UK, EU & WTO
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**WTO rules**
If the UK and the EU fail to reach a Brexit deal, trade between the two would be governed by World Trade Organisation rules. UK exports to the bloc would become subject to the EU’s common customs tariffs for all WTO members. Rates of duty vary: on personal computers and mobile phones it is zero; for cars — one of Britain’s big manufacturing industries — it is 10 per cent.

**WTO schedules**
A list of tariffs or other commitments that sets out the terms of trade for a country or economic bloc. The UK is bound by EU-wide schedules at present. When it leaves, it would probably be relatively straightforward just to use the same tariffs for industrial goods, while agricultural goods would be more complex.

FINANCIAL TIMES

This is an extract from the FT’s "Brexicon", an explanation of jargon related to Brexit. Any thoughts?
Getting to grips with this kind of subject means seeing both the big picture and the detail, and appreciating how they relate. This presentation looks at both but with a focus on some of the detail.


The WTO is in Geneva, Switzerland. It has no branches. Essentially, it's a meeting place.
In the WTO, the EU and its members sit as a bloc. The Commission speaks on behalf of the members on almost all issues.

The idea that the UK will have to renegotiate WTO membership is almost certainly wrong. Only a small minority of experts believe it will even have to negotiate "as if" it is becoming a new member. However, it’s almost certain that the UK will face some negotiations in the WTO, perhaps some difficult ones too.
The conclusion of a negotiation is not an end. It's the beginning of a huge amount of work to operate the system the negotiation has created.

WTO dispute settlement is not about solving trade disputes in general. It's about disputes over whether countries are complying with the rules or their commitments. That often includes interpreting what the rules or commitments actually mean.
WTO members’ rights and obligations are mainly symmetrical or “reciprocal” (which is not the same as “identical”). However poorer countries enjoy additional flexibility in applying the rules, in the commitments they make, and in receiving preferential treatment from richer countries. They do not have to reciprocate on these “special and differential treatment” provisions.
Work on pharmaceutical patents and access to medicines is almost certainly behind Tony Taubman’s view of WTO agreements. Intellectual property rules include flexibilities that allow governments to bypass some patent rights in order to ensure medicines are accessible and affordable. The WTO, World Intellectual Property Organization and World Health Organization approach the subject from very different perspectives. For several years they have collaborated to help governments sort out the issues and design policies to meet conflicting health objectives. Other agreements dealing with standards can probably be seen in a similar light.
The Marrakesh Ministerial Conference formally concluded the 1986–94 Uruguay Round. The agreements created the WTO, and expanded the multilateral trading system from goods only (the General Agreement on Tariffs and Trade or GATT), to add services (the General Agreement on Trade in Services or GATS) and trade-related aspects of intellectual property rights (TRIPS).
Negotiations determine **everything** that happens in the WTO
Decisions are by **consensus**
The WTO is ‘**member-driven**’

**WTO NEGOTIATIONS: A TASTER**
Some say the Doha Round has ended. Others disagree. The 2015 Nairobi Ministerial Declaration is ambiguous. The fact is some of the subjects of the Doha Round continue to be negotiated, with results in Bali (2013) and Nairobi (2015). For now, they are negotiated as single-issue talks, not as the complete package.

But then the Uruguay Round was supposed to be the last of its kind. The new WTO would host a continuous stream of single-subject talks. That idea didn’t last long.
Apart from the EU, US, Cairns Group and G–10, these coalitions belong exclusively to developing countries. This is partly so the number of these groups can add weight to developing countries’ demands, but it also reflects different interests among them. The contrast in positions is starkest between developing countries in the Cairns Group and in the other alliances. www.wto.org/ddagroups

One advantage of this complexity is that smaller group meetings of about 30 people can include representatives of all members.
Attempts to negotiate in meetings of the full membership have rarely succeeded. Even in informal meetings of the full membership, delegates tend to make prepared statements. Proper exchanges are difficult if all 164 members want a turn to speak. Smaller groups are more manageable and give-and-take is more likely. Seriously deadlocked issues have to be handled in even smaller groups. This used to mean the “Quad”: US, EU, Canada, Japan. Times — and the power structure — have changed. Now it’s the “G5”: US, EU, China, India, Brazil. While it’s in the EU the UK is represented in the G5. After it leaves, it won’t be.
Governments do not operate in isolation at the negotiating table. They also have to negotiate domestically:

- The UK government will have to deal with various political and lobbying pressures back home, including from Scotland, Northern Ireland and Wales.
- The EU's negotiators will have to deal with the concerns of the member states, including about the EU's future, and they in turn will also face domestic pressures.
- "The WTO" is not a single entity, but 164 governments (including the EU, its member states and the UK). Each of them also faces domestic pressures.

Domestic lobbying comes from both winners and losers, although potential losers tend to be the most vocal. Adjustment policies will be needed for them.
BREXIT AND WTO: BEFORE, DURING AND AFTER
All WTO members have to have “schedules” of commitments, as well as to comply with the rule-book. The term used is “schedules” because they are timetables for phasing in commitments made as a result of negotiations. Free trade agreements can have schedules too. Schedules set out the limits on protection and agricultural subsidies that the country has agreed. Countries can be more liberal than their commitments (for example to “apply” tariffs that are lower than the legally “bound” ceilings). But to increase protection or subsidy requires renegotiation. The EU has also had to negotiate modified schedules for each of its enlargements. This has proved extremely time-consuming. But the EU has managed to avoid disruption to its trade even though its WTO-certified schedules are not up-to-date.

16

‘SCHEDULES’

- A condition of WTO membership
- Define **minimum market access** for goods and services (except FTAs, other preferences) + **limits on agricultural subsidies**
- For the UK (and EU), define **basic market access relations**:
  - with rest of WTO
  - UK-EU, in absence of FTA

Negotiated **timetable** of liberalising **commitments** — to constrain protection

- Maximum tariffs
- Minimum **tariff-quotas** (tariff rate quotas, TRQs), maximum **in-quota tariffs**
- Maximum **agricultural subsidies** (export, trade-distorting domestic)
- Minimum access to **services** markets

EU’s latest ‘**certified**’ in WTO

- **Goods**: EU25 (2004, certified Dec 2016)
- **Services**: EU12 (1995 — EU15 not ratified by some EU members)
The UK already has WTO schedules. They are embedded in the EU’s. For Brexit, the UK has to extract its schedules from the EU’s. The EU will also have to revise its schedule for the remaining EU27. Much of this can be straightforward if time-consuming, for example copying and pasting tens of thousands of tariff commitments, and identifying what applies to the UK on services. Even there, some negotiation cannot be ruled out. The most complicated negotiations will probably be on tariff quotas.

The UK will want to continue to trade with the EU and will therefore also be closely interested in the revised EU schedules.
In an answer to a written parliamentary question, the British government has clarified which versions of the EU’s schedules will be used to establish its own

http://www.parliament.uk/business/publications/written-questions-answers-statements/written-questions-answers/?page=1&max=20&questtype=AllQuestions&house=commons%2clords&uin=67537

While negotiating parts of the schedules will be difficult, it should be less complex than UK-EU talks on trade and all the other areas of cooperation.
If the UK simply copies and pastes EU tariffs, its tariff profile will be similar to the EU's. Briefly, agricultural tariff "bindings" are on average more than double non-agricultural tariff bindings. Agricultural tariffs in particular are complex (euros per tonne plus percentages, etc), so many of these figures are converted "ad valorem equivalents" (AVEs or percentages). Within agriculture, the highest average bindings are on dairy products. But the averages hide considerable variations within each category, the highest tariffs (or AVEs) are called "peaks". The EU’s tariff profile also has figures for "applied" rates: http://stat.wto.org/TariffProfiles/E28_e.htm
Most “bound” tariffs can simply be copied and pasted into the UK’s schedule, but note the level of detail, in this case for shoes. There are tens of thousands of products at this level of detail (called “tariff lines”). Someone will have to go through each of them. Even within this group one type of shoe (one “tariff line”) has a different tariff rate. For some reason platform-soled shoes are taxed less. (This presentation does not look at the complex tariff structure for processed agricultural products, discussed here: “This EU tariff takes the biscuit” https://tradebetablog.wordpress.com/2016/08/18/eu-tariff-takes-biscuit/)
Even with some tariffs, copying and pasting won’t be straightforward. Fresh sweet oranges are an example. The euros part of the tariff has to be converted to pounds sterling at an acceptable exchange rate. These tariffs are also seasonal, the highest rates from December to March, designed to protect Spanish and other growers during the harvest season. Will other exporters argue that the UK has no need for this kind of protection since it doesn’t grow oranges commercially? We don’t know yet.

See “Oranges: a litmus test of UK post-Brexit tariff negotiations” [https://tradebetablog.wordpress.com/2016/09/10/oranges-litmus-test/]
Sheep and goat meat — duty-free up to 283,715 tonnes — have one of the tariff quotas that could be negotiated intensively. Note: (1) this is for the EU25, and some of the supplying countries with shares of the quota have now joined the EU; (2) New Zealand has around 80% of the quota; (3) Only 200 tonnes is available for “other” countries, i.e., those not allocated shares. This last point is a problem if the separated UK and EU27 quotas are to take into account almost 100,000 tonnes of UK-EU trade.

See: “The limits of ‘possibility’: Splitting the lamb-mutton quota for the UK and EU–27” [link](https://tradebetablog.wordpress.com/2017/01/06/limits-of-possibility/)
How would the split be calculated? The common method would be to look at shares (total and allocations to suppliers) for, say, the latest three or five years and to take an average or an “Olympic” average (excluding highest and lowest numbers). Haggling over which formula and which base period is common in the WTO. The data show possible problem areas. For example New Zealand recently exported less and could question whether recent years are representative.

‘SCHEDULES’

Tariff-quotas: lamb, mutton

- How to split between UK and EU 27
- ‘Other’ is only 200 t
- How to account for 83,000 t UK exports to EU
- How to account for 11,000 t EU exports to UK
- Negotiations: UK vs EU 27 vs Other WTO

EU has ~100 tariff quotas

The quota in practice: under an EU regulation, the total quota is 285,910 tonnes (almost 2,000 tonnes larger than the 283,715 tonnes binding for the EU25). The supplying countries that are allocated shares are slightly different, Iceland’s share includes processed products, New Zealand still has around 80%, “others” is still 200 tonnes. See: “The limits of ‘possibility’: Splitting the lamb-mutton quota for the UK and EU–27” https://tradebetablog.wordpress.com/2017/01/06/limits-of-possibility/
AMS = aggregate measurement of support. It measures support that directly affects prices and quantities (or more accurately, all domestic support except where no or minimal trade distortion). The schedule has one bound figure (€71,724m). There may be some debate at a technical level about the exchange rate and formulas for splitting the UK and EU shares. But only 8% of the entitlement has been used. This can only be a real sticking point if the atmosphere is really bad or the UK plans to return to price and income support in a big way. The WTO’s domestic support categories are explained here: https://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm
‘SCHEDULES’

- Agriculture: Export subsidies
  By product, outlays € → £
  subsidised quantities t, hl

For agricultural export subsidies, the “bindings” (commitments setting maximum levels) are broken down into product groups. Each has two figures: the money spent and the quantities subsidised. These ought to be moot since all WTO members (including the EU and UK) have agreed to outlaw agricultural export subsidies, with brief delays for some small amounts. Current actual subsidies are mainly small or non-existent. The UK’s and EU’s schedules should take all these figures to zero.

Nairobi 2015 decision: eliminate
UK and EU should schedule zero
The EU's services schedule is in five documents. The two main ones are on the left and come from 1994, the end of the Uruguay Round, and are for the EU12. Negotiations from 1995 to 1999 produced updates. One (number 5 on the right) updates the Mode 4 commitments and is still for the EU12. Numbers 6 and 8 are the latest updates of commitments on telecommunications and financial services and are for the EU15. (Note that the Trade Facilitation Agreement, which took effect in ratifying countries in 2017, is not, as claimed, the first multilateral agreement under the WTO.)
No ordinary human being can understand a WTO services schedule without help. This extract is chosen because it is relatively simple. The first 11 pages of the EU’s main schedule is “horizontal” — provisions applying across all services. The remaining 80-or-so pages are details for around 160 sub-sectors. This one is for most accountancy services. The middle columns deal with limitations on market access and national treatment. The numbers refer to modes of delivery and include special provisions for some EU member states. The UK has only four specific provisions in the services schedule.
See “If the EU and UK fall back on WTO commitments what does this mean for services?” https://tradebetablog.wordpress.com/2017/04/12/eu-uk-wto-services/
This is another relatively simple example. **Mode 1** = cross-border supply: the service provider and customer do not move. They stay in their countries. **Mode 2** = consumption abroad: the customer travels to the supplier’s country, e.g. a tourist using a hotel abroad. **Mode 3** = commercial presence: essentially investment. The service provider sets up offices or branches in the customers’ countries. **Mode 4** = presence or movement of natural persons. Staff, workers, professionals are allowed to work in the country. Note this is not the same as “freedom of movement of people” since Mode 4 can still require visas and work permits.
The discussion over Brexit has focused on a handful of service sectors, particularly financial and air transport. But the sector is broad, with around 160 sub-sectors. The full list can be downloaded here: “If the EU and UK fall back on WTO commitments what does this mean for services?” [https://tradebetablog.wordpress.com/2017/04/12/eu-uk-wto-services/](https://tradebetablog.wordpress.com/2017/04/12/eu-uk-wto-services/)

Note: when the UK negotiates FTAs (with the EU or others), entire WTO services schedules will need to be examined to identify areas of further liberalisation
Ryanair and EasyJet are worried about Brexit. The media have suggested they will suffer if the UK and EU “fall back on WTO rules”. The truth: there are no WTO rules. The General Agreement on Trade in Services has an annex on air transport, whose paragraph 2 completely excludes “traffic rights” (sometimes known as “landing rights”). If airlines from the UK and EU are to fly to each other’s airports, then London and Brussels will have to negotiate a new bilateral agreement on landing rights.

“If the EU and UK fall back on WTO commitments what does this mean for services?” [https://tradebetablog.wordpress.com/2017/04/12/eu-uk-wto-services/]
The “cliff edge” usually refers to the UK and EU failing to agree on a trade deal and falling back on their WTO commitments. But what if those commitments have not been agreed either?

The UK and EU do not need their revised schedules to be certified by Brexit day. They do need de facto schedules that are broadly acceptable to the WTO membership (meaning those members that have an interest). Failing that, their trade with the rest of the world becomes insecure.
FREE TRADE AGREEMENTS

- UK-EU
- UK-rest of the world
Even if the UK and EU agree on some kind of free trade agreement, this will have to comply with WTO rules (GATT article 24.8 for goods and GATS article 5.1 for services). A free trade agreement for cars or bank passports alone would be illegal under the WTO.
There are a number of reasons why the cost of the UK leaving the EU single market is unlikely to be compensated by new free trade agreements with other countries. One is because many of those other countries already have free trade agreements with the UK through the EU, or are negotiating them. Another is the range of depths of free trade agreements. This is based on the WTO's ground-breaking World Trade Report 2011, *The WTO and preferential trade agreements: From co-existence to coherence* https://www.wto.org/english/res_e/publications_e/wtr11_e.htm
How deep is your integration?
FREE TRADE AGREEMENTS

• UK-EU

Effect on UK’s value-added trade of leaving the EU single market

• ‘No deal’ (WTO schedules apply) — 28%
• ‘Average FTA’ with EU — 20%
• ‘Norway model’ (out of EU, in single market) — 6%

Source:

The figures from this World Bank working paper should not be taken literally. There are too many assumptions. But they indicate the relative cost of leaving the single market for the UK’s value-added trade. (Another session looks at other calculations of free trade agreements including factors such as the impact of distance.)

There are many assessments of free trade agreements and Brexit. This is from Chatham House
https://www.chathamhouse.org/publications/twt/bracing-ourselves-brexit

This article says Britain should start talking to the US early on. The Institute for Government recommends the opposite.
https://www.instituteforgovernment.org.uk/publications/taking-back-control-trade-policy
UK policy
UK stance in WTO

CHAMPIONS OF FREE TRADE?
We could look at policy choices in a similar way for a number of sectors or for the economy as a whole. Focusing on agriculture highlights (1) the domestic tensions raised by the options (liberalising agriculture will cause significant pain for sheep, beef, some dairy farmers and others); (2) the implications for free trade agreement negotiations (if the UK has low import duties on lamb, what is the incentive for New Zealand?); (3) where the UK will position itself in the WTO (its present position as an EU member is closer to the more protectionist — or defensive — G10). So long as the UK’s agricultural trade policy is unchanged it cannot claim to be a free trade leader.
The WTO has a lengthy agenda, both for negotiations and for its regular work. At the very least, the UK will have to notify the WTO about its laws, regulations, subsidies and various other measures under the full range of WTO agreements. This has been handled by the EU and has been seen as “EU red tape”. It will now be “UK red tape”.

Having a UK position in all of these activities will require a lot of work by the International Trade Department and other relevant departments. When will the UK have the capacity to undertake all of this as well as Brexit? Again, see https://www.instituteforgovernment.org.uk/publications/taking-back-control-trade-policy
SO WHAT HAVE WE LEARNED?

- It’s complicated
- Negotiators have to negotiate at home too
- UK’s own trade policy: conflicting views
- That affects UK position on FTAs, in WTO
- WTO schedules are needed by Brexit day — EU and UK
- Tariff quotas complicated by UK-EU trade
- Free trade agreements vary considerably
SO WHAT HAVE WE LEARNED?

Two points about these Brexicon extracts: 1. WTO rules are much more than schedules of commitments, and they apply even if there is a Brexit deal. 2. These two entries ignore services completely.

Some media, such as the FT, do a reasonably good job at explaining, but even they can get things seriously wrong. It's understandable. This is really complicated stuff.
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