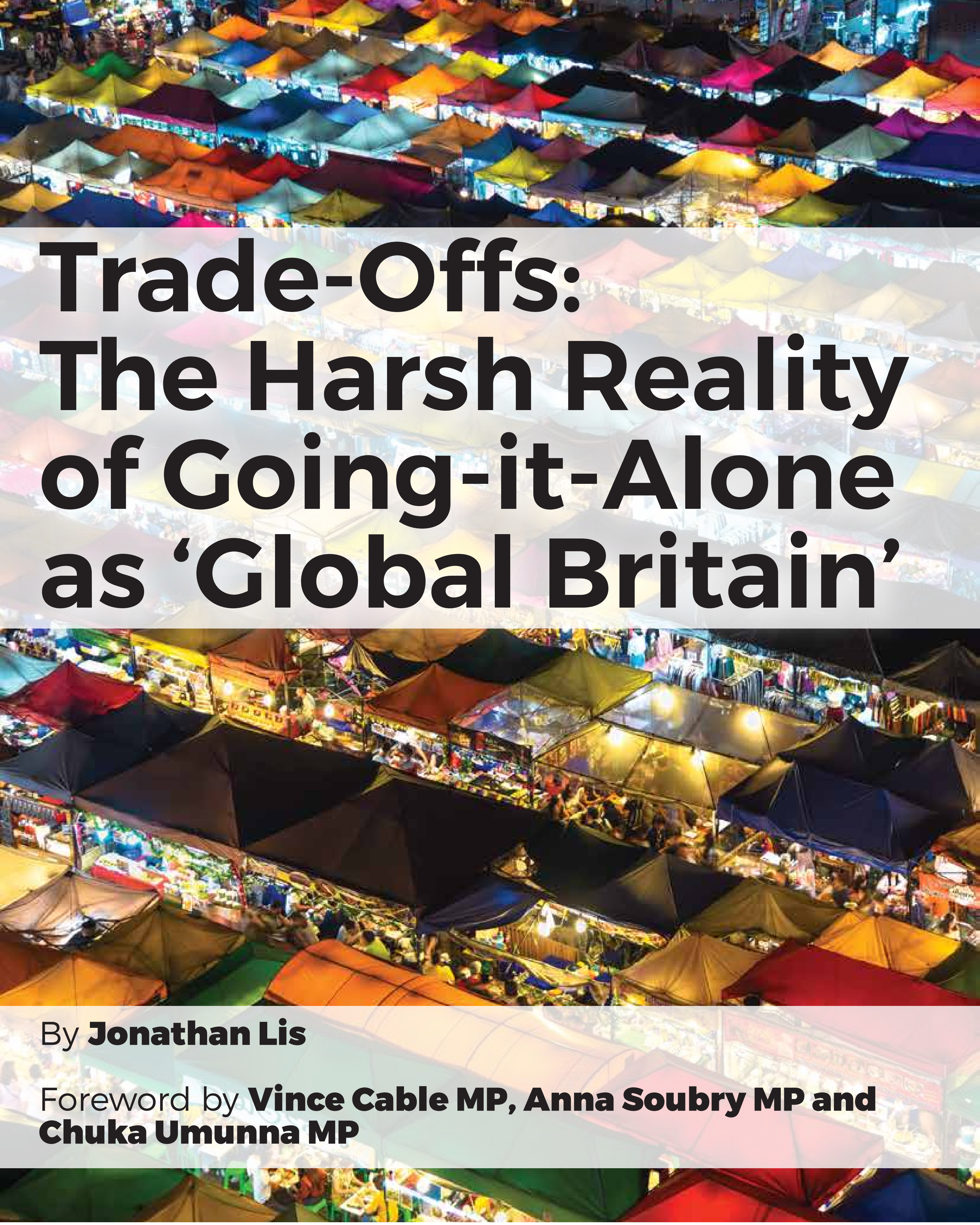

Trade-Offs: The Harsh Reality of Going-it-Alone as 'Global Britain'

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Foreword by **Vince Cable MP, Anna Soubry MP and Chuka Umunna MP**

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Contents

Foreword

New free trade agreements have been sold as the great prize of Brexit. While most of the promises that were made during the 2016 referendum have been quietly dropped, the claim that trade deals with the United States and other countries around the world will compensate for the many costs of a hard Brexit has been pushed with ever greater fervour. But with the Article 50 negotiations in jeopardy, and the most protectionist President of modern times currently occupying the White House, we believe this to be a profound mistake.

The reality is that a hard Brexit that leaves the UK outside the Customs Union and the Single Market would not only hurt our businesses and result in a hard border in Northern Ireland, it would also damage our status as a global trading nation. There are a number of reasons for this.

First, we risk losing what we already have. The EU, with the UK at its heart, has been a powerful and effective advocate for free trade. Deals have been struck with more than 65 countries around the world, all of which will have to be painstakingly renegotiated if we leave the Customs Union. It is increasingly clear that these cannot simply be 'rolled over'. Meanwhile, new agreements signed by the EU with Japan and Canada, and the recent initiation of negotiations with Australia and New Zealand, serve as a reminder of the success that Europe has when it negotiates as a combined market of 500 million consumers.

Then there are the supposed benefits that new deals will bring. Estimates vary about the potential economic gains of striking new trade deals, but the Government's own Brexit impact analysis, which was leaked earlier this year, forecast that "an ambitious FTA agenda, including with Trans-Pacific Partnership countries, ASEAN, the GCC, China, India, Australia and New Zealand" would in total add between just 0.1% and 0.4% to GDP. This represents a fraction of what we will lose by placing new barriers to trade with the EU, with whom we currently do nearly half our trade. Leaving the world's largest free trade area and going-it-alone is, as Martin Donnelly, the former permanent secretary at the Department for International Trade, recently put it: "like giving up a three-course meal for the promise of a packet of crisps."

Finally, negotiating new trade deals will be far from straightforward. Trade negotiations can take many years and usually involve significant concessions, particularly for the country that is most in need of a deal. The countries most often cited by ministers as lucrative targets for trade deals – and therefore the subject of this report – are the United States, China, India, Australia, New Zealand and the Gulf States. But negotiations with each of these countries will invariably mean trade-offs, the like of which there has been little public debate about.

From watering down food and environmental standards, to granting more visas, to opening sectors of our economy in ways that could undercut UK businesses and agriculture, the obstacles to agreeing new deals could be endless. And in case anyone is still under the illusion that President Trump will ride to the rescue, the recent imposition of US tariffs on EU steel and aluminium serves as a brutal reminder of his 'America First' approach to trade.

So, we risk damaging our trade with Europe to pursue trade talks with third countries, only to find that the terms on offer from those countries are unacceptable, or largely unbeneficial. It simply does not make sense for this great country – which, let's be clear, already is 'global Britain' – to pursue a course that we know will hurt our economy, in the hope that future trade deals will ameliorate some of the damage.

This is not about party politics, but the future of our constituents, our economy and our role in the world. It is within the gift of the House of Commons to steer a more sensible course, by keeping the UK in the Customs Union and Europe's economic area. We must seize that chance.

But even then the vote in the Commons will not end the matter. It is already clear to us that a divided Parliament cannot give the last word on Brexit. It must therefore be for the country as a whole to decide, through a People's Vote, whether the deal on offer is good enough.

Vince Cable MP, Anna Soubry MP and Chuka Umunna MP.

Introduction

International Trade Secretary Liam Fox betrayed one of the central fallacies of Brexit when, on a recent trip to New Zealand, he declared that "once the United Kingdom too was synonymous with free trade"[1]. It was a statement which evoked a sense of loss, nostalgia and myth-making about what Britain stands for and what it hopes to achieve. By this theory, we have been shackled by the protectionism of a small continent in a betrayal of our history; now we stand to liberate ourselves in the big world and once again reclaim our trading mantle.

This happens to be the opposite of history and the truth.

The EU has led the way in free trade over the last two decades or more, and the UK has been at the forefront of that project. Deals have been struck with countries all over the world. Liam Fox therefore evoked the founding symbol of Brexit but also its founding myth. Although Brexit has been cast as an internationalist political and trade project for a romantic, buccaneering 'Global Britain' to go into the world and do business, it will in reality do nothing for free trade. Indeed, the central irony of Brexit is that, far from enhancing Britain's free trade links and its trading reputation, it risks crippling both.

This paper attempts to explain how and why. We have chosen to focus on the six trading partners most commonly cited by the government as lucrative targets for trade deals: the United States, our most important political ally and largest individual trading partner; China, the emerging super-power and supplier of so many of our imports; India, Commonwealth ally and home to both one-fifth of the world's population and a booming economy; Australia and New Zealand, long-standing friends and occasionally nostalgic symbols of an economic 'Anglosphere', despite their limited trade with the UK in real terms; and the Gulf States, the source of many of our raw materials and billions of pounds of investment.

One senior Commonwealth diplomat described the coming decades as a 'lost generation' for the UK. Part of the reason is that we will in effect be starting our trade from scratch. There is no guarantee that we will be able to continue our EU-negotiated deals, still less on the same terms. Current agreements involve complex rules-of-origin requirements that mandate a certain threshold of EU-made goods to qualify for tariff liberalisation. The UK will therefore need to ensure that EU-made goods can still form part of its own exports, or else attempt to significantly reduce the threshold. Our partners will demand concessions in return. It is, after all, business.

Deals with third countries, meanwhile, will be neither easy nor rapid. Those countries can not only sign deals at their leisure, they also adapt them to suit their capacity. Post-Brexit Britain will enjoy neither luxury. We will be in a hurry, but won't have the necessary capacity or expertise. UK trade officials have not independently negotiated deals since 1973, and risk being outgunned by countries with greater clout and experience.

If we leave the EU, the most important deal we will have to sign, of course, will be with the EU. In trade, geography matters, and the EU will remain our largest import and export market for both goods and services. The

Government has talked up the importance of an 'independent trade policy', but has also pledged to keep us aligned with many of the EU's rules. The more integrated we are with the EU, the less meaningful other trade deals can be. This is a matter of basic economics, but again reveals the pointlessness of focusing on trade deals with other countries while neglecting our EU ties – specifically the Single Market and Customs Union.

Trade always means trade-offs, and this paper outlines in depth what some of those trade-offs will be. Expanding tariff-rate quotas and reducing tariffs may make for cheaper goods, but could also price UK manufacturers and producers – particularly farmers – out of already tight markets. The US and Australian deals could also put great pressure on the government to change its agricultural standards. The science around chlorine-washed chicken, hormone-injected beef, GM crops, banned additives and low-quality milk is disputed, but the EU has robustly defended its stance on each issue. The government has moreover promised to uphold environmental and hygiene standards; in some cases real questions have been asked about animal rights and the risk to human health. As recent polls suggest, the public will not support a deterioration of current regulations just to secure new deals. Some may also baulk at Indian and Australian demands to grant their citizens more visas.

In any case, we might ask what a free trade agreement (FTA) on its own can solve. Germany, which is similarly bound by current EU regulations and has no FTA with New Zealand, last year exported almost 80% more in goods to that country than the UK did. This is despite Germany having a population just 25% larger than Britain's, and no comparable historical links. It is also the case that the bulk of the UK's economy is services, but most free trade deals focus on goods. No deal will ever replicate the comprehensive services integration of the EU's Single Market – and no country will ever offer the UK comparable access. It is also the case that we can already sign major agreements on trade, as recent billion-pound business contracts with India, China and the Gulf States have demonstrated.

Trade deals are the totemic policy of Brexit but they are, in reality, just symbols. For all the outward veneer of 'independence', the insides are hollow. Our key free trade deal is our membership of the Customs Union and Single Market. Outside of those economic structures, trade would become very constricted indeed.

The United States

Summary

Striking a trade agreement with the United States would likely mean acquiescing to a lengthy list of US demands, and securing only limited benefit in return. Areas of concern cited by the US include the regulation of chemicals, pharmaceutical pricing, product testing, food labelling, the definition of whisky, broadcasting, subsidies and data. Senior US trade figures have repeatedly made clear that agreeing to change our sanitary and phytosanitary standards to allow greater access for US meat exporters – including for products like chlorine-washed chicken and hormone-treated beef – will be a pre-requisite for any free trade agreement. Diverging so markedly from EU standards would be unattractive to the British public, and would also make an open border on the island of Ireland all but impossible.

Conversely, the US is unlikely to offer the UK significantly more access to its services markets. US trade negotiators perceive the UK to be in a weak position, and any trade negotiations between the two countries are likely to see the US seek to exploit that weakness. From the UK's perspective, President Trump's 'America First' rhetoric, and his clear hostility to many US-negotiated trade deals, suggest his administration is unlikely to alter the US' well-established trade objectives in any positive sense.

Even if a deal could be reached, there would likely be only limited gains for the UK. Even the UK government's own data suggests that a trade deal with the US would add just 0.2% to GDP in the long-term, compared to a 5% hit from leaving the Single Market and negotiating an FTA with the EU.

The UK's priorities

If there is one country that has come to symbolise the dreams of a post-Brexit 'independent' trade future, it is the United States. The US is generally thought to be the UK's single most important political and strategic ally, and in overall terms of goods and services exports it is also our single most valuable trade partner.[2] Given the scale of the existing relationship, a deal with the US could be the most lucrative of any post-Brexit trade deals (after the deal with the EU) – but it would likely also be the most problematic.

The US was last year the single largest recipient of UK goods[3] – in particular machinery, vehicles, pharmaceutical products and chemicals.[4] The UK will want to reduce barriers in those areas, as well as in the food and drink sector. But a deal that enhances the UK's access to the US services markets, particularly financial services, is likely to be the UK´s main objective.

The US's key exports to the UK include aircraft, machinery, electronic equipment and pharmaceutical products, as well as agricultural produce, wine and beer.[5] It will certainly seek to advance its interests in these areas, through reductions in both tariff and non-tariff barriers. The US will also want to improve access to UK service markets for US companies and investors, including in areas such as the audiovisual sector, which was removed from the EU-US (currently stalled) Transatlantic Trade and Investment Partnership (TTIP) negotiations under French pressure.[6]

US officials have made positive statements in recent months about the prospects for a bilateral trade deal. In January 2018 US Treasury Secretary Steven Mnuchin said that Britain would be "at the front of the line",[7] and President Trump remarked that "we are

going to make a deal with the UK that'll be great".[8] This contrasts with the comments by US commerce secretary Wilbur Ross that the deal would be "very complex".[9] Moreover, International Trade Secretary Liam Fox has acknowledged that, because of the Brexit transition at least, a new deal with partners such as the US may be "some time away".[10]

The government is betting the entire house on a US trade deal. Certainly, the US is our largest export market and in 2016 took 19.4% of our goods and services exports.[11] It is also our second-largest source of imports, after Germany. Nevertheless, these figures are eclipsed by our trade with the EU, and last year we traded almost 20% more in goods, overall, with Germany alone.[12] The government's own leaked impact assessments estimate that a trade deal with the US will add just 0.2% to GDP – compared to a 5% hit from leaving the Single Market and negotiating an FTA with the EU.[13]

The most immediate risk with Brexit is that our exports to the US may suffer even with a bilateral trade deal. After the EU, the US is the second-largest importer of UK-made cars (14.5% of total UK car exports).[14] The UK car sector, however, depends on complex EU supply chains which may not survive a hard Brexit. Even if they are preserved, typical rules-of-origin requirements mean that most cars will not qualify for tariff liberalisation as they will not be sufficiently British-made. (Most UK-exported cars contain only around 25% UK origins, while the US could demand 65% or even 80%.)[15] It is unlikely that the US would permit the UK to include EU-manufactured parts when reaching that threshold, particularly if the US is not liberalising access for Chinese-made cars.

US priorities

The US currently has 14 FTAs in force, covering 20 countries, including Australia, Chile and Korea.[16] It has not managed to strike deals with key UK target countries such as India or China, or indeed Japan, which will soon have a deal with the EU.[17] Moreover, its deals have taken a long time to negotiate. Recent research by Open Britain revealed that the average time between the start of negotiations and implementation of an agreement is three years and nine months.[18] Given the complex demands of both countries, a bilateral deal could easily take many years longer. Peter Westmacott, who served as UK ambassador to Washington until 2016, has described a quick or easy deal as an 'illusion'.[19] Alternatively, a quick deal would likely indicate an extremely poor and asymmetrical one.

Although the UK is currently the US's largest trade partner for services,[20] and the UK has a strong desire to gain further access to US markets, there is little appetite in the US to open them. The US refused to allow greater EU access to its financial markets when negotiating the TTIP deal.[21]

The US would, in any event, be negotiating with much greater experience and clout than their British counterparts. Indeed, Liam Fox's first US trade delegation comprised 27 officials, none of whom had direct trade negotiation experience, while the US delegation of 77 included 20 officials with such experience.[22]

Wilbur Ross has suggested that in some areas the UK may have to sacrifice certain elements of EU integration to accommodate a US deal.[23] Conversely, in others, the US will want the UK to retain its current level of EU access. Both scenarios could prove problematic. The UK, for example, will almost certainly have to

apply EU agricultural standards at the expense of US ones (see below), as the EU is a bigger partner; but the UK also looks set to lose the EU financial passporting which is so key to US banks.[24]

In any event, the US negotiating demands look set to be onerous. The US's latest report on trade barriers specifies numerous complaints about EU trade practices which the US wishes to see liberalised, including telecommunications, chemical regulations and food labelling.[25] It even threatens policies such as Scotland's minimum alcohol pricing, on the grounds this potentially affects US exporters.[26]

Agriculture

The US will want to expand its agriculture exports and compete with UK producers on a more equal footing. Any reduction in the protection currently afforded by the EU will place pressure on UK beef producers. Poultry farmers could also be severely affected if the government reduces some of the high tariffs currently applied to non-EU chicken.

The more pressing issue, however, is not the quantity of the agricultural produce but its quality. The most commonly raised issues are chlorine-washed chicken, hormone-injected beef and genetically modified food. The US has long argued that all this food is safe, and that the EU has banned them on protectionist rather than scientific grounds. Chlorine-washed chicken has so far attracted the most attention. The EU suggests that abattoirs could use chlorine as a means of disguising lower hygiene standards, and will not budge on the matter.[27] There is also very little public support for dropping standards in this area post-Brexit: according to a recent poll, 82% of voters would rather keep current standards even at the cost of a US deal.[28] However, Wilbur Ross has stated that a UK refusal to allow chlorinated chicken and GM crops "could create problems with us".[29]

Other issues include meat from animals fed on chicken faeces,[30] and the prevalence of salmonella in the US food chain which contributes to far higher instances of food-borne illness.[31] A recent report exposed widespread contaminations at US abattoirs, amid fears that so-called 'dirty meat' could eventually arrive here too.[32] The Environment Secretary, Michael Gove, has also acknowledged the American use of pesticides, and antibiotics on livestock, as another potential barrier to a trade deal.[33] Experts have raised the alarm about the addition of ractopamine to pigs. This substance promotes lean muscle growth in animals but causes them disability. It is almost universally banned yet legal in the US.[34] A further concern is that the US will attempt to relax British (ie current EU) restrictions on milk quality. Currently US milk, frequently produced in mega-farms, is permitted to contain more somatic cells, a common indicator of poor animal health and poorer products, than in the EU.

The issue of geographical indications could pose a further threat to UK producers. The EU system currently protects numerous goods to ensure that, for example, champagne can only come from the Champagne region and Parma ham from Parma. UK products that are currently protected include Cornish pasties, Scottish farmed salmon and West Country farmhouse cheddar cheese. During the EU-US negotiations, the US refused to acknowledge the EU designations, and demanded the right to sell rival US versions of certain products into the EU. The EU will almost certainly demand reciprocal UK recognition for EU geographical indications in the UK-EU Brexit deal, but the US is likely to renew its previous demands for the UK-US deal – and it could well make it a condition of

any agreement.[38] (The US could even demand the right to sell its own Cornish pasties.) The UK – assuming it wants a deal with the EU – will be unable to agree.

Political problems

Agreeing to lower the UK's standards to meet US demands would cause a range of political problems for this or any future government.

First, it is hard to see how the government could secure public and parliamentary support for such a deal. The Conservatives and the Labour party have said they will not lower food and environmental standards, and MPs are aware that there is little support among the public for doing so.

A deal with the US could also resurrect some of the strong public opposition that emerged in relation to TTIP. Principally, concerns have focused on provisions which some campaigners allege would open up public services, such as the NHS, to US competition – and thus back-door privatisation. Although the EU agreed protections for national health providers in TTIP,[39] Theresa May recently failed to give an 'absolute guarantee' that the NHS would be excluded from future UK-US negotiations.[40] There are also fears about Investor-State Dispute Settlement, which some allege would, if included, enable US corporations to sue the UK government if they feel their market access is being curtailed – for example in the NHS. Recently there have even been suggestions that the US will use its leveraging power to compel the NHS to pay more for medicines, as part of President Trump's apparent efforts to reduce costs for American patients.

Second, any post-Brexit deal with the EU will likely mean that the UK has to remain aligned with EU standards. If a future UK-US trade deal breached any such commitment by lowering the UK's standards, the EU would be compelled to introduce sanitary and phytosanitary checks at its borders with the UK to ensure that no forbidden products are entering its markets. This would mean a hard border in Ireland, and a breach both of the UK government's commitments and the Brexit withdrawal agreement. The UK may find it impossible to agree to those US demands which necessitate such a situation – and that could jeopardise the prospects of any UK-US deal from coming to fruition.

A third political problem arises in the form of Donald Trump. Some have noted that he has opposed almost every free trade deal the US has signed since World War Two, and stands not for free trade but protectionism. An unreliable partner who frequently changes positions, he has repeatedly claimed the US is being 'screwed' in international trade deals. One of his first acts as President was to pull the US out of the Trans-Pacific Partnership, the world's largest free trade deal in geographical and demographic scope, and he has already instigated renegotiations to the NAFTA deal with Canada and Mexico.

Additionally, US trade negotiators perceive the UK to be in a weak position. Any trade negotiations between the two countries are likely to see the US seek to exploit that weakness. For all President Trump's talk of his 'fondness' for Britain, US interests will come first. Indeed, in a zero-sum game, it might be that all trade will have to be an unalloyed 'win' – meaning that one side will also have to lose. Recent reports about the US's proposed Open Skies arrangement with the UK, significantly inferior to the current US-EU arrangement, are a case in point. Trump's recent imposition of tariffs of 25% on steel and 10% on aluminium imports from the EU (including on the UK) – and his earlier threat to hit Bombardier with 200% tariffs, threatening hundreds of jobs in Northern

Ireland[47] – demonstrate both a lack of commitment to free trade and, perhaps, an indifference to the effect of his policies on the UK.

Given that, according to UK figures, the UK operates a small trade surplus in goods with the US and a healthy one in goods and services overall, Trump may be even less disposed to a good deal. He has, after all, insisted on deals that help to reduce the US trade deficit[48] – which will mean an emphasis on increasing American exports to Britain, not the other way around.

A critical problem is that the government has so far based its post-Brexit economic impact assessments on an assumption that an FTA with the US will be deliverable. Given the difficulties outlined in this chapter, it seems far from likely that such a deal can or will be achieved – and so the damage from Brexit could be even graver than the government's already gloomy forecasts predict.
Alternatively, given the political and economic importance of the deal to the UK post-Brexit, the US could have the leverage to force UK concessions on almost every issue. One trade expert, observing the asymmetric power dynamic, told Parliament that Britain could expect a "hard pounding".[49]

China

Summary

Achieving an FTA with China that significantly increases market access in services - a key priority for the UK - would be very difficult. As well as China's long-standing reluctance to open up its service sector, geographical distance, differences in business culture and regulatory uncertainty will continue to be further impediments.

China takes almost six years on average to conduct FTAs, and it drives a hard bargain – the China-Switzerland deal, for example, proved highly uneven. Even if the UK were to conclude a deal, the benefit to the UK economy would be miniscule by comparison with the costs associated with leaving the Single Market and the Customs Union. Cars, which are the UK's key export to China, could be sharply affected by disruption to supply chains and rules-of-origin requirements.

On top of all this, China is commonly seen as a problematic trade partner which engages in unfair and unethical practices. Particular concerns include the widespread dumping of goods, which poses a great risk to the UK steel industry, and intellectual property theft. China's approach to human rights is a further potential stumbling block to any agreement.

The UK's priorities

The notion of a 'golden era' in UK-China relations was first trumpeted by David Cameron and George Osborne, with a series of steps which saw Chinese investors and companies afforded greater access to UK infrastructure markets in return for privileged treatment. In particular, the City received a large share of the growing international market for renminbi finance.

To some extent, the talk of a golden era has faded, but there is no doubting China's growing importance to UK trade. China is the UK's fifth largest trading partner, and British exports to China have increased by 64% since 2010, during which time Britain has of course been a member of the EU. The idea that EU membership prevents us from increasing our trade with China is patently false. Meanwhile, Chinese investment in the UK amounted to some £20 billion in 2017.[50] Cars are by far the largest source of UK exports to China, accounting for 35% of exported goods.[51] They currently incur a Chinese tariff of 25%,[52] though this will soon fall to 15%, and the UK would likely seek further liberalisation in this sector. The UK would also aim to expand its agricultural exports to China, particularly beef and lamb, which are currently subject to tariffs.[53] A priority for the government would be to enhance UK access to Chinese services markets.

It is easy to overestimate the value that a free trade deal with China would bring. Although China is our fifth largest trade partner, it receives just 3.3% of our goods and services exports. In comparison, the UK exports almost 60% more goods and services to Ireland, and overall, trades 20% more with France, almost 25% more with the Netherlands, and 110% more with Germany.[54] The government's leaked impact assessments forecast that "an ambitious FTA agenda, including with

China's tariffs on pharmaceutical products are only 5% as it is, and the country applies no tariffs on gold or oil.[57] The potential for benefits will thus be limited. The Bruegel think-tank has also demonstrated that UK liberalisation of certain Chinese goods would reduce domestic prices only by around 4%, and would not improve UK competitiveness.[58]

China's priorities

From China's perspective, the bulk of exports to the UK are consumer goods. China will certainly want tariff liberalisation – particularly for clothing and knitted fabrics.[59] Other Chinese aims may include securing UK support for Beijing's bid for 'market economy' status at the WTO.

Surprisingly, perhaps, given the hype around proposed trade deals with other partners, the prospect of a UK-China deal has provoked relatively little media discussion. International Trade Secretary Liam Fox has admitted that the US, Australia and New Zealand are his priorities and that a deal with China – a considerably larger economic partner than Australia or New Zealand – may be "some time away".[60]

China currently has 14 FTAs in force, including with the Republic of Korea, Australia and Chile.[61] However, its enormous trade clout can result in deals that are one-sided. The deal with Switzerland is a case in point. While the Swiss agreed to eliminate tariffs on Chinese industrial goods, a number of Swiss exports are subject only to partial tariff elimination, and even then, in some cases, over a transition period of up to 15 years.[62] Although the agreement covers some technical barriers to trade, intellectual property and investment, its financial services provisions – so important to the UK economy – are extremely limited,[63] and most of the services provisions in any case mirror WTO commitments under the General Agreement on Trade in Services.[64] It is commonly acknowledged that China has been extremely slow to open up its service markets, and this seems unlikely to change soon.[65]

A Swiss-style deal would, by almost any measure, constitute failure for the UK, but there is no reason to suspect that the UK will fare substantially better. Goods are the lifeblood of China's economy, and although the UK is China's ninth largest destination for them, it receives just 2.65% of China's exports.[66] China exports over five times more to the EU27 than to the UK,[67] and China's overall goods trade with the EU27 is almost seven times more valuable.[68] When it comes to increasing exports, the EU will clearly be China's priority. Moreover, Britain needs the deal far more than China does, and China will enjoy considerably more leverage and negotiating experience.

Chinese trade deals also take a long time. Research by Open Britain has revealed that China takes on average almost six years to conclude FTAs. Its agreement with Australia took over ten years to implement, while even its agreement with Iceland – a tiny market – took over seven years. Negotiations with India, meanwhile, were launched in 2004 and have still not concluded.[69] There is no reason to suggest that a deal with the UK would be rapid, still less painless.

Automotives

Brexit creates real risks for the UK's automotive exports. At the moment car manufacturing depends on complex supply chains with the rest of the EU. There is no guarantee that a post-Brexit UK-EU trade deal will protect these supply chains, particularly if the UK leaves the Customs Union (which will be a prerequisite for signing tariff-based FTAs with countries such as China). Even if they are maintained, a UK-China FTA will require cars to meet certain rules-of-origin requirements to ensure that they are sufficiently 'British-made'. It is unlikely that China would permit the UK to include EU-manufactured parts when reaching that threshold, particularly if the EU is not liberalising access for Chinese-made cars. Consequently, the UK could find that even if it had a trade deal in place with China, its car exports would be significantly reduced, not expanded.

Steel

A key current issue is China's 'dumping' of goods – that is, selling items in bulk in foreign markets at artificially low prices. The EU is currently implementing 20 'trade defence measures' on Chinese steel products, and in 2017 introduced a 28.5% 'anti-dumping' tariff on Chinese corrosion-resistant steel.[70] In the past the EU has taken similar action over Chinese solar panels.[71] China may well insist that the UK abandon such measures and fully liberalise, for example, its steel market – which would meet fierce opposition from UK steel manufacturers already under pressure, and could well prove politically unacceptable.

Other problematic trade practices

Negotiations with the EU offer a good example as to why bilateral agreements with China are so complex. The EU currently has no plans for an FTA and is focusing instead on the Comprehensive Agreement on Investment (CAI) with China.[72] After five years of negotiations, the agreement has still not been concluded. The EU has identified key problems, including a lack of transparency, policies of discriminating against foreign companies and investors, unfair state economic interference, and unsatisfactory safeguarding of intellectual property rights.[73] The EU is also conducting a sustainability assessment which includes human rights – something the UK might find difficult to overlook when negotiating its own deal.

The first signs of a US-China trade war have also raised considerable alarm. Although the US ostensibly began the dispute by announcing tariffs on steel and aluminium, China has responded with threats, for example, to US pork and soybeans. Many commentators moreover agree that China has acted unethically with regards to foreign companies' intellectual property.[74] This could all prove extremely difficult for the UK if China were to demand British support in its bid for 'market economy' status at the WTO – a move that would conceivably place the UK in opposition to both the US and EU.[75] Even domestically, numerous experts have questioned the security implications of allowing China to invest so heavily in key UK infrastructure.[76]

We don't need an FTA to boost trade

It is, of course, worth mentioning that the UK already conducts large-scale trade deals with China. During Theresa May's recent visit to the country, the two sides agreed deals worth £9.3 billion, including £1 billion for UK financial services.[77] We do not need to sign a tariff-based FTA in order to increase our trade with China, and can do so while remaining in the EU.

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The fact is, it is not the EU that is holding us back from doing more trade with China, but a whole host of domestic political factors, both in China and the UK.

India

Summary

India embodies a fundamental disconnect in the post-Brexit 'free trade' mindset: that we can open our borders to goods and investment but close them for people. The British refusal to allow more visas for IT professionals already prompted, in part, the collapse of the EU-India trade deal, and the same thing would likely happen in a bilateral negotiation. UK immigration restrictions are also deeply resented. Other problems that arose during the EU's negotiations with India, such as India's refusal to reduce tariffs on Scotch whisky, or to open up financial or professional services, could also scupper talks, or at least greatly limit the benefit for the UK.

India, moreover, takes an extremely long time to negotiate trade deals, and has by its own admission been cautious in liberalising its markets. Even if we did secure an FTA, the benefits would be minimal. Only 1% of UK exports go to India, and the government's own impact assessments indicate that new FTAs with India and others would add far less to the UK economy than even the softest Brexit would take away.

The UK's priorities

One of the world's leading developing economies, and home to almost one fifth of the world's population, India is a major political and economic force. Combined with its (not always uncontroversial) ties of history, language and kinship, it represents a valued trade partner for Britain, and a key focus for a future bilateral trade deal. Indeed, Theresa May demonstrated its importance when she chose India for her first non-European bilateral visit after becoming prime minister.[80]

The UK's exports to India largely consist of manufactured goods. Machinery comprises 28% of the total, while other products include raw materials, electrical equipment, aircraft, pharmaceutical products and beverages.[81] The UK may look to increase access and market share, particularly for automotive and Scotch whisky exports. The UK and India already engage in lucrative services trade, especially in the fields of IT and professional services. The UK would look to develop this, and to increase access to India's financial services sector.[82]

India's main export to the UK, by some distance, is clothing, accessories and footwear. In addition, machinery, vehicles, precious stones and pharmaceutical products are all significant exports.[83] Although the country already benefits from the Generalised Scheme of Preferences (GSP), a tariff-reduction system targeted at developing countries, India would wish to increase access further. India is also the UK's third-largest source of services imports,[84] and the country would look to develop its professional services in the UK, particularly through increased travel for professional workers.

The UK and India have established a joint economic and trade committee, and trade

working group, to help prepare the ground for talks,[85] and the UK government has talked up the importance of an FTA. International Trade Secretary Liam Fox has described trade and investment expansion with India as 'central' to the UK's future 'independent trade policy'.[86]

Despite the powerful symbolism of a UK-India trade deal, and India's status as the fourth-largest investor in the UK,[87] bilateral trade remains relatively small. India is our 13th largest market for services exports,[88] but was last year only our 22nd largest market for goods exports.[89] Indeed, the country receives little over 1% of the UK's total goods exports.[90] We trade 25% more with Sweden than with India, over 200% more with Ireland, and 700% more with Germany.[91] When the EU modelled the potential gains of an EU-India trade deal, it found that "the EU's large economic base means that the changes are too small to lead to significant changes in percentage GDP growth."[92]

Nor is the current UK government optimistic. Its own leaked impact assessments forecast that "an ambitious FTA agenda, including with Trans-Pacific Partnership countries, ASEAN, the GCC, China, India, Australia and New Zealand" would in total add between just 0.1% and 0.4% to GDP.[93] Meanwhile, it states that leaving the Single Market and negotiating a free trade agreement with the EU will cost the UK around 5% of GDP.[94]

India's priorities

From India's perspective, trade with the EU is of far greater importance. The UK receives just 3.2% of India's goods,[95] and India exports over four times more to the EU27 than to the UK.[96] It also depends far more on the EU than the UK for imports. Germany, with a population just 25% larger than the UK's, in the last year exported 180% more to India than the UK did.[97] Meanwhile, the EU27's trade with India has more than tripled since 2000, while the UK's has roughly flatlined.[98]

Widely regarded as a difficult negotiating partner for trade agreements, India has nine FTAs in force.[99] The majority are with regional partners, and indeed only two – the Chile and Mercosur FTAs – involve countries outside Asia. By India's own admission, the country is a "late, and cautious starter" in signing free trade and preferential tariff agreements,[100] and is often reticent to liberalise its markets. This reluctance is frequently driven by the pressures of Indian producers. The deal with China has been stalled for many years because of concerns about competition.[101]

India's deals also take a long time to negotiate. Open Britain's research reveals that India takes almost seven years on average to conclude FTAs. Deals with key partners such as Canada and New Zealand began in 2010 and are yet to conclude, while negotiations for the unfinished deal with Australia launched almost 11 years ago.[102] As far as the UK is concerned, the Indian high commissioner recently remarked that India was not 'in a rush' to conclude any deal.[103] Indeed, he has suggested that a deal might not be achieved much before 2030.[104] His deputy has moreover cast doubt on Indian enthusiasm, commenting that "there are a million small things to decide".[105]

The EU-India deal is instructive as to where some of the pitfalls will lie. Talks began in 2007 but have been effectively stalled since 2013.[106] Although a key reason for the collapse in talks was the UK's refusal to grant more visas to Indian professional workers (see below), there were numerous other difficulties. EU restrictions on Indian pharmaceutical

products have long caused tensions. India also refused to reduce the tariff on alcohols such as Scotch whisky, which is currently 150% - and also resisted liberalisation for car imports.[107] The UK would likely seek both, but negotiating as a market of 65 million it would have far less leverage than the EU does as a market of more than 500 million.

The EU and India's disputes have also focused around data security, investor protection, intellectual property rights and professional services,[108 109] as well as areas of particular importance to the UK such as the insurance, banking and accounting sectors. There is no reason why any of these should be easier in a bilateral deal between the UK and India. It is highly unlikely that India will significantly open up its markets for UK financial services, a key British demand.[110]

It is of course worth noting that the UK and India have already signed numerous, and valuable, trade and investment agreements with the UK a member of the EU. For example, Theresa May oversaw deals worth £1 billion on her visit to India in November 2016.[111] (France's President Macron secured deals worth £11 billion on his recent visit[112] - and in stark opposition to UK policy, tweeted that he wanted to double the number of Indian students coming to France.) India even has an economic cooperation agreement with EU member Finland.[113] As Liam Fox himself has conceded, India and the UK can 'improve the ease of doing business' right now.[114]

Work visas

India's number one offensive interest in trade talks with the EU was liberalisation in Mode 4 of the General Agreement on Trade in Services (GATS) – namely, the increased ability for Indian professional workers (mostly IT workers) to move to the EU in order to provide their services.[115] One of the key reasons for the deal stalling was the UK's refusal (under the then-home secretary Theresa May) to acquiesce to India's wishes in granting more visas.[116] Indian officials have made it extremely clear that they will make this demand a condition of any bilateral deal with the UK. The high commissioner recently said that "if we need to step up our engagement we need to have...the ease of travel".[117]

Indian officials are anxious to point out that they do not want 'unfettered' rights of immigration or free movement of people, just easier access for professionals. India's high commissioner has stressed that this will make a deal 'mutually beneficial', as a deal cannot be a 'one-way street'.[118] There is significant resentment in India that two-year UK visas cost £330, while the UK charges Chinese citizens just £87.[119] Far from facilitating travel, the UK has also increased the salary threshold for Indian companies wishing to transfer staff over here – the opposite of India's desired outcome of any future agreement. Put simply, India wants cheaper and more plentiful visas while the UK is making them prohibitively expensive and scarcer in number.[120]

Student visas

A related issue of contention is restrictions that impact on international students, in particular in relation to part-time and post-study work. Student numbers have more than halved since 2010, and the government has persisted with a net migration target which, controversially, includes students. The restrictions are strongly resented in India, and many reportedly no longer feel welcome in the UK.[121] The Indian deputy high commissioner to the UK has remarked that as "every other country is opening up its doors

to Indian students, Britain has lost its attraction",[122] while India's finance minister has expressed his concern and added that "it should also be a concern to the United Kingdom".[123] As Vince Cable put it, "the services of our universities are amongst the few British products Indians actually want to buy",[124] yet they remain included in the figures for immigration that the government is so determined to reduce.

Given its own self-imposed restrictions, the government would find it politically difficult to agree to India's visa demands for either IT workers or students. The government will furthermore face pressure from several sides; while business may lobby it to let in more Indian workers, IT professionals have voiced concern that they will face increased and unfair competition, and could be priced out by alleged tax practices that reduce migrant workers' labour costs.[125]

From India's perspective, the fact that the UK so strongly resists these measures risks reinforcing old suspicions and resentments. Even in the arrangements for Theresa May's 2016 visit, one official complained that "this is about politics in the UK, not about what we want".[126] Talks could quickly sour. A former adviser to the Indian prime minister commented that "the impression Britain is giving to countries such as India is, we want your business but we don't want your people".[127] This politically toxic mantra, no matter how justified, could ultimately spell the end of a trade deal before it has even begun.

The Gulf States

Summary

A trade deal with the Gulf states would pose both political and economic problems for the government. On a political level, three of the states [in the GCC] are currently imposing an economic blockade on a fourth, Qatar, which compromises regional stability and makes any negotiations all but impossible. Human rights concerns would be a key stumbling block to any deal, particularly when it comes to negotiating with the much-criticised Saudi government. On a commercial level, the Gulf states have proven to be difficult partners, and negotiations with the EU and Australia have dragged on for many years without success. The Gulf states already operate low tariffs on foreign goods, meaning the benefits of any deal will be limited, and the government's leaked impact assessments demonstrate that an agreement would yield minimal growth and not remotely compensate for the loss of EU trade.

The UK's priorities

The Gulf Cooperation Council (GCC), established in 1981, consists of six independent states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). All are advanced economies, and as a bloc have participated in a customs union since January 2003. This became fully operational in 2015, and has prompted an average increase in intra-GCC trade of over 20% per year.[128] The organisation's stated ambition is to achieve, in addition, an EU-style single market.

The nature of the GCC's customs union requires meaningful trade deals – and certainly those involving tariff barriers – to be negotiated as a bloc, rather than through individual member states, and this is the countries' current policy.

The GCC is a key trade as well as political partner for Britain, with UK exports to the bloc worth over £30 billion annually – considerably more than our exports to China or India.[129] A deal between the UK and GCC would likely focus, from the Gulf side, on raw materials such as gas and oil. Notably, Saudi Arabia is currently engaging in an ambitious plan for economic diversification, and its 'Vision 2030' plan envisages a "global investment powerhouse" in which the government intends to "transform Aramco [the state oil producer] from an oil producing company into a global industrial conglomerate".[130]

The UK, meanwhile, has reportedly identified 31 areas of exploration, notably hydrocarbons, life sciences, creative industries, and, perhaps unsurprisingly, defence.[131] The UK automotive sector could also stand to benefit from a deal.

Even though the UK has a trade surplus with

the GCC – we export, for example, almost twice as much to the UAE as we import – there is no possibility that increased exports to the Gulf states could ever compensate for lost trade with the EU. While the UAE was our 11th largest export partner for goods in 2017, we exported almost three times as much to Ireland, three times as much to the Netherlands, and almost five times as much to Germany.[132] The government's own impact assessments reveal that a trade deal with the Gulf states, in tandem with other deals, is likely to add only 0.1 to 0.4% to GDP, compared to a 5% hit from leaving the Single Market and negotiating an FTA with the EU.[133] As it is, GCC states only charge a 5% tariff on most imported goods,[134] and there are only limited opportunities for expanding services trade, so the immediate benefits to the UK would be muted. Some exports, such as alcohol to Saudi Arabia, would also be impossible.

The GCC's priorities

The GCC has trade deals in force with four countries, notably Singapore and the European Free Trade Association (EFTA) which comprises Norway, Switzerland, Iceland and Liechtenstein. This agreement allows tariff-free access into EFTA states for certain GCC exports such as fish and industrial goods, but retains tariffs on some other goods. Areas of procurement, intellectual property and competition follow established WTO procedures.[135] A similar agreement between the GCC and UK would not be of huge benefit.

The problems in establishing a trade deal with the Gulf States are numerous, and the EU's precedent is unhappy. The two sides first began negotiations as long ago as 1990, but after numerous difficulties, the Gulf states unilaterally terminated them in 2008.[136] To date, no efforts to re-start them have proven successful. Indeed, when a senior EU official indicated last year that the EU might wish to renew the impetus, the GCC stated that it "would not resume negotiations on a free-trade agreement unless the negotiation circumstances are suitable for making an improvement",[137] which seems to refer to the EU's inclusion of other issues – such as human rights – alongside commercial ones.

Australia's attempts to negotiate an FTA have proven similarly fruitless. After two years of negotiations, talks ended in 2009. The GCC Ministerial Council agreed to begin a fresh round in 2014, but four years later, no negotiations have been forthcoming, and the GCC appears to be prioritising a deal with China.[138] Again, the experiences of the EU and Australia demonstrate not just the difficulty in securing agreement, but the sheer length of time simply to arrive at a point of meaningful negotiation. Even concluding a deal is not the end of the story: the EFTA agreement was concluded in 2009, but took a further five years to ratify and implement and only became operational in 2014.[139]

It is also worth pointing out that the UK is able to strike large investment deals with the Gulf states already. During the Saudi crown prince Mohammed bin Salman's visit to London last month, his delegation agreed more than a dozen deals valued at over £1.5 billion, in the fields of pharmaceuticals, education and banking.[140] Those could take place not only without a formal tariff-based trade deal, but while Britain remains a member of the European Union.

Human rights

A key issue in a putative trade agreement would be human rights. Both Bahrain and Saudi Arabia were highlighted as ‘priority countries’ in the UK Foreign and Commonwealth Office’s latest Human Rights and Democracy report.[141] Given this, negotiating a free trade agreement with these countries would pose a major political challenge for the Government, and any deal could meet fierce public and parliamentary resistance.

There already appear to be some mixed messages from ministers on the subject of human rights. Margot James, then parliamentary under-secretary of state at the Department for Business, Energy and Industrial Strategy, told Parliament’s Joint Committee on Human Rights that there would be ‘no diminution’ from current EU standards.[142] However, Liam Fox recently wrote in the Telegraph that we should “never compromise on the prosperity of the United Kingdom”,[143] a comment taken by many opponents to mean that the UK would overlook human rights abuses when striking trade deals.

In the context of the Gulf states, human rights are being closely linked to defence, particularly against the backdrop of the Saudi government’s military activities in Yemen. The news that the government sold Saudi Arabia over £1.1bn of military equipment in the first half of 2017 drew significant political protest.[144]

Regional politics

Regional politics will present another key difficulty in negotiating a trade deal. In July 2017 GCC members Saudi Arabia, Bahrain and the UAE suspended relations with Qatar and imposed a blockade, cutting off key land, air and sea links. The blockade – ostensibly the consequence of Qatar’s alleged threats to regional stability and support for extremist organisations and the Iranian government[145] – shows no sign of coming to an end. While regional stability clearly remains the paramount concern, trade has also been sharply affected. Indeed, in November Qatar launched legal proceedings at the World Trade Organisation against the UAE.[146] The UK government was forced to cancel a planned London summit with the GCC members in December. There seems almost no possibility that realistic trade negotiations with the UK, or any other major GCC partner, might take place while the impasse remains.

Australia

Summary

For all the talk from ministers about a UK-Australia deal, negotiations would bring a range of problems for the government. Australia will demand visa liberalisation to facilitate more immigration, which could prove controversial and would be hard to square with the Government's continued commitment to the net migration target. In terms of agriculture, Australia will demand liberalisation of UK beef, sheep-meat and sugar cane imports, which will meet resistance from UK producers. Demands for the UK to permit imports of hormone-treated beef could prove politically impossible.

It is also true that Australia on average takes many years to negotiate trade deals, and will approach these talks with far greater experience and leverage. Finally, the fact remains that Australia receives only 1.7% of our goods and services exports, and a deal could not possibly mitigate the Brexit damage to growth and GDP that even the government forecasts.

The UK's priorities

Australia is to some extent the poster-child of the post-Brexit trade landscape. It is, after all, a large, rich, English-speaking country with close historical and cultural links to the UK, and we currently have no comprehensive trade deal with it. International Trade Secretary Liam Fox has identified the country as being among his three top priorities for a post-Brexit trade deal (the others being the US and New Zealand.)[148] Ministers (and much of the media) appear to have devoted as much energy to a possible deal with Australia as they have to a deal with the United States, yet few examples are ever offered of UK companies currently experiencing prohibitive barriers to trade.

The majority of Australian exports to the UK are raw materials, in particular gold, lead, pearls and gems. In 2016, gold alone accounted for 69% of exported goods.[149] Alcoholic beverages (particularly wine) make up 3.5% of goods exports, and more minor exports include aircraft parts, beef and pharmaceutical products.

In contrast, the UK's prime export to Australia is cars, which account for 20% of goods exports, followed by medicines and other pharmaceutical products, and alcoholic drinks.[150] The UK is likely to seek increased access for these goods, as well as enhanced services and investment provisions similar to those in the EU-Canada deal.

Of all the government's proposed partners for new trade deals, Australia has perhaps appeared to be the most willing. Australian trade minister Steven Ciobo has called for negotiations to start the day after we leave the EU, and to be ready for implementation the day after the transition ends on 1st January 2021.[151]

Australia is a good example of a key rule of modern international trade: namely that history and culture are far less important than geography. We trade less with Australia than with Sweden. Our bilateral goods and services trade with Ireland is worth almost four times more than with Australia, and our trade with Germany is worth almost ten times more.[152] Indeed, Australia takes just 1.7% of our exports, including services[153] - while for goods alone, it is only our 20th largest export market.[154] As the government's own leaked impact assessments reveal, a deal with Australia will not help to mitigate the reduction in growth that is the product of even the best-case Brexit scenario.[155]

Australia's priorities

From Australia's perspective, the EU remains the key prize. In September 2017, the European Commission formally recommended that the EU-Australia trade negotiations begin,[156] and on 22 May 2018 the Council gave authorisation for negotiations to begin.

Although the UK is Australia's fifth largest trading partner, and the largest in the EU, Germany still exports almost twice as many goods to Australia (and 16% more in overall trade even when services are taken into account).[157] Indeed, Australia trades well over twice as much with the EU27 as it does with the UK,[158] and we should expect its priorities in trade negotiations to manifest themselves accordingly.

Australia currently has FTAs in place with ten countries. While it has managed to conclude deals with major partners such as the US, China and Japan, the deal with India has been stalled for some years.[159] Even the deals that have been concluded have taken a considerable length of time. Analysis by Open Britain has revealed that Australia takes on average over five years to conclude a trade deal – and its agreement with China took over ten years.[160]

Australia is renowned for its hard bargaining in trade negotiations, and their team have far more experience than ours. More to the point, they will have more leverage. One UK official has suggested that the British side could 'blink first' on matters of dispute because it will, for political reasons, be under so much pressure to enact a deal quickly.[161]

Automotives

The largest UK export to Australia, cars, may be an early casualty. The UK car industry depends on complex supply chains with the EU, and will suffer significant damage if these chains are disrupted after Brexit. Even if the supply chains are maintained, the UK may have to convince Australia to include the EU in its definition of UK-made cars to meet rules-of-origin requirements (and thus benefit from tariff elimination). That could be a difficult sell, and Australia may not want to grant EU-made cars free access to Australia when Australian cars will not benefit from the same privilege in the EU.

Visas

One specific issue which may prove problematic is visas. Australian foreign minister Julie Bishop has stated that a "reciprocal arrangement for enhanced visa access would be something we'd be very keen to achieve".[162] While the government would be at liberty to ease restrictions on Australian visas even now (given that we are not in the EU's Schengen zone and have total freedom over non-EU immigration), in the past it has been reluctant to do so. Indeed, the two countries have engaged in a long row

over the UK's Tier 2 visas, which Australia perceives as punitive to its citizens. In 2015 the Australian High Commissioner warned that the UK government was "acting against its own economic interests" and "potentially inflicting structural damage on an important bilateral relationship".[163]

If the government is prepared to liberalise that visa regime, it must backtrack quite starkly on recent policy. Indeed, last year it introduced a new 'immigration skills charge' of £1000 for many employers who recruit outside the European Economic Area.[164] The net migration target and perceived public hostility to immigration could make this a difficult issue for the government. It will also wish to avoid being seen as discriminating against other countries by, for example, favouring Australia.

Meat quotas

Beside visas, agriculture looks set to be the major sticking point in the negotiations. As one Australian official put it, "success here is measured by how much access we get in beef and sheep".[165]

Already the Australian government has protested about the proposed re-allocation of existing EU tariff rate quotas at the WTO after Brexit. It argues that instead of dividing quotas between the UK and the EU27, as London and Brussels have proposed, each side should operate the full existing figure. As trade minister Steven Ciobo explained to the BBC:

"The point is that you have a choice about where you place your quota at the moment. Therefore, given that you could put it in the UK or you could put it into continental Europe, why would we accept a proposition that would see a decline in the quota available because of the Brexit decision?" [166]

If the UK does not resolve this problem, or sticks to its current position, it could well hamper any future negotiations. And if it does fully replicate the current EU quota as Australia demands, it will squander leverage it has over Australia before the trade talks have even begun.

Australia currently has a 15% share of the UK's sheep-meat imports, and, unlike New Zealand, frequently comes close to filling its EU sheep-meat quota.[167] Australia will be sure to demand a much more generous quota under the terms of any new deal, which will place UK sheep farmers under further pressure. As Tory MP Julian Sturdy put it, these farmers are 'struggling to compete' as it is.[168] John Davies, the president of the Welsh National Farmers Union, has said: "It's really serious. It's people, their businesses, their futures and the future of Wales... this is all in danger."[169]

As far as beef is concerned, quotas are currently split between high-quality and grain-fed beef. Although it can export grain-fed beef at zero tariffs under a generous quota, high-quality beef has a much stricter threshold and incurs tariffs of 20%.[170] UK beef producers must therefore brace themselves for a strong confrontation with the UK government, and fierce new competition.

Sugar quotas

Livestock farmers will not be the only ones to face new competition and a potential fight with the government. Sugar will also be a key issue. The EU currently operates tight restrictions on sugar cane imports from developed countries, partly to protect its own sugar beet industry.[171] Australia will likely demand much greater liberalisation for its sugar cane exports. This will put the UK's 3,500 beet producers, and British Sugar,

under considerable pressure.[172]

Agricultural standards

Away from quotas and tariffs, perhaps Australia's most alarming demand is on agricultural standards: specifically, hormone-treated beef.[173] Already an early sticking-point in discussions with the US, accepting this demand would pose numerous problems for the UK.

First, the government has pledged not to reduce standards in this area. Indeed, the prime minister made compliance with EU standards a significant element of her Mansion House speech.[174] Second, UK farmers would be unfairly disadvantaged by the imports of beef produced with lower environmental or welfare standards.[175] Third, it might provoke a strong consumer backlash.

Perhaps most significantly, however, it would breach EU regulations (whether they are unfair, as the Australians contend, or not). This would compel the EU to check all meat arriving from the UK to ensure that no Australian hormone-treated beef was entering EU markets. That would almost certainly mean a hard Irish border, and a breach of the UK and EU's phase-one Brexit agreement. It is impossible to see how the UK could agree.

New Zealand

Summary

The key problem with a trade deal with New Zealand is not that it won't happen, but that it won't help. New Zealand is a valued partner to Britain but as a share of total UK exports and imports, our bilateral trade is tiny. New Zealand is the destination for just 0.2% of our goods exports, making it the UK's 44th largest goods export market. Given this, and the huge distance between the two countries, the economic benefits of a trade deal would be extremely small.

New Zealand takes years to negotiate its trade deals, and will not make any special favours for Britain. In a choice between negotiating a deal with the UK or the EU, its priority is the EU. A key problem will be quotas: the UK does not currently want to replicate the existing EU quotas which are in place on New Zealand produce just for itself, but New Zealand is insisting it does. If the UK backs down, it will further surrender its leverage in future negotiations. During those negotiations the government will also come under immense pressure from sheep and dairy farmers, many of whom are already struggling, and who could find it difficult to compete with the new flow of New Zealand imports.

The UK's priorities

New Zealand is commonly cited by ministers as a key target for a post-Brexit trade deal. International Trade Secretary Liam Fox has named the country, alongside Australia and the US, as one of his "three top priorities for future free trade agreements".[176] The UK and New Zealand are closely bound, if not by geography, then by language, culture and kinship, and additionally enjoy a strong political relationship. As a developed economy with a similar legal system and free-trade outlook, New Zealand makes for a compatible trade ally.

Certainly, much of the aura surrounding Australia and New Zealand ties into the nostalgic vision of 'CANZUK' – or more problematically (and fallaciously) the 'white Commonwealth'. This frequently accompanies a romantic idea of an 'English farm in the Pacific' which is firmly rooted in history and memory. While it is true that many people in New Zealand considered the UK's entry into the EEC a form of 'betrayal' (although the UK did secure preferential access for New Zealand butter and cheese), New Zealand has long since moved on. It now trades mostly with the countries in its own region – Australia and China are by a long way its biggest trading partners – and it will not grant the UK any special favours in negotiations. The UK remains an important partner for New Zealand, but the statistics expose the practical realities. While at the start of the 1960s the UK still received the bulk of New Zealand's goods,[177] in 2017 the figure was less than 3%.[178] The UK's top exports to New Zealand are currently vehicles, machinery, books and pharmaceuticals.[179]

New Zealand's economy is based on goods, and specifically agriculture. Goods make up 69% of its exports, and agriculture comprises

62% of those goods.[180] Despite a population of just 4.7 million (14 times smaller than the UK's), it is the world's top exporter of sheep-meat and dairy products, and after Australia, the second largest exporter of wool.[181] Other goods include forestry products and fish, but these will be less relevant to the UK, which sources those products closer to home. New Zealand may also wish to increase access for its fruit and wine exporters.

Last year the trade spokesman for the New Zealand First party, which is now in government, suggested that New Zealand should abandon its trade deal with the EU in favour of an agreement with the UK, over the EU27 countries' apparent reluctance to liberalise their dairy markets.[182] Nevertheless, in September 2017 the European Commission recommended to launch formal trade negotiations,[183] and on 22 May 2018 the EU's member states gave authorisation for official talks to begin.

In February 2018 New Zealand prime minister Jacinda Ardern told the BBC that she was "here, ready and willing" to enter into a trade deal as soon as the UK was ready to negotiate it – although perhaps mindful of the protectionist and anti-globalisation trends which contributed to the election of Donald Trump (and indeed Brexit), she observed that "there has been an increasing scepticism about free trade agreements amid an increasing sense of financial insecurity".[184] Time – and political weather – will determine if this causes substantive problems in negotiations.

New Zealand's priorities

The key problem with a trade deal with New Zealand is not that it won't happen, but that it won't help. For all the discussions and ministerial visits, last year New Zealand was only the UK's 44th largest destination for goods exports, and 47th largest source of imports.[185] The total goods trade amounted to just £1.77 billion, less than our trade with Mexico, Israel or Indonesia, and 60 times less valuable than our trade with Germany.[186] It is the destination for just 0.2% of our goods exports.[187] Given that bilateral trade with New Zealand is currently less than with Canada, and the UK government estimates a deal with Canada would boost the economy by just 0.03% by 2030,[188] it is clear that a deal with New Zealand won't come close to compensating for the cost of Brexit.

The reality is that the EU, even without the UK, is the more valuable partner. In 2017 New Zealand's total goods and services trade with the EU27 was worth around three times more than with the UK.[189] The UK will not be a priority – and so far the negotiations with the EU have not even begun. As a case in point, Charles Finny, a former New Zealand trade official, said that New Zealand "will need to press for an FTA with the UK in such a way that it does not result in any pushback from the EU".[190]

New Zealand currently has FTAs in force with nine countries, but they have not been negotiated quickly. Open Britain's research has demonstrated that New Zealand has taken an average of 4 years and 7 months to conclude its trade agreements,[191] and numerous deals – such as the one with India – have stalled. Even a quickly negotiated deal does not mean a quickly implemented one. New Zealand concluded negotiations with the Gulf Cooperation Council (GCC) in 2009 but almost nine years later, the deal has still not been ratified.[192]

Agriculture

The key issue in the New Zealand deal will be food, and a major problem has already emerged in the form of tariff-rate quotas, which allow for reduced tariffs up to a specific threshold. Last year New Zealand was one of the countries that sharply protested a UK-EU plan to divide up existing agriculture quotas between them.[193] New Zealand believes the existing EU quota must be preserved in full after Brexit in the EU27 and replicated in the UK, to allow their exporters the full freedom to use their quota as they see fit, and avoid potential restrictions. London and Brussels oppose this stance. The UK government will fear it could expose UK manufacturers to much greater competition. EU trade figures have so far rejected a New Zealand proposal not to increase its overall level of exports,[194] but it remains to be seen how the UK will address the issue in bilateral trade negotiations. Certainly, some have suggested that if the UK massively expands its quota now, it will surrender key leverage in those future talks.[195]

Ominously for the UK government, UK sheep farmers have already signalled their fears over the 'double-whammy' of potential export barriers into the EU and a flood of new imports from Australasia[196] - especially given New Zealand's hugely successful lamb industry. New Zealand already accounts for 74% of UK sheep-meat imports.[197]

Dairy is a further key issue. Given the EU's current high tariffs on dairy products (up to 40% in some cases), removal of which will be another of New Zealand's key objectives, UK dairy farmers may also resist new (and likely fierce) competition. A notoriously difficult industry, several hundred British dairy farms have already closed in recent years,[198] and the government may come under sustained pressure not to worsen their position.

While New Zealand is asking the UK to remove tariffs and quotas, and not to reduce standards, a deal with the UK could lead to more British farmers, particularly in the sheep and dairy sectors, going out of business.

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