

NIESR's Director of Macroeconomics comments on the Brexit White Paper

FOR IMMEDIATE RELEASE

Dr. Angus Armstrong, Director of Macroeconomics at NIESR, issued the following comments about the White Paper published today:

“The release of the Government’s White Paper (WP) seeks to expand on the 12 principles set-out in the Prime Minister’s speech on Global Britain on 17th January. The tone of the White Paper is surprising, almost colloquial in parts, with a selective presentation of data and plenty of ambition. This note will focus only on three ‘principles’ that relate most to the economics of Brexit.

- **Taking control of our own laws**

The basis of economic activity is property rights. Who has ownership, how can this be used and how are rights enforced. Therefore, law and economics are front and centre of our future arrangements. According to the WP, in order to provide certainty, the so-called Great Repeal Bill, which copies and pastes EU directives and laws into UK laws, will mean we start day 1 outside the EU with same laws. But note that this is not the same as equivalence. In some important areas such as financial services, this is granted or decided ultimately by the European Court of Justice. Moreover, having the same laws on day 1 does not tell us about day 2 and 3 and so on. This is what matters to investors.

The issue of the ECJ is pivotal. The Prime Minister on 17 January 2017 has largely interpreted the Brexit vote as “to restore, as we see it, our parliamentary democracy”. It is therefore surprising that the WP states that “Whilst Parliament has remained sovereign throughout our membership of the EU, it has not always felt like that.” Indeed there is a recognition for the first time that ‘comprehensive’ Free Trade Agreements (FTAs) require a dispute resolution mechanism. There is an annex dedicated to the subject, which assiduously avoids socially toxic terms like ISDS, but that is exactly what many of them contain. They also make clear that arbitration panels will involve foreign judges able to make binding rulings (as the ECJ does). **A critical question will be the make-up of the dispute resolution mechanism in our FTAs, for example with the US. Such mechanisms are the reason TTIP proved so unpopular and why the Walloons nearly derailed CETA.**

More background on dispute systems in this piece written with Catherine Barnard, Professor of European Union Law at Cambridge University [here](#)

- **Ensuring Free Trade with European markets**

The WP makes the Government’s ambition clear: to leave the Single Market but introduce a “comprehensive, bold and ambitious FTA” including a customs agreement. While trade in goods is relatively easy to negotiation as most of the barriers are at-the-border, services are much more difficult. The intrinsic nature of services, how they are traded and restrictions on trade are different to goods. Most services are exported through overseas foreign affiliates, subject to all sorts of behind-the-border restrictions, on authorisation, regulation and oversight.

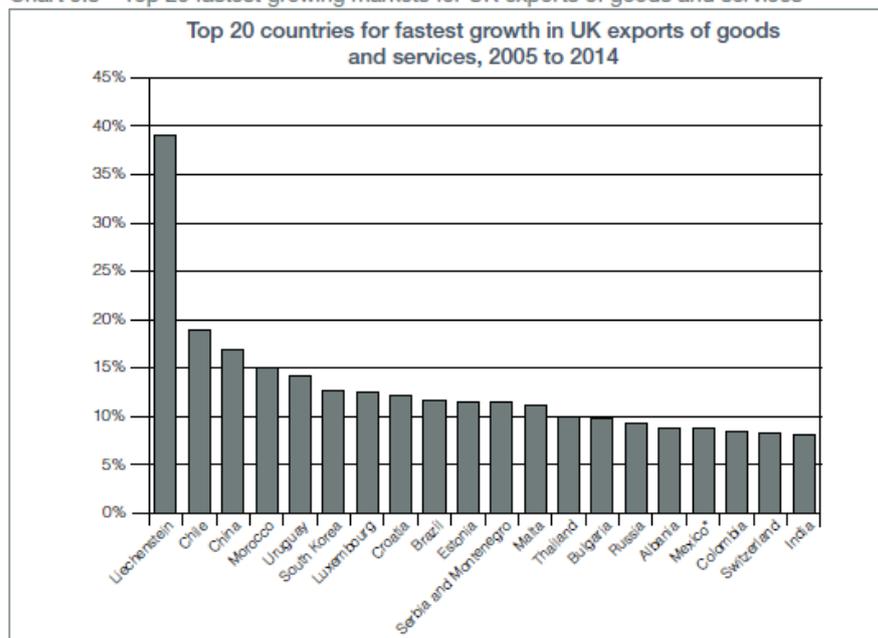
The WP has little to say on how these behind-the-border restrictions will be overseen, decided and judged after leaving the EU. The assessment of financial services fails to recognise the importance of the European financial infrastructure and that most regulation is conducted under EU law with the ECJ as the final arbiter. Even equivalence and protection for discrimination against non-euro countries is at the behest of the ECJ. As the European Central Bank's Benoit Cœuré [makes clear](#), for the UK to play its current role outside the EU, there needs to be a new legal framework and a court to maintain the integrity of European finance.

There is also very little on what the customs arrangement will be other than it will be bespoke. Whatever agreement is made, under World Trade Organisation (WTO) rules, a customs union must cover substantively all trade between the two territories (taken to be around 90%). Also non-tariff barriers that arise outside the Single Market, including multiple customs codes and checks, documentation of origin, product standards and different tax treatments and even rules of origin can be at least as costly as customs duties. [According to the Society of Motor Manufacturers and Traders](#), UK produced cars would not satisfy the 'rules of origin' and non-tariff barriers would disrupt the existing EU 'single factory floor' production process.

- **Securing new trade agreements with other countries**

Outside of the EU the UK will be free to negotiate its own trade agreements with the rest of the world. The WP shows a chart of the fastest growing UK export markets in the world (see below). However, we would emphasise the Iron-Law of Trade Models: trade between two countries approximately halves as the distance between them doubles. In 2014 our total exports to these 20 markets was 17% of our total exports, well below the 46% of our exports to the EU (IMF figures).

Chart 9.3 – Top 20 fastest growing markets for UK exports of goods and services



Source – ONS⁷⁷

At present the average EU tariff on imports from countries without a preferential agreement is 4%. (The dispersion hidden by this average is very large). If this is the tariff reduction we are offered in return for

imposing no tariff, then the potential upside for trade in goods is fairly small. Any comprehensive FTA will come down to how much of the service sector is included. But there is no Common External Tariff on services which we are able to negotiate away. This will only come from forming regulatory agreements and alliances. The UK will face some tough choices when negotiating against some large trading nations. We can depart from the EU's Single Market rule, but it may jeopardize access to its biggest the market. The UK could open-up access to services sectors that are protected within the EU. But the public may be weary of liberalising sensitive service areas such as health.

The WP gives no hints as to what we are prepared to put on the table for negotiation in our comprehensive FTAs around the world. If the US puts America First, we will have to make some real concessions if we are to get the sort of ambitious agreement.

More background is in a recent blog [here](#) “

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Notes for editors:

For more information on NIESR's work on the EU Referendum see [here](#).

For more information on NIESR's estimates of the short and medium term impact of the UK's decision to leave the EU, see [here](#) and for the long term impact see [here](#). The Institute's February forecasts, published in the *National Institute Economic Review*, have been released on 1st February 2017. For more details, click [here](#).

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