Global Counsel

Getting real about the UK's post-Brexit trade policy options

Blog post by Adviser Daniel Capparelli, 12 July 2016

Former UK Europe minister, David Davis was the latest UK politician to set out in print yesterday a post-Brexit manifesto for UK trade policy. In both substance and form, his vision is a synthesis of a range of proposals raised by the leave camp during the referendum campaign. It is hard to fault Davis for ambition. For any business with an interest in UK trade policy it is worth a good look, not least because there are some important holes in his assumptions about what happens next for UK trade policy.

Davis' key idea is that the negotiations on the UK's new 'trade deals' will start imminently, indeed as soon as the next Prime Minister walks through the door of 10 Downing St. There are a range of reasons why this probably won't happen, at least not in the way he suggested. The UK's trade partners are obviously free to start discussing trade with the UK before the UK formally regains control over external tariffs and relevant policy levers like farm subsidies, although, as Davis accepts, the UK will not be able to sign agreements before it has left the EU. That doesn't mean that they will, especially if resources are committed elsewhere.

More importantly, the substance of such negotiations cannot genuinely begin before the UK has put a range of things in place. It will need to have defined its post-Brexit MFN tariff profile – the tariffs that it proposes to levy equally on all WTO members. It will need to have established its farm subsidy regime and GATS services schedule. It will also have to establish its market protections, so that future UK FTA negotiating partners have something to negotiate away.

All of this would have to be confirmed at the WTO. As pointed out by WTO Director General, Roberto Azevêdo last month, while the UK could decide to grandfather the EU's common external regime in all these areas, there is no reason to expect all WTO members will accept this without further negotiations. Without knowing where these things will be reset, other WTO members cannot judge what a 'preferential' trade agreement with the UK would mean. They can't know that without knowing the trade barriers they would face in the absence of such a deal.

Most importantly, most prospective UK deal partners will want to know the detail of the deal the UK plans to strike with the EU. This is both because it will determine the prospects for onward trade from the UK into its biggest market, and because they will want terms as ambitious as they expect the UK to ultimately offer its largest and most important trading partner. All of this suggests that substantive negotiations on future UK trade deals may be a way off.

But the biggest misapprehension in this picture relates to substance. Despite the caricature, the UK as part of the EU has a very open market for services, and few tariffs to pay into new bilateral trade negotiations. It will have even fewer if it chooses unilaterally to cut its tariffs upon leaving the EU, which could be considered as a means of facilitating a deal with WTO members on its MFN tariff profile. Without much market protection it has little to use to secure major new concessions from emerging economies who already have excellent access to its markets and limited interest in being more open to UK exports where they compete directly with local strengths and weakness, such as in financial services.

The UK could doubtless scoop-up FTAs with China, India and others after Brexit, but the material question will be how substantive they are in creating new market access for UK exporters. That is not a question of British ambition, but of London's bargaining power in these negotiations, i.e. of what the UK has to pay with. Brexit will no doubt fire-up the former. The material question is what, if anything, it will add to the latter.