Some WTO members might challenge the UK's direct payment scheme's inclusion in the Green Box as it is neither delinked from production nor under the the 5% of gross income de minimus limit (as happened in 2015 see table) . Much would depend on the size of any UK limit negotiated in a division of the EU28 total.

CAP Payments & UK Farm Income, 2015

source: Alan Swinbank

	£ million	%
Gross Output	23,852	100
<i>Farming Income</i>	<i>988</i>	
Environmental Schemes	605	
Direct Payments	2,176	9.1
Total Income From Farming (TIFF)	3,769	

Conclusions

- Despite leaving the EU, British agricultural policy will still be subject to external governance from the WTO via:
 - the UK Schedules of Commitment derived from those the EU negotiated in the Uruguay Round which may affect import competition and export opportunities
 - disciplines on aggregate measures of support negotiated under the Agreement on Agriculture which might limit the volume of expenditure and the form of policy instruments available to the UK

Thank you

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