Journal of Self-Governance and Management Economics 8(1), 2020
pp. 7–99, ISSN 2329-4175, eISSN 2377-0996

How Bright Are the Prospects for UK Trade and Prosperity Post-Brexit?

David Blake
d.blake@city.ac.uk
City, University of London, United Kingdom

ABSTRACT. So long as the UK government liberates itself from the protectionist mercantilist mindset of the European Union and reduces trade barriers after Brexit, and UK businesses respond positively to the challenge of increased international competition (through increased productivity and exports), the prospects for UK trade and prosperity post-Brexit are very bright indeed. The EU itself acknowledges that 90% of future growth in global gross domestic product will be outside the EU. The costs of remaining in the EU are very high and not all purely economic: the EU is no longer a force for global liberalisation. On the basis of both international and EU law, the monetary costs to the UK of leaving the EU should have been fairly low. Similarly, the frictional costs to both the UK and the EU of their post-Brexit trade relationship should also be low. However, as a consequence of both the concessions made by the UK in order to demonstrate its goodwill and the hard line taken by the EU in order to discourage other member states from leaving, these costs could well end up being much higher than they need be for both sides. Of particular concern is the EU's "level playing field" demand, laid out in the (albeit non-binding) Political Declaration for a future trading relationship. This would effectively prevent the UK from achieving regulatory autonomy or from pursuing an independent trade policy. The Treasury predicts a 7.7% reduction in GDP in the event of "no deal" in which the UK retained the existing Common External Tariff with the rest of the world and also imposed the same tariffs on trade with the EU. However, EU barriers on trade in food and manufactures raise their prices by 20%. By leaving the Customs Union and reducing these barriers from 20% to 10%, UK GDP would rise by 4%. By leaving the Single Market and avoiding the costs of meeting its excessive regulatory standards, UK GDP would rise by another 2%. The total increase in GDP of 6% is similar to the 5.4% increase in GDP following Australia's trade liberalisation in 1986.

JEL codes: F13, F40, F59

Keywords: international trade; free trade agreements; protectionism; tariffs; non-tariff barriers; Brexit

How to cite: Blake, David (2020). "How Bright Are the Prospects for UK Trade and Prosperity Post-Brexit?," *Journal of Self-Governance and Management Economics* 8(1): 7–99. doi:10.22381/JSME8120201

Received 23 June 2018 • Received in revised form 18 March 2020
Accepted 20 March 2020 • Available online 29 March 2020

How bright are the prospects for UK trade and prosperity post-Brexit, following the UK's departure from the European Union? The short answer is that they will be inversely related to the size of the tariffs on international trade that the UK itself sets after Brexit. But both the question and answer can only be fully understood after considering two sets of costs: those of remaining in the European Union and those of leaving it. Once we have answered these questions, we can examine the different possible future trading relationships with both the EU and rest of the world. We end by examining the costs and benefits of trading on World Trade Organisation (WTO) terms or what has become known as the "no deal" option.

1. The Costs of Remaining in the EU

The EU has created the illusion that it is simultaneously both a worker's paradise – given the social protections it guarantees to workers – and a capitalist's heaven – given how effectively businesses can lobby Brussels to raise barriers against imports from outside the EU.[1] It even claims that it has brought lasting peace to Europe after centuries of conflict, whereas it is NATO that has a much greater entitlement to this claim. So successful has the EU been in perpetrating this myth that it won the Nobel Peace Prize in 2012. The reality is rather different. The costs of remaining in the EU are very high and they are not all purely economic. We discuss ten key costs.

1.1 The EU is a fundamentally protectionist trading bloc

First, the EU is a fundamentally protectionist trading bloc. Big business lobbies Brussels for more regulations to make it more difficult for small companies to enter the market and compete – whether these companies come from the EU or not.[2] There is also the Common Commercial Policy which prohibits member states from negotiating separate trading agreements with other countries.

The Customs Union, to which all EU member states belong, imposes the Common External Tariff, covering more than 13,000 imported goods, while allowing tariff-free trade between member states. While the trade-weighted average EU tariff for non-agricultural products is quite low at around 2.7% for non-agricultural products, it is higher for agricultural products at 8.1%.[3]

For certain agricultural products, it is very high as Table 1 shows. It is also high for cars at 10%.

Table 1 Average EU tariff by product type (%)

Dairy products	44.8
Sugars and confectionery	28.3
Beverages and tobacco	19.8
Animal products	17.8
Cereals and preparations	17.8
Cars, trucks and lorries	16.0*
Fruit, vegetables and plants	11.8
Clothing	11.5
Fish and fish products	11.4
Textiles	6.6
Coffee, tea	5.9
Oilseeds, fats and oils	5.8
Other agricultural products	5.0
Chemicals	4.5
Leather, footwear etc	4.2
Transport equipment	4.1
Petroleum	3.1
Electrical machinery	2.4
Other manufactures	2.4
Minerals and metals	1.9
Non-electrical machinery	1.7
Wood, paper etc	0.9
Cotton	0.0

Sources: Final bound duties, WTO, *World Tariff Profiles 2019*, p. 90; https://www.wto.org/english/res_e/booksp_e/tariff_profiles19_e.pdf
*2016–17 data; https://publications.parliament.uk/pa/ld201617/ldselect/ldeucom/169/16906.htm

As a result of these tariffs, EU consumers are paying an average of 17% above world prices on food.[4] One example of this is tuna from the Maldives which attracts a 24% tariff, but is tariff free if it is destined for processing in the EU, thereby allowing European manufacturers to capture the bulk of the value added of this import from a developing country.[5] Another is cocoa: "While the import duties for unprocessed cocoa beans is rather small, the EU charges 30% for processed cocoa products like chocolate bars or cocoa powder, and 60% for some other refined products containing cocoa."[6, 7]

There are also significant non-tariff barriers (NTBs), also known as technical barriers to trade (TBT).[8] These are often justified on environmental or health and safety grounds in line with the EU's "precautionary principle,"[9] but are in reality mostly just forms of protectionism and market distortion. One example of this is the ban on Basmati rice from India due to concerns about pesticides and residues that can be barely measured scientifically. Another is the General Data Protection Regulation which prevented services involving data flow being included in the trade deal with Canada. Shanker Singham[10] argues that "more and more EU regulation is prescriptive and anti-competitive in nature. The EU will not grow vibrantly but will continue to destroy wealth for its own citizens and also for the rest of the world. The EU is therefore no longer a force for global liberalisation."[11, 12]

It is also very important to note that NTBs are illegal under World Trade Organisation rules which forbid any form of discrimination on standards between home and foreign products or between the foreign products of different countries.[13] The same applies to services.[14] Dyson – which manufactures its products in Asia – has won a case in the Court of Justice of the European Union (CJEU)[15] against the EU Commission by successfully arguing that EU energy labelling regulations were based on tests which favoured German manufacturers.[16]

Then there is the Single Market[17] which is claimed to be the jewel in the crown of the EU with its four freedoms of movement – of goods, services, capital and people. But the Single Market is not a free trade area, rather it is a single protectionist zone where regulations are harmonised and all goods and services produced must satisfy these regulations whether or not they are sold in other member states. Only 6% of UK companies export to the EU – accounting for 13.8% of GDP in 2018[18] – yet 100% of UK regulations are determined in Brussels, including for the 94% of UK companies that do not trade with the EU.[19, 20]

The UK, in particular, has seen little economic benefit from the Single Market.[21] Table 2 shows the compound annual growth rate (CAGR) of UK goods exports to the 14 original members (EU14) of the Single Market from 1999 to 2018. Column 1 shows the real CAGR (inflation adjusted to 2016 GDP) of UK exports to the EU14 was 0.56%.[22] For eight of the EU14 states, UK goods exports to them have *declined* in real terms over these two decades rather than grown. The third column shows that the cumulative trade deficit was £740.35bn.

By contrast, UK goods exports to the 14 leading countries (denoted WTO14) that the UK trades with on WTO terms – meaning in the absence of a preferential trade agreement – had a CAGR of 3.58%,[23] compared with 0.56% for the EU14: they grew more than six times faster between 1999 and 2018.

One explanation frequently offered for why UK trade with the rest of the world (ROW) has grown at a faster rate than UK trade with the EU is that the ROW's economies have grown at a faster rate over the last 20 years. The aggregate CAGR of the GDP of the WTO14 was 3.53% between 1999 and 2018.[24] This is indeed significantly higher than the 1.45% GDP CAGR of the EU14.[25]

Table 2 Real growth of UK exports of goods to 14 other members of the EU Single Market 1999–2018 and cumulative trade balance

Trade partner	CAGR UK goods exports %	Divergence from CAGR of partner's GDP (% points)	20-year trade balance £bn
Austria	0.67	-0.98	-24.75
Belgium	0.57	-0.99	-85.60
Denmark	-0.69	-1.95	-29.58
Finland	-2.09	-3.68	-26.35
France	-0.05	-1.45	-32.66
Germany	1.06	-0.32	-378.28
Greece	-2.30	-2.53	14.46
Ireland	1.53	-3.26	133.63
Italy	-0.37	-0.76	-87.50
Luxembourg	0.46	-2.47	-7.81
Netherlands	1.56	0.02	-137.99
Portugal	-2.82	-3.53	-8.58
Spain	-0.26	-2.12	-44.42
Sweden	-0.30	-2.59	-24.92
EU14	**0.56**	**-0.81**	**-740.35**
EU27	**0.78**	**-2.59**	**-868.79**

Data sources:
• https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradeallcountriesseasonallyadjusted
• Export deflator: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ybfw/ukea#othertimeseries
• https://data.worldbank.org/indicator/NY.GDP.MKTP.KD

Source: Michael Burrage and Phil Radford (2020). "WTO vs the EU: An Assessment of the UK's Trade Relationships 1999–2018," *Civitas*, forthcoming.

Column 2 of Table 2 shows the CAGRs of the UK exports to the EU14 compared with the CAGR of their GDP. The growth of UK goods exports to the EU14 over these two decades was *below* the growth of the GDP of them all, except for the Netherlands.[26] This is reinforced by the trade figures for 2019. UK goods exports to non-EU countries increased by 13.6% over 2018 to £201.5bn, while UK goods exports to the EU *fell* by 0.9% to £170.6bn.[27] The UK trades on WTO terms with some key non-EU countries, including the US (the UK's biggest single trading partner), China (the UK's third biggest trading partner after Germany), Japan, Canada, Australia, India and Brazil. Despite this, UK trade with these countries has grown at a faster rate than with the EU where trade is supposed to be "frictionless." Further, Table 3 shows that the UK mostly has a trade surplus with non-EU countries – contrasting with the trade deficits shown in Table 2.

Table 3 UK trade with non-EU countries (goods and services), 1999–2018

	Exports		**Imports**		**Balance**
	£ billion	**% of total**	**£ billion**	**% of total**	**£ billion**
1999	114.9	46.2	116.2	44.1	-1.3
2000	129.2	46.8	137.8	46.7	-8.6
2001	132.1	46.3	139.3	44.9	-7.2
2002	131.9	46.0	133.2	41.9	-1.3
2003	143.5	47.8	138.5	42.3	5.0
2004	152.4	48.7	150.3	43.4	2.1
2005	170.1	48.8	167.3	43.8	2.8
2006	184.1	46.1	186.3	43.3	-2.2
2007	194.7	48.9	192.5	45.6	2.2
2008	215.5	50.2	219.1	47.3	-3.7
2009	211.5	51.7	207.2	47.9	4.0
2010	235.2	51.9	237.2	48.9	-1.9
2011	266.3	52.3	258.9	49.4	7.4
2012	279.5	54.4	261.6	49.0	17.9
2013	298.1	55.8	269.0	48.3	28.9
2014	293.1	55.2	263.6	47.4	29.5
2015	305.5	57.6	262.6	47.2	42.9
2016	319.5	56.3	281.6	47.0	37.9
2017	348.2	55.3	308.8	47.2	39.4
2018	351.2	54.7	322.6	47.4	28.7

Source: Statistics on UK-EU trade, House of Commons Briefing Paper, No 7851, 16 December 2019; https://researchbriefings.files.parliament.uk/documents/CBP-7851/CBP-7851.pdf

This helps to explain why UK exports to the EU have fallen from 60% of the total to 45% since the Single Market was introduced. Goods exports to the EU are 50% of total exports, amounting to 8.1% of GDP. Services account for 80% of the UK economy, but only 40% of the UK's service exports[28] go to the EU,[29] amounting to just 5.7% of GDP. The result was a £28bn services surplus but a £94bn goods deficit with the EU, leaving an overall £66bn trade deficit in 2018.[30] In 2019, the EU27 had an even bigger trade surplus of €125bn with the UK: this is 62% of the EU27's total global trade surplus in goods last year.[31] The UK will account for around 40% of EU exports to the rest of the world in 2020.[32]

Even strong supporters of the EU concede that the Single Market is "not visible in the macro statistics…. the data are telling us a different story – that the Single Market is a giant economic non-event, for both the EU and the UK."[33] Fredrik Erixon and Rosita Georgieva go further:

> New initiatives to reform the Single Market are often presented as initiatives to 'complete the Single Market.' However, they have all

fallen substantially short on that ambition, and Europe is far away from having a Single Market. In fact, it is further away from it now than ten years ago. The European economy has undergone profound structural changes, and as the economy has shifted profile, it has moved further into sectors and areas where there is very little of the Single Market. The more Europe's economy grows dependent on services and the digital sector, the less Single Market there will be in Europe.

Arguably, the piecemeal approach has prevented Europe from reaping the gains of structural change, and the relative policy conditions between sectors have damaged Europe's desire to grow faster on the back of new sectors and services. The failings of Europe's Single Market are becoming ever more evident and, left unaddressed, will cause real economic disintegration in Europe and depress the rates of productivity and economic growth.

Furthermore, given the vast complexity of regulations in Europe, and the increasing layers of bureaucracy they entail, it is difficult to see how improvements could be made without a vast overhaul of the structure of regulations and the design of the Single Market. And such a reform has to start from a completely different proposition: Europe's ambition should not be to continue building its Single Market, it should be to create a European market. As reforms are moving closer to areas like digital services, energy, and advanced business services, it is evident that the improvements that can be made in Europe's integration is less about classic Single Market reforms and more about building adequate market institutions and advance structural reform.[34]

1.2 The EU seriously misallocates resources

Second, the EU seriously misallocates resources. Take the EU Budget: 37% goes to farmers,[35] mostly to the richest farmers with the largest farms. Yet agriculture accounts for only 1% of GDP across the EU. The Common Agricultural Policy encourages overproduction. We used to have wine lakes and butter mountains. Now we have the surplus production being dumped in overseas markets. A recent example is the dumping of tinned tomatoes in Africa, in particular Ghana, which leads to a significant distortion to the local market and a reduction in the income of Ghanaian tomato farmers.[36]

The EU's Landfill Directive caps the landfilling of municipal waste, with the cap set at 10% by 2035. Surplus waste has been shipped to countries like China, Hong Kong, Vietnam, Malaysia and India for disposal and recycling due to insufficient recycling capacity in Europe. At the end of 2017, China put a strict limit on the import of "foreign garbage," other countries followed, and within weeks all the EU's recycling plants were overflowing. So much for the EU priding itself "on being an environmental leader – a champion of ‘the circular economy,’ in which energy and resources are carefully husbanded, reused and recycled.”[37]

1.3 The EU is a political project that is fundamentally anti-democratic

Third, the EU is a political project that is fundamentally anti-democratic as a whole range of European leaders have made abundantly clear:

• “Europe’s nations should be guided towards the super-state without their people understanding what is happening. This can be accomplished by successive steps, each disguised as having an economic purpose, but which will eventually and irreversibly lead to federation” (Jean Monnet, founding father of the EU, letter to a friend, 30 April 1952).[38, 39, 40]

• “We’re not here to make a Single Market – that doesn’t interest me – but to make a political union” (Jacques Delors, former EU Commissioner).[41]

• “We now seek political unification, the construction of a United States of Europe” (Helmut Kohl, German chancellor, 1991, following German reunification).[42]

• “There can be no democratic choice against the European Treaties” (Jean-Claude Juncker, President of the European Commission, in “Greece: The Dangerous Game,” *Le Figaro*, 1 February 2015).

• “In truth, Brussels is a democracy-free zone” (Yanis Varoufakis, former Greek finance minister, *The Guardian*, 3 May 2017).

Even if political union per se is not anti-democratic, the way it is being achieved – by stealth and against the expressed consent of the peoples of Europe – certainly is.[43]

There is supposed to be “double democracy” in the EU – represented by the European Council and the European Parliament – but the reality is that the EU is run by the bureaucrats of the European Commission who run rings around ministers from national governments[44] as well as EU parliamentarians.

A recent notorious example of this was the appointment of Martin Selmayr, former chief of staff (“head of cabinet”) to Jean-Claude Juncker, as secretary-general of the European Commission in February 2018, following an internally advertised vacancy for deputy secretary-general. There was only one other candidate for this post, Clara Martinez Alberola, Selmayr’s own deputy as chief of staff. She dropped out of the running and Selmayr was duly appointed deputy secretary-general. Within nine minutes of Selmayr’s appointment, the incumbent secretary-general, Alexander Italianer, resigned and Selmayr was promoted to secretary-general, while Clara Martinez Alberola was promoted to chief of staff, Selmayr’s old job. There was outrage in the European Parliament, with French MEP Françoise Grossetête describing Selmayr’s appointment as a “mystification worthy of the Chinese Communist Party.” But at a parliamentary hearing in March 2018, Günter

Oettinger, the Commissioner for budget and human resources, insisted that the rules were followed in "the supranational spirit of the European public administration" and Juncker said he would resign if Selmayr's appointment was overturned.[45] But, in September 2018, Emily O'Reilly, the European Ombudsman, said the appointment had revealed "four instances of maladministration," and "risked jeopardising the hard won record of high EU administrative standards and consequently, the public trust."[46] The Ombudsman's statement was rejected by the Commission and Selmayr kept his job.[47]

In 2011, Brussels removed national elected governments in Italy and Greece and replaced them with "technical governments" run by Eurocrats – Mario Monti, a former EU Commissioner, in Italy, and Lucas Papademos, a former vice-president of the European Central Bank, in Greece.

All this is little better than authoritarianism – which makes it much harder for the Commission to deal with other forms of authoritarianism in the EU. On 20 December 2017, the Commission activated Article 7 of the Treaty on European Union (TEU)[48] against Poland citing "a clear risk of a serious breach of the rule of law" on the grounds that the Polish government's recent reform of the judicial system threatened the independence of the judiciary in violation of the EU's common values as defined in Article 2.[49] The Commission has proposed an injunction against Poland which could lead to sanctions, including the loss of voting rights. However, the proposal requires unanimity by member states and Hungary's prime minister, Viktor Orbán, has promised to block it.[50]

More shocking still is the way the British establishment of senior politicians and civil servants hid from the electorate the real objectives of the European Union at the time the UK joined in 1973 (what was then the European Economic Community and which became the EU in 1993). This is clearly shown in a classified paper prepared by a senior civil servant for the Foreign and Commonwealth Office in April 1971 and labelled FCO30/1048. The paper – which was initially withheld under the Official Secrets Act – made it clear that the EU was preparing for economic, monetary and fiscal union, with a common foreign and defence policy. It also made clear that "Community law" would take precedence over UK courts and that ever more power would pass away from the UK Parliament to Brussels. The paper acknowledged this would lead to a "popular feeling of alienation from Government" and politicians were advised "not to exacerbate public concern by attributing unpopular measures… to the remote and unmanageable workings of the Community." It anticipated that this strategy could last "for this century at least" – by which time the UK would be so subordinated to Brussels, it would be impossible to leave the EU.[51]

1.4 The purposive nature of EU law

Fourth, is the "purposive" nature of EU law[52] which allows the CJEU to interpret and reinterpret the wording of EU laws in line with the European Commission's (often changing) intentions.[53, 54] This is reinforced by the Lugano doctrine whereby the CJEU claims exclusive competence in increasing areas of private international law.[55] This contrasts with the clarity and precision of English laws. A further issue relates to the EU legal convention that everything is prohibited unless it is permitted, which requires constant appeals to the CJEU to grant permission. This contrasts with the English common law tradition where everything is permitted unless it is prohibited.[56] These factors explain why many EU companies prefer to draw up contracts subject to English rather than EU law because of the greater legal certainty of interpretation.

A key illustration of the purposive nature of EU law took place on 10 December 2018 when the CJEU ruled that the UK could, "as a sovereign country," unilaterally revoke Article 50 of the Treaty on European Union, "since it would be inconsistent with the EU treaties' purpose of creating an ever closer union amongst the peoples of Europe to force the withdrawal of a member state against its will."[57] Yet on 29 March 2017, when the UK triggered Article 50, the European Commission stated "It is up to the United Kingdom to trigger Article 50. But once triggered, it cannot be unilaterally reversed. Notification is a point of no return. Article 50 does not provide for the unilateral withdrawal of notification." The CJEU's ruling shows clearly that the CJEU is a political court and not a neutral interpreter of EU law – and is more than willing to step in to support the Commission's strategy when necessary – in this case, to frustrate Brexit.

Even more concerning, the supremacy of EU law and its direct effect were created by judicial fiat, not by any treaty agreed by member states.[58] Direct effect enables individuals to invoke a European Act before a national court, irrespective of whether a national law test exists, therefore ensuring the application and effectiveness of European law in all member states.[59] This means that "once in-place these [principles] enabled – through subsequent case law – the consolidation and expansion of the EU's supreme legal order and steady subjugation of the democratic processes within the member states and the erosion of the jurisdiction of domestic law."[60]

1.5 The folly of introducing the euro

Fifth, there is the folly of introducing the euro across a group of countries whose economies were so disparate that the operation of a single monetary policy with a single Eurozone interest rate was inevitably going to lead to a pattern of booms and busts in the peripheral states when the interest rate is set to meet the needs of core economies, such as Germany. In addition, the way in which exchange rates were fixed at the start of monetary union resulted in Germany joining at too low an exchange rate, while the peripheral countries joined at too high an exchange rate. This inevitably led to the mainly northern members of the Eurozone, especially Germany, building up large trade surpluses[61] and the southern members, such as Spain, building up corresponding deficits.

In unified or federal states, such as the UK and US, the national government is able to use fiscal stabilisation policies to transfer resources from surplus to deficit regions to prevent recessions in the latter. But Germany refuses to take part in such a "transfer union" resulting in a widening North/South split on the issue of fiscal and economic responsibility. Germany insists the deficits are removed by the other economies becoming as efficient as it is.[62] The deficits building up in TARGET2, the Eurozone payments system,[63] by countries such as Spain and Italy,[64] are so serious that it is very likely that the Eurozone will implode – and do so sooner rather than later.[65] In the meantime, the southern member states are stuck in a permanent Japanese-style deflation trap.[66]

1.6 The demographic ageing of the EU's population

Sixth, there is the demographic ageing of the EU's population, resulting from a combination of rising life expectancy and declining fertility. Europe's share of the world's population has fallen from 20% in 1900 to 7% today, and could well fall to 4% by 2100 when the global population reaches 12bn people.[67] Jean-Claude Juncker has conceded that "We are demographically weakened, and will remain so. … Economically, we see the end of Europe's glorious years compared with what others are doing. … The European Union is not going very well."[68] Douglas Carswell, the former MP for Clacton, somewhat unkindly likened the UK's membership of the EU to being "shackled to a corpse."[69]

1.7 Encouragement of regional separatist movements

Seventh, the EU has inadvertently encouraged regional separatist movements to develop in a number of member states in the mistaken belief that these regions can become "independent" members of the EU "with a seat at the top table." Current examples are Scotland, Catalonia and Corsica.[70] Now, the EU does not directly support this, and Jean-Claude Juncker has made clear that he does not want "an EU with 95 different countries tomorrow, or the day after. We would lose control. National unity and European unity are things that go together."[71]

Yet, as US economist Dani Rodrik points out "the nation state has proved remarkably resilient and remains the main determinant of the global distribution of income, the primary locus of market-supporting institutions, and the chief repository of personal attachments and affiliations. … The nation state remains the only game in town when it comes to providing the regulatory and legitimising arrangements on which markets rely."[72] This view is, of course, inconsistent with Juncker's own federalist objectives for the EU which are likely to lead to a dangerous weakening of the nation states of Europe without replacing them with anything that is sufficiently resilient and robust and which would command the same degree of loyalty.[73] Those, like the EU's chief Brexit negotiator, Michel Barnier, who want a unitary United States of Europe, can only achieve this by first breaking and then breaking up the nation states of Europe into regions.

1.8 Increasing euroscepticism

Eighth, there is increasing euroscepticism in the EU – dismissed as "populism" by europhiles – demonstrated by the East/West split over the immigration and internal security crises. The Visegrád Group, comprising the Czech Republic, Hungary, Poland and Slovakia, is challenging the authority of Brussels by refusing to accept migrant quotas imposed by Brussels, following German chancellor Angela Merkel's unilateral decision to allow 1.5m migrants into Europe in 2015.[74] Viktor Orbán has said: "All the institutions of the EU have utterly failed. Neither the European Commission, nor the European Council, nor the European Parliament protected the Schengen Treaty." Some members of the Visegrád Group are even proud to call themselves "illiberal democracies."

Jean Asselborn, then Luxembourg's foreign minister, responded by saying that the Visegrád Group's refusal to accept immigrants and relieve the pressure on Greece and Italy – from immigrants coming from Turkey and north Africa – was the biggest problem facing Europe. He suggested that only the CJEU could force the group's members to fulfil their migrant quota. Italian MEP Marco Zanni, from the Europe of Nations and Freedom Group, predicted a growing tension within the EU as its leaders fail to address with these issues.[75]

In September 2018, the European Parliament voted to introduce sanctions against Hungary on account of its treatment of its Roma community and its challenge to the independence of its courts, the media and academic freedoms. Orbán told MEPs before the vote that "you are not going to condemn a government, but a country as well as a nation. You are going to denounce Hungary that has been a member of the family of Christian nations for a thousand years."[76]

Euroscepticism has now spread to western Europe, in particular Italy, a founding member of the EU. Former Italian Deputy Premier Matteo Salvini has said that: "People like Juncker have ruined Europe and our country… [and the euro] is a 'crime against humanity.'"

1.9 Tension with Russia

Ninth, the EU has been blamed for the tension between Russia and the Ukraine as a result of its 2014 "Association Agreement" with the Ukraine, which Russia interpreted as an encroachment on its sphere of influence. The Ukrainian President Petro Poroshenko described the agreement as Ukraine's "first but most decisive step" towards EU membership. Russia's annexation of the Crimea – which had been part of the Ukraine – in 2014 was clearly linked to the EU's overtures towards the Ukraine and the EU's total impotence of response demonstrates what a paper tiger the EU really is when it comes to international diplomacy.[77]

1.10 Massive corruption in the EU

Finally, there is massive corruption in the EU, well illustrated by the fact that the EU's accounts have not been approved for the last 20 years by the EU's chief auditor in respect of around €100bn of expenditures.[78]

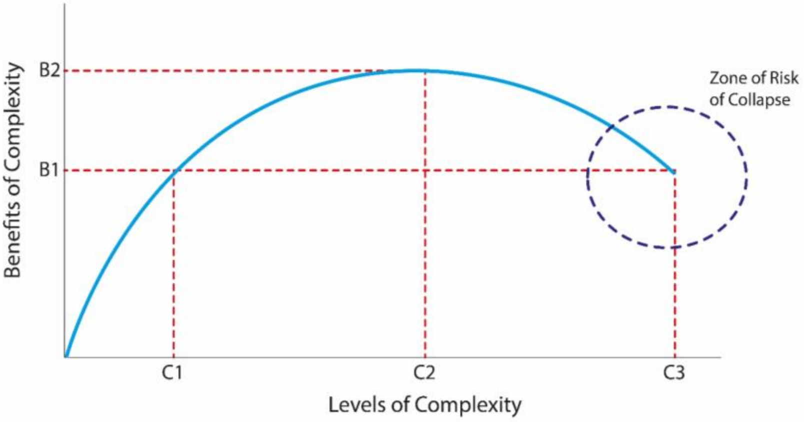
1.11 An empire about to collapse?

Governed as it is from a centre run by unelected bureaucrats and judges, rather than politicians, it is readily apparent that the EU is incapable of reforming itself.[79] As an institution driven by process rather than outcomes, it is drowning in its own rules and this is stifling innovation.[80] It should be clear from the above that remaining in the EU is the high-risk strategy – not leaving it.

Some go further and suggest that the EU shows all the signs of an empire about to collapse.[81] A recent example of this is Professor Gwythian Prins who builds on the model developed by US archaeologist Joseph Tainter to explain the collapse of ancient empires like those of Rome, Minoa and the Egyptian Old Kingdom.[82] Tainter's model shows that, as empires grow, they need to become more complex and initially there are benefits from this. But inevitably the empires become overly complex – there is a dynamic to complexity which cannot easily be reversed – with the additional costs of complexity exceeding any additional benefits to such an extent that the empires eventually collapse; see Figure 1.

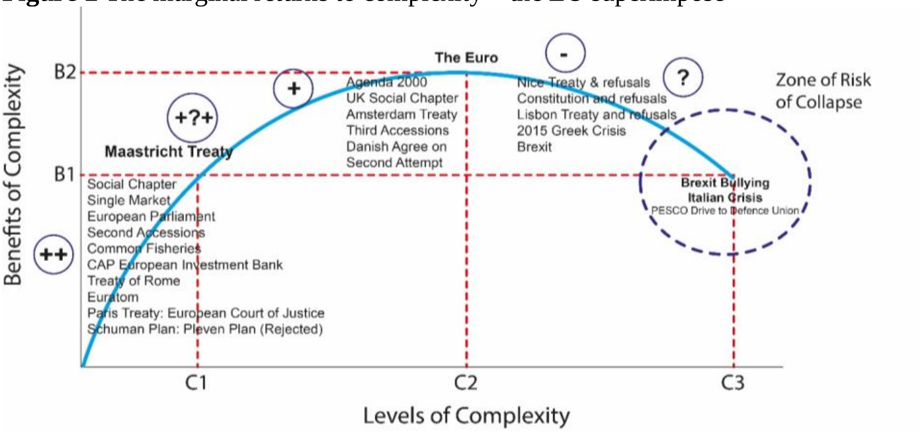
Prins applies this model to the EU: see Figure 2.[83] He argues that during the first 50 years of its life from the Schuman Plan of 1950, the benefits of the various integrationist steps outweighed the drawbacks for the promoters of Europe federalism. But from the introduction of the euro in 1999, further additional complexity has produced negative marginal gains and the EU "has been on the slide as its peoples have come to resent … the remorseless imposition of the Empire's rules, regulations and interference."

Figure 1 The marginal returns to complexity –
overly complex empires eventually collapse



Source: Gwythian Prins (2018). "The EU Is at Clear Risk of Collapse – and the 'Remainiacs' Just Don't See It," *Briefings for Brexit*, 2 April.

Figure 2 The marginal returns to complexity – the EU superimpose



Source: Gwythian Prins (2018). "The EU Is at Clear Risk of Collapse – and the 'Remainiacs' Just Don't See It," *Briefings for Brexit*, 2 April.

He identifies two watersheds: the Dutch rejection of the 2005 European Constitution (subsequently reintroduced in the Lisbon Treaty) and the period from 2015, beginning with the Greek financial crisis, continuing with the German backlash against Angela Merkel's open-door immigration policy, the Brexit vote of 2016 and the Italian crisis of 2018, following the election of anti-establishment parties in March 2018.

Prins argues that "All this evidence of citizen rejection, while the 'project' responds with further acceleration, has plainly taken the EU into the Zone of

Risk of Collapse; and that is where now it stands, shakily but defiant, belittling, bullying, hoping to dishearten the British in order to deter any other prospective escapees and intent on punishing us for our sovereign decision to leave the EU."

2. The Costs of Withdrawing from the EU

The British people voted to leave the EU on 23 June 2016. It took until 31 January 2020 before they did so. It was a long and painful process as a result of the refusal of Remainers in the UK Parliament and the civil service to accept the democratic decision of the British people.

Of the many insults meted out to those with the temerity to defy the British and European establishments, perhaps the most remarkable came from Lord Kerr of Kinlochard, a British civil servant and former UK Ambassador to the EU, who drafted Article 50 of the Treaty on European Union (TEU) which allowed a member state to leave the EU within two years of triggering the Article – which the UK did on 29 March 2017. Speaking in the House of Lords on 16 January 2018, he believed the UK will eventually "come to heel" and regret its decision to leave the EU.[84]

The terms of the UK's departure from the EU were based on the Withdrawal Agreement (WA)[85] and Political Declaration (PD)[86] accepted on 19 October 2019 and signed on 24 January 2020 by the UK and EU. The previous day, the European Union (Withdrawal Agreement) Act 2020[87] which gave legal effect to the WA/PD received Royal Assent.

The WA deals with five main issues:

• It covers the terms of the financial settlement (or "divorce bill") that the UK will pay to the EU a number of years.

• A protocol on Northern Ireland setting out customs and regulatory arrangements between Northern Ireland and Great Britain.

• A section on citizens' rights, with an independent monitoring authority (IMA), allowing EU nationals in the UK to lodge complaints about the way the government treats them. UK nationals and Union citizens, family members who are UK nationals or Union citizens and family members who are neither of those two shall maintain the right to reside in the host state.

• An arbitration procedure to resolve disputes about the WA, giving a role for the CJEU where there is an issue over EU law.

• There is a transition period until 30 December 2020 to negotiate a new relationship with the EU. During this period, the UK will be subject to EU law, remain in the Single Market and the Customs Union, and free of movement of people will continue. The Act prevents an extension of this transition period.

The most important of these are the financial settlement and the Northern Ireland protocol.

2.1 Financial settlement

The financial settlement has been estimated at around £30bn by the time the last payment has been made in the 2060s.[88] The final amount is contingent on future events.

The financial settlement has four components:

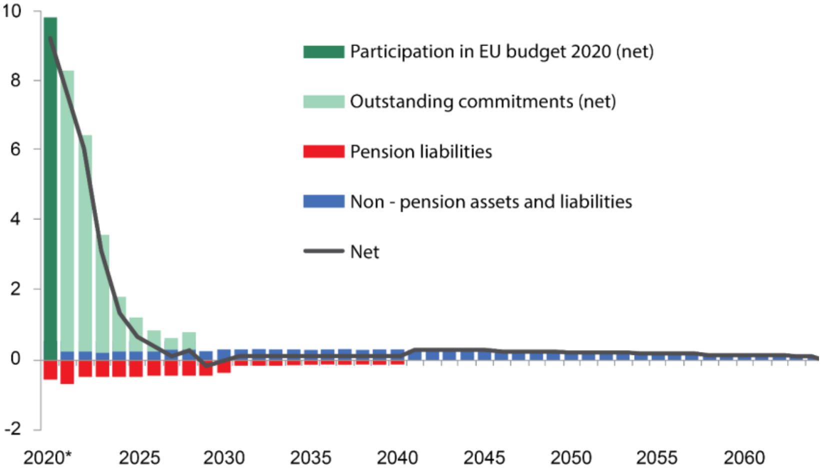
• During the transition period, the UK will pay into the EU budget and receive funding from EU programmes, e.g., structural funding.
• The EU annual budgets make spending commitments which extend beyond the end of the budget period. The UK will contribute to future commitments as at 31 December 2020. UK recipients will receive funding for the future commitments made to them.
• The UK will pay its share of EU liabilities – outstanding and contingent – at the end of 2020. The largest component will be the pensions of EU staff. The UK will receive back a share of some assets, the largest component being the capital paid into the European Investment Bank, but without investment returns.
• UK contributions to the EU's international development programmes (e.g., European Development Fund, EU Trust Funds and Facility for Refugees in Turkey) will continue to be made via the International Development Act 2002.

The financial settlement does not cover payments involved in any future agreements between the UK and the EU, such as UK participation in EU programmes related to science and innovation. Figure 3 shows that around 75% of the net payments will have been made by 2023.

2.2 Northern Ireland Protocol

The aim of the protocol is to maintain an open border between Northern Ireland and the Republic of Ireland, thereby avoiding a so-called "hard border" where customs checks would operate. The whole of the UK becomes a single customs territory outside the EU Customs Union, so Northern Ireland can be included in any future UK trade deals. However, Northern Ireland follows EU Single Market regulations on goods (including the EU valued added tax (VAT) rate) and becomes an entry point into the EU Customs Union.

Figure 3 Estimates of the annual net cost of the financial settlement €bn



Note: * Assumes the UK leaves the EU on 31 January 2020 so the 2020 estimate is 11/12ths of the OBR's full year estimate.
Source: Office for Budget Responsibility (2019). *Economic and Fiscal Outlook*, March.

This means that there is both a *de jure* customs border on the island of Ireland and a *de facto* customs border down the Irish Sea. The UK would collect EU tariffs on goods moving from Great Britain to Northern Ireland that are "at risk" of being sold on to the Republic of Ireland. The tariffs collected would be remitted to the EU, unless the goods were actually sold in Northern Ireland, in which case, the Northern Ireland companies could claim a rebate.

These arrangements will remain in place until either a "smart border" technical solution is developed that allows both an open border and independent customs policies between the UK and EU or the Northern Ireland Assembly votes to exit from them.[89] The Assembly will vote by simple majority every four years to continue the arrangements, with the first vote occurring at the end of the transition period. If there is sufficient cross-community support, the vote will occur every eight years. If, however, the Assembly votes against continuing the arrangements, there will be a two-year period for the UK and EU to agree to new arrangements.

The protocol will be governed via a Joint Committee with representatives from both the European Union and the UK government.

The UK government has proposed a bilateral technology-based border solution (known as "maximum facilitation" or "max-fac")[90] similar to that which exists between Sweden and Norway (which is not in the EU) as described by Lars Karlsson, a former deputy director of Swedish Customs, in his *Smart Border 2.0* report for the European Parliament.[91, 92] This could be part of a Free Trade Agreement (FTA) or under an exemption for frontier traffic under the General Agreement on Tariffs and Trade (GATT) in the absence of a full FTA, allowing “best practice and available technology solutions to bear in an environment of trust and regulatory compatibility.”

Shanker Singham points out that only 5% of Northern Ireland’s output goes to the Republic[93] and only 1.6% of Irish exports are to Northern Ireland. Only 53 Northern Ireland businesses employing more than 250 people export to the Republic and, subject to meeting capability and security requirements, these businesses could be given trusted trader status – in respect of managing customs declarations and satisfying rules of origin and product standard regimes – similar to the existing Authorised Economic Operators (AEO) scheme. They would submit the necessary paperwork through a joint platform, declare any duty due (e.g., when rules of origin conditions are not met) and report the importer’s address. The consignment would then be sealed to cross the border. Any necessary payments of VAT and import or excise duties would be made afterwards in, say, monthly returns. The 92% of cross-border businesses employing fewer than 50 people would be removed from the border process and would submit simpler quarterly returns. The process would be monitored using electronic or bar code tagging, number-plate recognition, secure smartphone apps and GPS tagging.[94, 95]

Despite these apparently comprehensive proposals, some have argued that the max-fac proposal will not solve the Irish border question because of the risks to the integrity of the Single Market, as well as political risks to the Good Friday Agreement which brought peace to Northern Ireland. Peter Foster points out that different product standards and tariffs between the north and south of Ireland mean that it would be impossible to exempt small and medium-sized businesses (which account for 80% of cross-border trade by value) from customs checks, given that many of these businesses feed into bigger business supply-chains: “Without a small business exemption, it remains extremely difficult to see how technology can be used to solve the Irish border question in a way that meets [the] pledge to avoid ‘any’ infrastructure or checks. … It is worth noting that this ‘Smart Border 2.0’ would still require ‘mobile control and inspection units’ and ‘technical surveillance’ of the border using CCTV and number-plate recognition technology. For security and political reasons, this is highly problematic.”[96] Others argue that trusted trader schemes that allow exemptions from daily checks are costly, unwieldy and totally unsuitable in the context of small Irish businesses. Dr Katy Hayward from Queen’s University Belfast argues that it would be using a sledgehammer to crack a nut or in her words, “It would be like putting on a full diving suit with oxygen tank and flippers in order to walk through a puddle that one has crossed every day for years without so much as a pair of wellies.”[97]

Michel Barnier dismissed the mac-fac proposal as “unrealistic.”[98] Yet Nick Timothy, Theresa May’s former adviser, argues that max-fac is the only solution that will enable the UK to negotiate its own trade deals outside the Customs Union. Further, by dismissing it, the EU is ignoring its own negotiating Guidelines: "the unique challenges of Ireland will require flexible and imaginative solutions." He says that the "responsibility to find these solutions is not only British but European too."[99] Mr Timothy has hit on the real reason why the EU doesn't like mac-fac.

3. Agreeing the Terms of the Future Trading Relationship between the UK and EU

The basis for negotiating the future trading relationship between the UK and EU is set out in the Political Declaration (§17):

> …the Parties agree to develop an ambitious, wide-ranging and balanced economic partnership. This partnership will be comprehensive, encompassing a Free Trade Agreement, as well as wider sectoral cooperation where it is in the mutual interest of both Parties. It will be underpinned by provisions ensuring a level playing field for open and fair competition. … It should facilitate trade and investment between the Parties to the extent possible, while respecting the integrity of the Union's Single Market and the Customs Union as well as the United Kingdom's internal market, and recognising the development of an independent trade policy by the United Kingdom.

In his New Year good will message to the British people, Michel Barnier, now appointed as EU chief negotiator for the future trading relationship, said "any free-trade agreement must provide for a level playing field on standards, state aid, and tax matters."[100] He reiterated this point in a speech in Brussels on 3 February 2020 setting out the EU's negotiating guidelines.[101] The European Commission published 12 background documents on its website in January 2020.[102] These make clear that the EU wants a: [103]

> Balanced, ambitious and wide-ranging free trade agreement [with the UK] 'insofar as there are sufficient guarantees for a level playing field.'
>
> The aim should be to prevent unfair competitive advantage that the UK could enjoy through undercutting of levels of protection with respect to, inter alia, competition and state aid, tax, social, environment and regulatory measures and practices.
>
> This will require a combination of substantive rules aligned with EU and international standards, adequate mechanisms to ensure effective implementation domestically, enforcement and dispute settlement mechanisms in the agreement as well as Union auton-

> omous remedies, that are all commensurate with the depth and breadth of the EU–UK economic connectedness.
>
> The future partnership should address global challenges, in particular in the areas of climate change and sustainable development, as well as cross-border pollution, where the Union and the UK should continue close cooperation.

So it is clear that the EU's key requirement for a future trade relationship with the UK is a "level playing field." However, a playing field needs to be level at both ends, and the EU negotiating guidelines seek to ensure that the playing field is level at the UK's end, while conveniently ignoring the uphill slopes in its own half of the pitch. This amounts to "cherry picking" by the EU which UK negotiators should vigorously resist.

There are twelve critical issues that need to be addressed to ensure a genuine level playing.

3.1 Goods

One, goods. The EU Customs Union with its tariff and non-tariff barriers was originally set up in the 1950s to protect, in particular, German industry (especially automobiles and chemicals/pharmaceuticals), French agriculture and Italian clothes manufacturers. This explains the high tariffs on imports of these products shown in Table 1.

This particularly badly affects UK consumers buying imported goods where there is no domestic production. As a simple example of EU tariffs consider oranges: UK consumers have to pay a tariff of 16% on imported oranges to protect Mediterranean orange growers from cheaper oranges imported from outside the EU from countries, such as South Africa.[104] This directly harms UK consumers.

An example of NTBs that the EU likes to use is so-called "rules of origin." For example, in its FTA South Korea, the EU will only allow South Korean goods duty-free into the EU Single Market if they are accepted as being "made in South Korea" which means that they both satisfy EU standards and have a minimum percentage of components that are made in South Korea. For cars, this is around 55%. A UK-built car currently has only about 25% of its components made in the UK, with the bulk of the other parts coming from Germany, France and Spain. This means that a UK-built car would not count as "made in the UK" after Brexit.[105] The EU could therefore impose a 10% tariff on UK cars if the EU and UK end up trading on WTO terms. These cars would also face WTO tariffs if they were imported into other countries on WTO terms, which could make them difficult to sell.

The EU wants to continue to have tariff-free and quota-free access for goods to the UK. This is because, according to a study by Civitas, if the UK and EU traded on WTO terms after Brexit, EU exporters to the UK would have to pay £12.9bn a year in tariffs to the UK, while UK exporters to the EU would only have to pay £5.2bn a year in tariffs.[106] The reason for this is that the UK buys mainly high-tariff goods from the EU and sells mainly low-tariff goods in return, as well as selling less than it buys. The worst affected industry would be car manufacturing which would pay £3.9bn in tariffs. The study found that 22 of the EU27 member states would pay higher net tariffs, with Germany and France paying the most. It is clear why the EU wants frictionless access to the UK goods markets.

Nevertheless, Michel Barnier made clear in his speech on 3 February 2020: "It is important … to understand that, even if we do achieve such a 'best-in-class' free trade agreement, it will not be 'business as usual.' We will have two separate markets instead of one single market. Rules of origin and customs formalities will apply between the UK and the EU. Access to the EU market will be subject to certification and market authorisation and supervision activities. … As a result, goods entering the Union will, for example, be subject to regulatory checks." This would have implications for UK car exports to the EU.

3.2 Services

Two, services. The EU Single Market is woefully incomplete in terms of services.[107] There is much less cross-border trade in services compared with goods. The UK is a major producer of services, which account for 80% of UK GDP, yet only 5.7% of UK GDP is exported as services to the EU.[108] Germany is the UK's biggest buyer of services at £21.2bn (6.7% of total services exports), but average UK services exports to the EU27 states is just £4.7bn. The US is the top buyer of UK services at £76.3bn (24.1% of the total). Switzerland, Japan and even Australia, at £13.2bn, £7.7bn and £6.8bn, respectively, buy more UK services than the EU average.[109]

When it comes to the future agreement on services, the EU does not want to have the equivalent EU-wide deal for services as it wants for goods. Instead, it is proposing to allow market access under host state rules – on the grounds that "the UK will become a third country and the [European] Union and the UK will no longer share a common regulatory, supervisory, enforcement and judicial framework."[110] So when it comes to goods (where it has a huge trade surplus), the EU is presenting itself as a single bloc, yet when it comes to services (where it has a significant deficit), it is presenting itself as 27 separate countries and the UK is expected to negotiate 27 separate agreements on services. Each of the 27 member states submits its own schedule of commitments under the WTO's General Agreement on Trade in Services (GATS).

3.3 Capital markets and financial services

Three, capital markets and financial services. The EU Single Market is even more incomplete in terms of capital markets and the UK is Europe's dominant producer of financial services. The "passporting" of financial services[111] will end. This is unavoidable since passporting requires a common rule book and both parties seek regulatory and decision-making autonomy. The alternative proposed by the EU is "equivalence" of regulations with "unilateral assessments by both sides with no negotiation."

The EU's position is that "[b]oth Parties have equivalence frameworks in place that allow them to declare each others' supervisory and regulatory regime equivalent. Parties should start assessing equivalence with respect to each other under these existing frameworks as soon as possible after the UK's withdrawal, endeavouring to conclude assessments before the end of June 2020. Parties will keep their respective equivalence frameworks under review."[112]

The EU said it will seek to apply the following principles: "Equivalence decisions are unilateral and discretionary: [this is] relevant for the future relationship, but not subject to negotiations. The EU [will] decide on the basis of an assessment and in protection of its own interests. The EU's autonomy on equivalence [is] not to be restricted by the Free Trade Agreement Process. [There are] around 40 equivalence areas. Most equivalence decisions deliver prudential benefits, some provide for burden reduction and some can lead to market access. All areas [will] be assessed. The best endeavour [is] to finalise assessments by June 2020. [The] assessment of UK legislation and supervision [will take a] risk-based and proportional approach; as for other third countries, the higher the possible impact on EU markets and interests, the more granular the assessment."[113]

While equivalence is mentioned in the Political Declaration, it is not an acceptable basis for operating a financial system, since the EU's acceptance of "equivalence" can be withdrawn unilaterally at short notice.[114] Instead, what is needed is a modified version called "enhanced equivalence."[115] Unlike the passport regime, where mutual recognition is premised on home and host states applying identical rules, the equivalence concept provides for the mutual recognition of home state regimes where the home state rules achieve similar high-level outcomes to those of the host, rather than a line-by-line comparison. Further, enhanced equivalence could not be withdrawn unilaterally at short notice. A tribunal would adjudicate on the matter. Enhanced equivalence would then constitute a genuine level playing field when it comes to financial services.

3.4 Citizens' rights

Four, citizens' rights. While the EU is concerned to protect the security and the safety of its citizens living and working in the UK after Brexit, it has been much less generous to British citizens living and working in the EU. It has only agreed to allow British citizens to continue working in the member state where they currently have a job, with no guarantee that they can work in another country in the EU. This is another example of the EU operating as separate countries when it chooses to do so.

3.5 Mobility of persons

Five, mobility of persons. The free movement of people (known as "natural persons" in EU parlance) is one of the four freedoms of the Single Market. Around 3.5mn EU citizens exercised their right to live and work in the UK during the UK's membership of the EU's Single Market, while around 1mn British people went to work in the rest of the EU. While the vast majority of EU workers in the UK have made a valuable contribution to the UK economy – often doing jobs British workers refuse to do – they together with immigrants from the rest of the world have also added to the strain on the UK's social and economic infrastructure, in particular the health service, schools and transport. Immigration was an issue in the UK Referendum debate.

The EU accepts that the UK has decided that the principle of free movement of persons between the Union and the UK will no longer apply, but then points to the Political Declaration which states that "the Parties should establish mobility arrangements, … based on non-discrimination between the Union's Member States and full reciprocity. … The Parties also agree to consider addressing social security coordination in the light of future movement of persons. … Those commitments should not be nullified by the right of either Party to apply their respective laws, regulations and requirements regarding entry, stay and work."[116] This looks like the EU is trying to re-establish free movement by the back door and this would put EU citizens in a privileged position relative the citizens of other countries, including Commonwealth countries, who would be subject to the UK's new points-based immigration system.[117]

3.6 Fishing

Six, fishing. The EU wants to maintain access to UK fishing grounds on the same terms as it has now: "In the overall context of the FTA, existing reciprocal access to fishing waters and resources should be maintained."[118] Mr Barnier says he wants to "avoid economic dislocation for Union fishermen that have traditionally fished in the United Kingdom waters."

Again, this shows the asymmetry of treatment with other activities. The UK could not walk into a German factory or a French vineyard and take away cars and wine in the way that the EU can come and take UK fish. The EU says: "A non-member of the Union … cannot have the same rights and enjoy the same benefits as a member."[119] The same must apply to the EU in terms of our fishing grounds. To paraphrase the EU's own proposals, the UK "will preserve its autonomy as regards its decision-making, which excludes participation of the European Union as a third-country in UK fishing grounds." The UK must re-establish the sovereign control, as an independent coastal state, over all waters and marine resources in the Exclusive Economic Zone that Edward Heath cavalierly gave away to the EU in 1973 when we joined the European Economic Community. Barnier did not care greatly for the British fishing jobs that were lost when Heath did this.

3.7 State aid

Seven, state aid. The EU seeks the "application of EU state aid rules to and in the UK."[120] It wants "anticompetitive conduct and concentrations of undertakings that threaten to distort competition to be prohibited unless remedied" and "state-owned enterprises, designated monopolies and enterprises granted special rights or privileges must not distort competition or create barriers to trade and investment." It wants to see the establishment in the UK of an independent enforcement authority that "will work in close co-operation with the [European] Commission" to oversee its state aid decisions.

However, the UK prime minister, Boris Johnson, wants discussions over state aid with the EU to be between "sovereign equals" and says that Brexit will make it easier for the government to help UK firms in difficulties. The EU says it will use Johnson's support in January 2020 for UK regional airline Flybe in the form a deferral of the payment of air passenger duty and a possible £100mn loan – and other examples, such as Theresa May's letter of reassurance to Nissan after the 2016 Referendum – to put pressure on UK negotiators fall in line with EU rules.[121] This is despite the fact that in September 2019, the German government gave a €380mn loan to German carrier Condor after the collapse of its British owner Thomas Cook, a company which the UK government did not bail out.[122] Further, UK state aid levels are already amongst the lowest in Europe. UK state aid is 0.38% of GDP, compared with 0.78% in France and 1.31% in Germany. The UK could therefore increase state aid significantly without breaking EU rules.

In addition, key EU member states have had significantly more infringement actions taken against them (29 in France, 45 in Italy, and 67 in Germany) than the UK (4) in the last 21 years.[123] Of the European Commission's 310 state aid decisions made in 2019, 47 related to Germany, 45 to Belgium, 35 to Italy, 33 to France, and just 10 to the UK, despite being the EU's second-largest economy at the time.[124] In response to the coronavirus outbreak, the UK government offered UK businesses £32bn in grants and tax relief and

£330bn in government-backed loans, whereas the German government offered aid worth €550bn to German businesses.[125]

More significantly, the EU is very adept at disguising its state aid. One example of this is the way in which it bails out its insolvent banks in defiance of its own rules. Under the EU's Bank Recovery and Resolution Directive (BRRD),[126] when a bank is "failing or likely to fail," the resolution authority (the Single Resolution Board, SRB) has the power to ensure shareholders and creditors of the bank bear losses equivalent to 8% of the bank's liabilities, through a bail-in. If public money is used to bail-out the bank, then an immediate 8% write-down of equity or conversion of (junior and then senior) debt into equity is required as a matter of law, prior to any other resolution steps being taken. However, this requirement is routinely ignored.

Here are some examples. In Italy, the SRB took the view that the BRRD and the 8% rule did not need to be applied because the failure of Banca Popolare di Vicenza S.p.A and Veneto Banca S.p.A. was not expected to have a significant adverse impact on financial stability and neither bank provided critical functions.[127] In Greece, the resolutions were rushed through before the 8% write-down rule came into effect and local legislation was re-written to prioritise Greek government debt.[128] The Cyprus Cooperative Bank Ltd was recently resolved with an overt avoidance of the application BRRD on the purported basis that its resolution involved a continuation of steps taken before the law came into force – which is not an approach generally recognised as legitimate in law.[129] In December 2019, the European Commission approved a €3.6bn package of restructuring aid for German state-owned bank NordLB, which was stated not to breach the 8% rule on the basis that private investors would, the EU determined, have accepted similar terms, so declared that no state aid was provided.

Another example is the European Investment Fund (EIF) which is part of the European Investment Bank (EIB) Group. The EIB describes itself as "the lending arm of the European Union."[130] Established in 1958, with EU member states as shareholders, the EIB makes loans for the purpose of promoting European integration and social cohesion. The EIF was established in 1994 to provide finance for small and medium sized enterprises (SMEs, including microfinance) in order to "foster EU objectives in support of entrepreneurship, growth, innovation, research and development, and employment."[131] It does not lend money to SMEs directly. Instead, it provides finance through private banks and funds, principally through venture capital and in guaranteeing loans. Under current Basel Rules, there is a minimum of 7% "Common Equity Tier 1 Capital" (CET1) requirement for banks. Since the EIF is not a bank, it is not required to have regulatory capital. That ability allows the EIB to leverage its on-balance sheet capital under the Basel Rules Leverage Ratio by a factor of 20, enabling the EIF to lend €500bn, but the additional regulatory capital that the EIB needs to issue to support this is negligible. This plus the loan guarantees constitute huge levels of state aid that are not reported in official EU figures.

Yet another example relates to fishing subsidies, as Shanker Singham points out: "Subsidies are especially pernicious as they artificially increase fishing above sustainable levels. We should factor this into our access negotiations. Many EU member states, especially Spain and France have very large subsidies to fish in other people's waters (and not their own – a real beggar thy neighbour policy if ever there was one). To the extent that this creates an unlevel playing field for UK fishermen, we should factor that into the negotiations."[132]

Finally, it is important to understand the insidious long-term consequences of the EU's state aid rules, as lawyer James Webber explains: "Over time, the reach of the state aid rules has expanded significantly. State aid includes not just bail-outs of heavy industry and operating subsidies to state-owned airlines. It is the main tool the European Commission has – directly rather than via legislation – to regulate bank resolution; control tax competition; environmental policy; control infrastructure spending. The single unifying factor driving this expansion has been the fact that the rules give executive power to the European Commission. … [It explains] why state aid plays such a prominent role in the EU's often repeated demands for a 'level playing field' from the UK. If the EU can get the UK to accept their state aid rules – the European Commission and CJEU will retain control over much UK fiscal decision making and control the ability of the UK to compete against the EU going forward. Whatever the merits of subsidisation as a policy choice, the UK Government should be concerned about state aid for the same reason."[133]

Of particular relevance in this context is the Northern Ireland Protocol to the European Union (Withdrawal Agreement) Act 2020.[134] It could be used by the EU to influence state aid in Great Britain by claiming that it infringes EU state aid rules as they apply to Northern Ireland. An example would be a subsidy to Nissan in Sunderland on the grounds that Nissan cars produced there could cross the Northern Irish border into the Republic of Ireland.[135]

3.8 Taxation

Eight, taxation. The EU also seeks a level playing field in taxation. Indeed, it wishes the UK to align its tax regime to that of the EU and to "curb harmful tax measures, notably by ensuring the UK reaffirms its commitment to the Code of Conduct for Business Taxation."[136, 137]

There are legitimate concerns about tax havens and unfair and distortionary taxes. One current example is Ireland's use of corporate tax to become, in effect, the EU's tax haven for multinational companies. Ireland has a corporate tax rate of just 12.5% and has used this to attract US tech companies which have since 2014 been moving their intellectual property assets there. Corporate tax revenues in Ireland rose from €4bn in 2014 to €10.9bn in 2019. However, Ireland has faced an international backlash for enabling multinationals to avoid paying their fair share of tax. Joseph Stiglitz, the Nobel prize-winning economist, accused Ireland of being a "bad neighbour who stole other countries' tax dollars."[138]

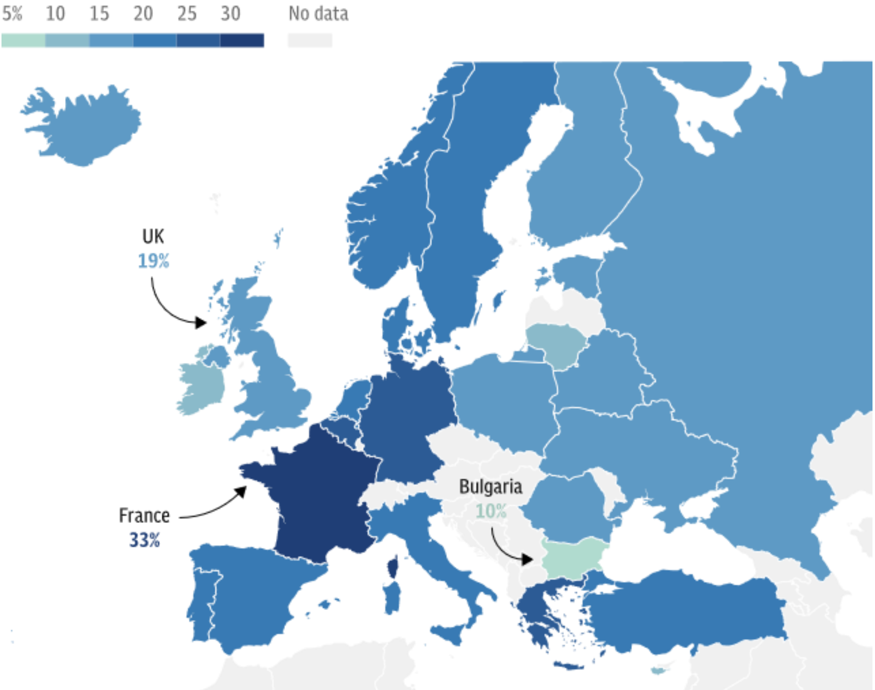
Another example – and one that is closely related to the previous one – is a digital services tax. From April 2020, the UK government said it will introduce a new 2% tax on the revenues (in excess of £25m) of search engines, social media platforms and online marketplaces, such as Facebook, Amazon, Google and ebay, which derive value from UK users. The government's argument is that the "application of the current corporate tax rules to businesses operating in the digital economy has led to a misalignment between the place where profits are taxed and the place where value is created. … Under the current international tax framework, the value a business derives from user participation is not taken into account when allocating the profits of a business between different countries. This measure will ensure large multinational businesses make a fair contribution to supporting vital public services." The UK government "strongly supports G7, G20 and OECD discussions on the different proposals for reform. The government is committed to dis-applying the Digital Services Tax once an appropriate international solution is in place."[139] Despite this, there was a hostile response from the US. According to the Financial Times, "the US claims a tech levy unfairly discriminates against American companies. … The UK and US were on a collision course over digital tax after Washington threatened retaliatory tariffs if the British government did not back down on plans to impose the levy from April."[140]

The reform of corporate tax rules – and dealing with tax havens and unfair and distortionary taxes – is on the agenda across all advanced economies – and is clearly highly controversial, as the issue of digital services taxation makes clear. But this is a fundamentally different issue from what the EU proposes. The EU has some of the highest tax rates in the world, especially corporate taxes – see Figure 4. It needs these high taxes to fund its generous state welfare and pension system and to support its economic model which involves significant state regulation and direction of economic activities.

The EU has an innate aversion to what they describe as our "Anglo-Saxon" free markets model – because of the risk that the markets disrupt its well-laid plans.[141] It would be completely unacceptable for the EU to try and impose its social-economic model – with its requirement for high personal and corporate taxes – on the UK as part of a FTA. In the "Anglo-Saxon" free markets world, taxes are used to provide incentives to companies and individuals. For example, low corporate taxes provide incentives for companies to invest which increases the productivity of their workers which raises both output and salaries – which in turn raises more tax revenues. It is entirely wrong to describe this as unfair taxation, unless, of course, you are talking about Ireland.

The EU is also quite happy to use tax incentives when it suits it, as, for example, when French President Nicolas Sarkozy offered UK bankers long-term tax breaks to tempt them to move to Paris.[142]

Figure 4 Corporate tax rates across Europe



Source: Daily Telegraph.

3.9 Standards and regulations

Nine, standards and regulations. The UK can correctly argue that it already has high social and environmental standards and low levels of state aid. For example, the UK has higher standards than the EU minima in most areas of social policy, e.g., it has 39 weeks paid maternity leave compared with 14 weeks in the EU, and it has one of the highest minimum wages, whereas some EU states have no minimum wage. But the EU is concerned that the UK will become a low tax, low regulation, ultra-competitive "Singapore-on-Thames." So it wants the UK to adopt both its labour and social protection standards and its environmental standards after Brexit. It also wants "dynamic alignment," so that the UK adopts all future changes in standards introduced by the EU, despite being an independent sovereign state which has no say on what new standards are introduced.

In terms of the former, the EU seeks "non-regression from common standards in place at the end of the transition period in labour and social protection in relation to at least: fundamental rights at work, occupational health and safety, including the precautionary principle, fair working conditions and employment standards, information and consultation rights at company level and restructuring, and protection and promotion of social dialogue on labour matters among workers and employers, and their respective organisations, and governments." It wants the UK to impose an "effective system of labour inspections, [including] administrative and judicial proceedings, [and a] dispute settlement [arrangement]."[143]

In terms of the latter, it seeks "non-regression from common standards, … taking into account that the EU and UK share a common biosphere in relation to cross-border pollution, … [and] respect of principles such as the precautionary principle and the 'polluter pays' principle."[144]

This is another example of the EU wanting the UK to adopt its labour and social model after Brexit – something which no other country has accepted in a trade agreement with the EU. The reason why no other country has accepted this is very clear. The EU's model makes firms reluctant to take on workers, since it is very difficult to fire them in a downturn and, hence, leads to some of the highest unemployment rates in all developed countries. Across the EU, the unemployment rate is 6.3%, while it is 7.5% in the Eurozone (EZ). It is 16.6% in Greece, 13.9% in Spain, 9.7% in Italy, 8.6% in France, and 7.7% in Cyprus. This compares with 2.5% in Switzerland, 2.2% in Japan, 3.5% in the US and 3.8% in the UK. Within the EU, only the Netherlands at 3.2% and Germany at 3.1% have comparable low figures.[145]

The rate of youth unemployment is considerably worse. Across the EU, the unemployment rate amongst young people is 14.3%, while it is 15.6% in the Eurozone. It is 35.6% in Greece, 32.1% in Spain, 28.6% in Italy, 18.9% in France, and 17.2% in Cyprus. This compares with 2.4% in Switzerland, 3.8% in Japan, 8.1% in the US and 11.4% in the UK. Even Netherlands at 6.7% and Germany at 5.9% have a significant problem with youth unemployment.[146]

The UK already has significant problems of its own with youth unemployment – due largely to poor educational attainment, skills and motivation. UK employers have dealt with problem by ignoring it and instead recruited low-wage workers from the poorer parts of the EU.[147] Post-Brexit, much more needs to be done to get our young workers into meaningful well-paid jobs. The last way to do this is keep the EU's labour and social model – and end up with levels of unemployment that is devastating the EU's next generation.

In terms of the environment, the "polluter pays" principle – those who produce pollution should bear the costs of cleaning up the environment – is now standard in international agreements and is part of a wider set of principles dealing with sustainable development worldwide and originating in the 1992 Rio Declaration.[148] But that is the point – it is an international standard. The UK is willing to adopt the highest international standards on the environment – and indeed other matters – but not have these monitored and enforced by the EU – which it what it seeks in the negotiations. Indeed, Barnier's concerns about the environment are a sham, according to Ambrose Evans-Pritchard. He provides two striking examples: the Naples mafia (Camorra), which for decades has been dumping toxic waste on the lower slopes of Mount Vesuvius poisoning the local water supply, has turned illegal dumping into a global business by linking up with criminal gangs in the Balkans and China; and the German state of North-Rhine Westphalia opened a new coal-fired power station in January 2020, ignoring the UN's request that no coal plant should ever again be built. The polluter is clearly not paying in these cases. The EU's CO2 emissions have fallen by 23% in the EU since 1990, compared with 42% in the UK, following the 2008 Climate Change Act which was the first piece of legislation anywhere in the world to enshrine in national law cuts in CO2 emissions.[149]

Another issue is the EU's "precautionary principle." This seems on the face of it to be quite innocuous, but it is far from being so. It is supposedly there to "protect" consumers and prevent a "race to the bottom" in terms of product standards. We all welcome safe and reliable products. But the EU freely admits that its precautionary principle is used as "disguised protectionism" – to protect EU companies and industries from international competition. It is also being used to stifle innovation in the science and technology sectors.

One key example of this relates to farming as reported by Owen Paterson MP, a former Secretary of State for Environment, Food and Rural Affairs. The EU has long opposed genetic modification, but it is now putting the same regulatory hurdles on gene-editing. Scientists from the University of Minnesota and Calyxt have used a gene-editing method, TALEN, to produce a wheat resistant to powdery mildew and therefore in need of less fungicide spray. Genetic technologies have reduced pesticide use by 36.9% on average around the world, while increasing yields by 21.6%. Yet, these technologies are banned in the EU. Mr Paterson argues that the precautionary principle is condemning the EU to be the "museum of farming." He says that accepting the EU's proposals "would forfeit the UK's regulatory independence and see it yoked to the EU's extreme technological risk aversion. We would not be free to stimulate our own research centres. We would not be able to recalibrate our regulations to focus on outcomes over uniform bureaucracy. We would not be able to improve our environmental and animal health standards. We may not even be able to enact the once-promised ban on live-animal exports."[150]

3.10 Governance

Ten, governance. The EU is proposing a framework with three components: "ongoing management/supervision; resolving disagreements through a Joint Committee and dispute settlement proceedings; and remedies and compliance, involving financial compensation and suspension of the agreement in whole or in part, including across policy areas." A key EU aim is to "preserve the autonomy of the EU legal order." If there is a dispute with no agreement, "either Party can request: [the] establishment of an arbitration panel [and] referral to the CJEU through the arbitration panel." If the dispute concerns a question of Union law, the "arbitration panel shall refer the question to CJEU for binding ruling. … Once the CJEU rules on the question, the arbitration panel resolves the dispute."[151]

This clearly gives the opportunity for the EU to argue that virtually any part of the agreement is a "question of Union law" and any dispute must go the CJEU in order to "preserve the autonomy of the EU legal order." The EU can then rely on the "purposive" nature of EU law which allows the CJEU to constantly interpret and reinterpret the wording of EU laws to suit the European Commission's purpose. There would be no legal certainty for the UK if it conceded to this governance framework. It is unprecedented in international agreements that a dispute between two sovereign bodies is resolved through the courts of one of those bodies rather than to international arbitration.

3.11 Zero dumping

Eleven, zero dumping. Ursula von der Leyen says the EU is "ready to design a new partnership with zero tariffs, zero quotas, zero dumping."[152] It is ironic that the new German President of the European Commission calls for zero dumping, when her own country is one of the world's biggest dumpers of goods onto world markets. The OECD defines dumping as "the practice by firms of selling products abroad at below costs or significantly below prices in the home market. The former implies predatory pricing; the latter, price discrimination."[153] This definition needs to be modified in the case of Eurozone countries to "the practice by a country of selling products abroad at artificially low prices due to the distorted international value of its currency."

In 2019, Germany had the world's largest current account surplus – which measures the flow of goods, services and investments – $276bn for the fourth consecutive year.[154] The explanation for this is the way in which the euro and Eurozone were set up in 1999. Table 4 shows the weights of the 11 original constituent currencies of the euro.[155]

Table 4 Weights of the original 11 constituent currencies of the euro

Currency	FRF	ITL	ESP	NLG	BEF	IE£	FIM	ATS	PTE	DEM
Weight (%)	17.47	12.94	5.40	10.53	7.66	4.72	3.22	2.38	1.30	34.38

Source: http://fx.sauder.ubc.ca/euro/

Over a third (34.38%) of the value of the euro is represented by the Deutschmark (DEM). If all 11 members were equally productive – as measured by per capita GDP – the particular weights would not matter. But this is not the case. Table 5 shows the average annual growth rate in productivity of the 11 members between 1995–2005.[156] Germany had the second highest productivity growth rate at 1.9%, while Italy and Spain had the lowest at 0.5% and 0.0%, respectively.

Table 5 Average annual growth rate in productivity of the original 11 Eurozone members, 1995–2005

Country	FR	IT	ES	NL	BE	IE	FI	AT	PT	DE
Productivity growth (%pa)	1.8	0.5	0.0	1.7	NA	NA	2.6	1.8	NA	1.9

Source: Table 1 of Steffen Elstner, Lars P. Feld, and Christoph M. Schmidt (2018). "The German Productivity Paradox – Facts and Explanations," Ruhr Economic Papers No 767, RWI – Leibniz-Institut für Wirtschaftsforschung, Essen, Germany.

This has a very important implication. The low productivity EZ member states pulls down the value of the euro on the international currency markets compared with the Deutschmark. In other words, the introduction of the euro has completely distorted the market in traded goods between the EZ and the ROW. Germany – and to a lesser extent the Netherlands – has been the biggest beneficiary of this distortion. Notwithstanding the high quality of German goods, this is equivalent to dumping its artificially low-priced goods onto world markets. This especially affects the UK which until Brexit was a convenient captive market for German goods.[157]

3.12 Sequencing

Twelve, sequencing. The EU wants to control the sequencing of the negotiations. It wants to lock in deals as soon as possible in areas where it has most to gain over the UK – such as fishing and financial services – and delay for as long as possible in areas where the UK has most to gain – such as (non-financial) services. Having locked in the deals that benefit it most, it can then refuse to make concessions in (non-financial) services.

3.13 The EU's idea of a level playing field

The EU's idea of a level playing field post-Brexit is:

1. Continue to have tariff-free access to UK markets for its goods (where it has a huge trade surplus) and use rules of origin as a bargaining chip.

2. Impede access to UK services by EU citizens and businesses (where the EU has a deficit) by making them subject to home state approval in each member state.

3. Impede UK financial service exports by making them subject to equivalence approval which can be removed at short notice with no negotiation.

4. Treat UK citizens less favourably than EU citizens by restricting their right to work only in the member state where they currently work, whereas EU citizens can work in any of the UK's four constituent countries.

5. Use the new mobility arrangements to re-establish free movement by the back door.

6. Continue to have access to UK fishing grounds on the same basis as it currently has.

7. Continue to use state aid – in increasingly disguised forms – to protect its own industries, while attempting to block the UK's use of state aid, despite the UK spending less than the EU on average.

8. Force the UK to align its tax regime to that of the EU where high personal and corporate taxes are used to finance its increasingly unaffordable social-economic model of high state welfare and pension benefits.[158]

9. Force the UK to adopt and keep in dynamic alignment with the EU's labour and social protection standards and its environmental standards after Brexit – whereas these standards should either be set by the parliament of an independent sovereign state or should be set at an international level and not enforced by the EU.

10. Adopt a governance framework that gives the CJEU a role in determining disputes rather than using international arbitration as is standard in international agreements.

11. Prevent dumping by the UK, while continuing to dump its products in the UK as result of the persistently undervalued euro.

12. Allow the UK to be disadvantaged by the sequencing of the negotiations.

In short, the EU wants to maintain the status quo when it comes to activities where it has a significant advantage – as a demanding free access to our fishing waters – but it does not want to maintain the status quo where it has a trade deficit – as in services and particularly financial services. It also chooses to operate as a single entity when it suits it, while choosing to be 27 separate states when it does not. In addition, it wants certain agreements – those where it has an advantage that it wants to lock in, such as the fishing agreement – to be concluded and ratified as soon as possible – by 1 July 2020. Yet it wants to keep the negotiations on other agreements where the UK has an advantage such as services hanging in the air until the end of the negotiating period at the end of 2020. In fact, Mr Barnier believes a full trade deal in 2020 is unrealistic, arguing that it would take three years to complete.[159] He will clearly try to push the negotiations into 2021 and beyond, so the EU can force the UK to continue paying into the EU Budget.[160] Yet Barnier can complete a fishing agreement in a few months when he puts his mind to it.

This is not a level playing field, it is "cherry picking" – something the EU has constantly accused the UK of wanting to do and says it will prevent in the Brexit negotiations.[161]

3.14 How UK negotiators should respond

The UK's negotiators should insist on a genuine level playing field that must:

1. Give the UK the same access to the EU's service market as the EU wants access to the UK goods market, i.e., EU-wide not on a country-by-country basis. Either the EU is a trading bloc or it is just a collection of individual states – it cannot be allowed to pick and choose when it suits it.
2. Allow the mutual recognition of standards in financial services, e.g., in the form of enhanced equivalence.
3. Treat EU and UK citizens equally when it comes to work in the UK and across the EU respectively.
4. Treat EU and ROW citizens equally when it comes to mobility arrangements.
5. Treat the UK's fish stocks symmetrically with the produce of German factories and French farms, etc.
6. Ensure full mutual transparency concerning state aid, based on WTO commitments, as initially proposed by Boris Johnson in a statement on 29 November 2019. James Webber argues that this is sensible for three reasons: "first, it is the only other multi or plurilateral system of subsidy control; second, the legal terms (and hence concepts) underlying it are distinct from EU state aid; third, the UK will as a signatory to the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) be subject to its disciplines in future international trade matters. The SCM Agreement is designed to restrain [the]use of subsidies in tradeable goods by authorising WTO members to impose tariffs to 'countervail' the effect of subsidies given by another WTO member. In most cases it is necessary to show that the subsidies caused injury before imposition of countervailing tariffs is lawful. The SCM Agreement only covers tradeable goods."[162] In particular, the UK should legislate to resolve the ambiguity in the Northern Ireland Protocol and end any requirement to report state aid in Great Britain to the European Commission after the end of transition period. Webber proposes that "The safest course now for the UK is to strip out EU legal concepts from the forthcoming Free Trade Agreement – and to use this as an opportunity to withdraw from the EU state aid regime … in favour of a more certain, evidence-based and transparent framework."[163]

7. Allow for full tax sovereignty, while recognising that dealing with tax havens and unfair and distortionary taxes is a matter for international agreement.

8. Allow for full autonomy on standards and regulations, while recognising that goods and services entering each other's markets must conform to local standards, while other standards (e.g., on the environment) should be set by international agreement. In other words, there is no need for the harmonisation or dynamic alignment of standards. Rather standards should be mutually recognised, with a dispute mechanism to assess whether one party's standards have moved too far out of line with what the other party originally accepted.

9. Allow the agreement to be subject ultimately to international arbitration not the CJEU.

The UK needs to turn Barnier's level playing field argument completely on its head and make it work in the UK's favour and not against it. This is essential if Boris Johnson wishes to achieve the objectives he laid out in his speech in Greenwich on 3 February 2020: "There is no need for a free trade agreement to involve accepting EU rules on competition policy, subsidies, social protection, the environment, or anything similar any more than the EU should be obliged to accept UK rules. I hope you've got the message by now. We have made our choice: we want a comprehensive free trade agreement, similar to Canada's. But in the very unlikely event that we do not succeed, then our trade will have to be based on our existing Withdrawal Agreement with the EU." He also emphasized the "need for full legal autonomy, [because] the reason we do not seek membership or part membership of the Customs Union or alignment of any kind, is at least partly that I want this country to be an independent actor and catalyst for free trade across the world."[164] The EU removed 98.7% of tariff lines in its trade deal with Canada, 99% with Japan and 99.5% with Korea. None of the three countries is required to have any dynamic alignment on standards, and commitments on workers' rights and the environment are not enforceable through the arbitration mechanism nor subject to sanctions.[165]

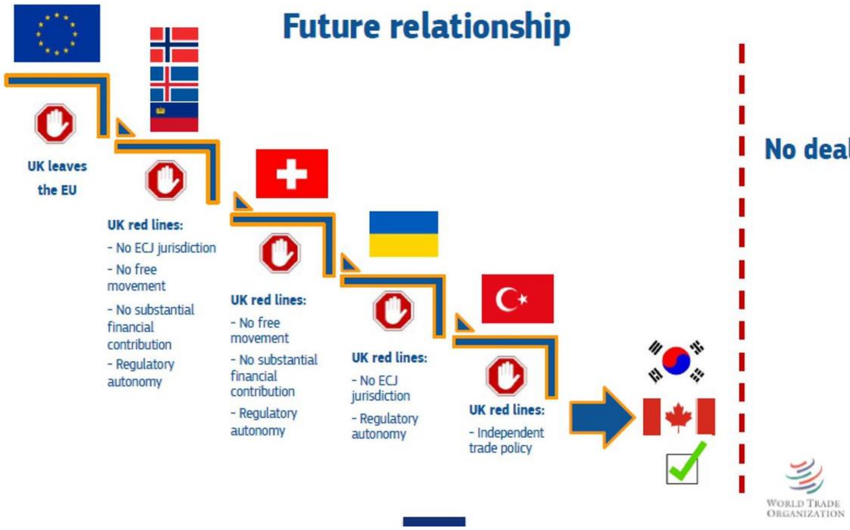
Clearly a cooperative solution involving a mutually beneficial free trade agreement would be preferred, but the UK government must be prepared for the non-cooperative solution of trading on WTO terms and use the credible threat of walking away if the EU does not accept operating on the level playing field outlined above.[166] It is the same strategy that the EU is going to take as Guy Verhofstadt, the Belgian MEP who chaired the European Parliament's Brexit Steering Group, has made clear: "The UK Government says no to EU standards, a far reaching fishery agreement, free movement. But it does want zero tariffs, zero quota and full access for the City." Unless the UK backs down, the trade talks will be "very brief," he said.[167]

Others commentators agree with taking a hard-line approach. For example, economist Harry Western writes: “the EU’s extreme posture in recent weeks reflects a basic lack of interest in their part in having a free trade deal. Having already got what they wanted in the withdrawal agreement in terms of the financial settlement, Northern Irish protocol and citizens’ rights, an FTA is only of interest if it comes with all the other things on their wish list, which together add up to putting the UK in a position of economic and political servitude. As a result, we would propose that the UK starts making plans now for EU trade to move to a WTO basis at the end of the year, including reducing the costs of adjustment for UK firms by the maximum extent using various easements (delayed customs declarations, easier reporting rules etc) and laying out plans to help the small number of industries where trade dislocation will be considerable.”[168]

Similarly, Ambrose Evans-Pritchard: “The EU’s strategic aim is to compel Britain to swallow the Acquis even though much of this legislation is either dysfunctional or incompatible with 21st century science and technology. It aims to pin down this country as a legal colony with no way out later other than the pariah step of treaty abrogation. … Mr Barnier has put forward an extraordinary doctrine, that the UK cannot have a sovereign trade relationship because it is too big and because it sits on the EU doorstep. What this really means is that Britain will be subject to special punitive terms as an ex-EU member if it opts to be a self-governing state under its own laws. … [The EU] is already offering so little in trade talks that the differential cost of the WTO option is trivial. … [Y]ou cannot negotiate with these people. Britain should forget about a trade deal with Europe and look to the world. … It should pursue a fast-track accord with the US, given that Washington wants the same thing and is lavishing us with affection.”[169]

The EU confirmed its negotiating guidelines on 27 February 2020.[170] In 2017, Michel Barnier used a presentation slide – which has become known as “Barnier’s staircase” – showing that the logical outcome of the UK’s negotiating red lines was a future trading relationship with the EU based the EU’s existing trade deal with Canada, the Comprehensive Economic and Trade Agreement (CETA) – see Figure 5. In 2018, the European Council went further and proposed a Canada+++ deal.[171] Yet the EU’s negotiating guidelines renege on that promise.[172, 173] The EU wants to be able to suspend whatever deal is agreed if the UK ignores rulings made by the dispute panel or the CJEU.[174] It is also advising member states to refuse the “mutual recognition agreements” that are needed to certify UK goods satisfy Single Market regulations, despite these being standard in WTO agreements, and the UK has already has them in place with major trading partners such as the US, Japan and Canada.[175]

Figure 5 Barnier's staircase leading to a Canada-style trade deal



Source: Michel Barnier, 2017; European Commission; World Trade Organization.

On 27 February 2020, Michael Gove, chancellor of the Duchy of Lancaster, announced the UK government's negotiating position in the House of Commons: "We want the best possible trading relationship with the EU. But in pursuit of a deal, we will not trade away our sovereignty. We respect the EU's sovereignty, autonomy and distinctive legal order and we expect them to respect ours. We will not accept nor agree to any obligations where our laws are aligned with the EU or the EU's institutions, including the Court of Justice." The government's negotiating guidelines show that the government is prepared to walk away from trade talks in June unless there is the "broad outline" of a deal in place by then which would be "rapidly finalised" by September. The government "will not negotiate any arrangements in which the UK does not have control of its own laws and political life," and will instead revert to trading with the EU on WTO terms if progress on a comprehensive deal cannot be made, instead focussing "solely on continuing domestic preparations to exit the transition period in an orderly fashion."[176]

Jean-Yves Le Drian, the French foreign minister, predicted that the UK and EU are going to "rip each other apart" in talks over a future trade deal.[177] To illustrate, if there is no agreement on fishing, and EU fishing boats are denied access to UK waters, there is a realistic chance that French fishermen will blockade the cross-Channel ports. Around 17% of the UK's trade in goods with the EU passes between Dover and Calais. Since the entrance to Calais is only a few hundred metres wide, it would take just a couple of trawlers to block the entrance to the port.[178]

4. The Future Trading Relationship between the UK and the Rest of the World

The EU itself acknowledges that 90% of future growth in global GDP will be outside the EU.[179] The standard vehicle for exploiting such growth opportunities is a free trade agreement.

The aims of a FTA are to eliminate import tariffs and quotas on an agreed set of goods and services that are traded between the signatories to the FTA, and to reduce as far as possible non-tariff barriers, such as customs and regulatory procedures, that increase the cost of cross-border trade. However, standard FTAs focus mainly on goods and have less comprehensive coverage of services and, in particular, financial and transport services.

This section considers potential FTAs between the UK and different regions and countries around the world post-Brexit.

4.1 Global free trade

When she was prime minister, Theresa May, said: "I want the UK to be the global leader in free trade. I think that's important. I think there genuinely is a real opportunity for us. We should be around the world, promoting that message of free trade. Seeing what we can do outside [the EU]."[180]

A potential model for future FTAs is, as mentioned in the previous section, the EU–Canada Comprehensive Economic and Trade Agreement (CETA) which has been described as a "high quality agreement that uses a superior 'negative list'[181] approach to services liberalisation and includes significant provisions on domestic regulation, mutual recognition and electronic commerce, and chapters on telecommunications and financial services. … CETA gives Canadian service suppliers the best market access the EU has ever conceded in an FTA and, in most sectors, Canadian suppliers 'will be on an equal footing with EU service providers.' … Since Brussels has been willing to open services markets to Canada, without the conditions of free movement and EU Budget contributions it previously demanded of Norway and Switzerland, the UK should be able to negotiate a high-quality services agreement with the EU, including reciprocal passporting[182] arrangements if the UK government wanted to keep them."[183]

More general than this is the Heritage Foundation's idea of a Global Free Trade Association (GFTA) of free economies. GFTA member countries would commit to free market economic policies, such as low tariffs and few non-tariff barriers, openness to foreign investment, strong adherence to property rights, and regulations that are not overly burdensome on businesses.[184]

Another opportunity, according to Alan Oxley, former Ambassador to and Chairman of the GATT, predecessor to the WTO, is for the UK to "lead action in reconstructing the WTO, transforming it into a fresh global platform that liberalises global trade in services and investment. Taking such a role does not depend on the terms of Brexit. [The UK formally took up its independent seat at the WTO on 1 February 2020.[185]] Regardless of when and how it settles with Brussels, it has a place to speak now in the WTO. And an active, influential and independent UK voice on global trade and investment is sorely needed there. It has become fashionable to opine that the era of globalisation is ending and a retreat to protectionism looms. What such commentators overlook is the institutional impediment to a global resort to protectionism – and that is the WTO. All major economies are locked into legally-binding commitments not to raise tariffs. They can only reverse these measures if they compensate other WTO members. The worst that can occur is that further liberalisation stalls."[186]

4.2 US–UK free trade deal

A future FTA between the UK and US would be the UK's most significant international trade agreement.[187] The US is the UK's largest trading and investment partner. In 2018, UK (goods and services) exports to the US were $121.5bn, while imports were $140.4bn. In 2017 (latest data available), the total stock of UK foreign direct investment (FDI) in the US was $540.9bn, while the total stock of US FDI in the UK was $747.6bn in 2017.[188] In comparison, the UK's largest trading partner in the EU is Germany, with exports to of £56.0bn and imports from of £78.6bn in 2018.[189]

Iain Murray, vice president of strategy at the Competitive Enterprise Institute in Washington DC, describes how the deal might work:

> A US–UK trade deal could set the stage for a major rethink of trade policy that could set the stage for productive liberalisation in the future. [This is because American trade deals began to go wrong from the early 1990s:] non-tariff barriers such as regulatory requirements became the big issue, so American trade deals started to concentrate on those. The way they went about it, however, was very European. It was similar, in fact, to the European Union's 'harmonisation' scheme, which aims for every EU member country to regulate in more or less the same way. That, of course, resulted in a significant increase in the regulatory burden on British business. America's approach was to require similar regulatory reforms from every country with which it negotiated trade deals, especially in the areas of environmental and labour standards. As these requirements came to dominate trade deals, negotiators dropped 'free trade' from the deals' monikers and came to call them 'partnerships,' all of them hundreds of pages long…
>
> [I]nstead of 'harmonisation,' [a] new-style trade deal would include Mutual Recognition Agreements (MRAs), which allow the free flow across borders of goods manufactured in accordance with

> member countries' different regulatory standards. An example is the MRA between Germany and its EU partners that allows the sale in Germany of beer not brewed in accordance with the *Reinheitsgebot*, the country's centuries-old Beer Purity Law. As it happens, Germans quite like the law, so foreign beers have not diluted the market noticeably. For German brewers, however, the MRA means they can produce beers for export not subject to the law, allowing them to cater to different consumer tastes across Europe. MRAs would also lead to regulatory competition. If one country's regulations proved to be clearly superior to another's, then the latter country would have an incentive to change its regulations for the better, whether to reduce costs or enhance consumer safety.[190]

Shanker Singham adds:[191]

> The UK and the US are by far the largest investors in each other's economies (the US accounts for 41 per cent of all foreign direct investment in the UK). They have maintained a strong trading relationship for more than two centuries. They have the strongest ties of any two countries in defence and intelligence. The UK and the US share a foundation in English common law. They have the same economics-based approaches to regulation and to competition.
>
> The UK was the birthplace of the modern free trade movement in the nineteenth century and carried the torch for free trade until it was extinguished by protectionism in the rest of Europe in the latter half of the nineteenth century. When free trade was again embraced after the Second World War, it was the UK and the US that rebuilt the global trading system in the form of the General Agreement on Tariffs and Trade.
>
> This shared approach to the centrality of open trade, competition on merit as an organising economic principle, and property rights protection as the key tools to create wealth and grow economies is what has bound the nations together, and could be the foundation of a high level trade agreement that removes existing tariff barriers, eliminates government regulations that damage competition in markets, and better protects investors and other property owners' rights.

James Forsyth argues that, while the Transatlantic Trade and Investment Partnership (TTIP) – the proposed free-trade deal between the US and the EU – is dead, it would be relatively straightforward for a simple US-UK deal to be negotiated with the Trump administration and for Congress to ratify.[192] Of particular importance to the City would be a deal that made it simpler for a firm authorised in one country to operate in another and for there to be closer co-ordination over future regulation.[193]

Daniel J. Ikenson and Simon Lester, researchers at the Cato Institute, together with Daniel Hannan, former UK Member of the European Parliament and founder of the Initiative for Free Trade,[194] have proposed what they call the "ideal US-UK FTA."[195] It is based on the purest form of free trade: "Real free traders may consider the notion of an ideal free trade agreement oxymoronic. After all, real free traders are most concerned about eliminating domestic barriers to trade, whereas trade agreement negotiators consider those same barriers to be assets. Free traders seek the removal of domestic barriers, regardless of whether other governments promise to do the same; we understand that the primary benefits of trade are the imports we obtain, not the exports we give up. The benefits of trade are measured by the value of imports that can be purchased for a given unit of exports – the more, the better. The benefits of unimpeded access to the wares produced and services provided by people in other countries include greater variety, lower prices, more competition, better quality, and the innovation that competition inspires."

An "ideal FTA" between the UK and US would involve:

• Zero tariffs on all goods (agricultural commodities, primary industry resources, and manufacturing industry goods);
• Zero discriminatory non-tariff barriers, which means no discrimination by either party in the content or exercise of the laws, regulations, or practices affecting the provision of services of either party, including no restrictions on the entry of businesspeople in the conduct of the provision of business services;
• Zero restrictions on competition for government procurement;
• Zero restrictions on foreign direct investment in the economy;
• Zero restrictions on cross-border data flow;
• Elimination to the fullest extent possible of impediments to expeditious customs clearance procedures for both imports and exports;
• Preclusion of the adoption of antidumping or safeguard measures between or among parties; and
• Strict prohibitions against the use of non-tariff barriers, such as performance requirements, restrictions based on scientifically unsubstantiated public health and safety concerns, and restrictions based on national security concerns that fail to meet certain minimum standards.

The authors argue that without the need for the exceptions and carve-outs that are typical in many FTAs, the US–UK FTA can be shorter and simpler, and its provisions can be covered in only 18 substantive chapters, compared with, say, the 30 for the EU–Canada CETA.

They accept that this "ideal FTA" "may not be the most politically acceptable agreement to the polities of the United States and United Kingdom," since it excludes, for example, specifying standards for labour or environmental protection.

Nevertheless, the authors hope that "If the United States and United Kingdom are to obtain 'first-mover advantages' by authoring the rules of the model 21st century agreement, they will want its potential benefits to be perceived as significant enough to attract new member countries – including developing countries – to join. For that to happen, the terms of the agreement cannot be so stringent as to preclude the majority of countries from meeting the requirements." However, "the prospect of extending membership to countries that have – or are perceived to have – weaker commitments to labour rights, environmental protections, competition rules, or intellectual property standards will undoubtedly prompt louder calls in the United States and the United Kingdom for strict provisions in these areas."

The feasibility of a rapid US-UK FTA would depend in large part on the attitude of President Donald Trump. He won the 2016 US election based on a campaign of isolationism and anti-trade rhetoric that was critical of both NATO and the WTO. The head of the Downing Street policy board at the time, George Freeman, explained Trump's position thus: "At its heart this is about a broken contract through the failure of globalised market economics to serve the interests of domestic workers."[196]

Some believe that Trump's isolationism will help the UK. According to James Forsyth, there is: "keenness of those around him to cut a quick trade deal with the UK. His team views an Anglo–American agreement as a way of showing that they are not anti-trade per se – just against deals with low-wage economies that they believe cost American jobs. No one would think that a deal with Britain would lead to workers being undercut in Ohio, Michigan and Pennsylvania – three manufacturing-heavy states that swung from the Democrats to Trump. The [Trump] administration's enthusiasm for a deal with the UK, in stark contrast to Barack Obama's 'back of the queue' approach, makes it less easy to claim that Brexit will leave Britain isolated and alone."[197]

Donald Trump's commerce secretary, Wilbur Ross, confirmed in 2016 that one of Trump's top priorities will be to secure a free trade deal between the US and UK. Trump has extensive business and social links to the UK after decades as an investor and wants to embolden the "special relationship" by lowering barriers between the two countries.[198] Ross argued: "There should be a free trade agreement between us once the UK is on its own. We're huge trading partners with each other and our economies are in many ways more similar to each other than either of us is to most of Europe. So there's all the logic in the world for the US and the UK to be not only good trading partners, but FTA partners. … The EU talks a good job on free trade, but in fact it practises extreme protectionism." He added that signing a bilateral deal with the UK was likely to be easier than signing an FTA with the rest of the EU and that any negotiations would not "take a decade," but would be "much shorter." He also agreed that it would be better for US–UK trade relations if the UK were fully out of the Single Market and the Customs Union: "It gives the potential for a more intimate relationship with us if you're out of it. [That's] simply because you can do your own negotiating, you don't need Brussels to do it and in fact right now, you're required to have Brussels do it, so that's a qualitative change in the relationship, and given the fundamental rapport between the US and the UK, I have to believe that could be constructive."[199]

Fast forward to August 2019, with little progress achieved under Theresa May's government. Following a meeting with new prime minister Boris Johnson at No 10, John Bolton, then Trump's national security adviser, again confirmed that the UK would be "first in line" for a trade deal, once it had left the EU.[200] He said a "series of agreements" could be done on a "sector-by-sector" basis, beginning with an agreement on manufacturing, "very quickly, very straight-forwardly." A deal for financial services and agriculture could be agreed later. He said there would be enthusiastic bipartisan support in Congress for speedy ratification at each stage.

This approach was supported by participants at an international conference in April 2019 held by the Ditchley Foundation. It was chaired by Lord Hill of Oareford, former European Commissioner for financial stability, financial services and capital markets, and Dr Lawrence H. Summers, former US Secretary of the Treasury. Taking part were experts from both sides of the Atlantic. They recommended that the UK did not need to seek a full free trade agreement. Instead it could get a significant part of the benefits and avoid the pitfalls by working piecemeal, focusing on the harmonisation of industries where this would be relatively straightforward. Candidate areas were energy, fintech, wealth management, and research and development.[201]

On 2 March 2020, the UK government published its objectives for the trade negotiations with the US: "An FTA with the US represents significant opportunities throughout the economy, from agriculture to professional services. Potential benefits include better jobs, higher wages, more choice and lower prices for all parts of the UK. … The Government's analysis shows a UK–US FTA could increase trade between both countries by £15.3bn in the long run,[202] in comparison to 2018, and increase UK workers' wages by £1.8bn. … Removing trade barriers with the US could deliver huge gains, especially for the 30,000 small and medium-sized enterprises across the UK already trading with the US and open opportunities to others. For example, the US currently levies £451mn in tariffs on UK exports each year. The world-leading agreement the UK wants will also be geared towards maximising the UK's reach in emerging fields like global data flows and artificial intelligence (AI). Professional services, food processing and car manufacturing are among the sectors that could also benefit. … An FTA represents a strategic opportunity to augment and codify our strong trade, investment and economic relationships, bringing us closer to our largest bilateral trading partner and the world's economic powerhouse. This agreement should support the further development of a close defence industrial partnership between the UK and the US in the defence sector, recognising that we are already each other's most important suppliers of imported defence equipment, and that this relationship both supports jobs and investment, and delivers world class capabilities to our armed forces as they fight together in defence of our national interests. The agreement should reduce barriers to defence sales, in particular by encouraging deeper and faster sharing of technology, and encourage investment in each other's industrial base."[203]

However, there were significant hurdles to cross. First, sector-by-sector trade agreements are not consistent with WTO rules, which state that FTAs for goods should cover "substantially all the trade," which in practice means at least 90%. However, US trade negotiators are of the view that WTO rules would be satisfied.

Second, Boris Johnson, while welcoming a "fantastic" trade deal and a "very close, friendly relationship with our most important ally," also recognised there would be a need for compromise on both sides.[204] He said certain sectors of the UK economy would be excluded from any deal, in particular, the National Health Service.[205] He also pointed to sectors of the US economy that are currently closed to international competition, such as public procurement where an "America First" policy operates. Service providers in other sectors, such as insurance and architecture, needed regulatory approval in each US state, whereas in the UK, there is a single national regulator. He would also like to see shipping and aviation cabotage liberalised between both countries: currently "a British shipping company cannot pick up in New York and set down in Boston." Some commentators believe that the UK will not be given an easy time by US negotiators. For example, Sam Lowe, a senior research fellow at the Centre for European Reform, said that "If any UK–US trade agreement is ever to materialise, the UK will be required to concede on the vast majority of the US's demands … Any free trade agreement with the US that even tangentially references the NHS will struggle to get off the ground."

Third, Nancy Pelosi, leader of the Democrats in the US House of Representatives, said there would be no US–UK trade deal if Brexit damaged the Good Friday peace agreement in Northern Ireland.[206]

Fourth, the terms of any US–UK trade deal will affect the deal that the EU will agree with the UK. According to the Financial Times, ministers have been warned that the UK's efforts to strike a US trade deal after Brexit could "severely limit" Britain's ability to negotiate a deal with both the EU and other third countries.[207] The warning comes from a report written by the UK Department for Environment, Food and Rural Affairs (DEFRA) which suggested that US pressure on the UK to relax measures to protect animals, plants and humans from disease, pests and contaminants and to allow access to the UK market for US products, such as chlorine-washed chicken and hormone-fed beef, would violate EU sanitary and phytosanitary (SPS) regulations.[208] It said the EU would be concerned about non-compliant goods entering its Single Market which, in turn, could lead it to impose a hard border on the island of Ireland.

It added that "Any significant movement could have implications for our other [free-trade agreements] or export arrangements, which are based on existing standards. … Weakening our SPS regime to accommodate one trade partner could irreparably damage our ability to maintain UK animal, plant and public health, and reduce trust in our exports." Further, SPS policy is a devolved matter in Scotland and Wales, so there is "The potential for [devolved administrations] to diverge across the UK on SPS measures could significantly complicate future trade negotiations."

However, DEFRA's concerns about US food safety standards being lower than those in the EU are not borne out by independent scientific evidence. Take, for example, the World Health Organisation study *Global Estimates and Regional Comparisons of Food-borne Diseases*.[209] This reports global food-borne disease incidence, mortality, and disease burden in terms of Disability Adjusted Life Years (DALYs), which measures how many illness years (per 100,000 population) are attributable to disease caused by food. The most frequent causes of food-borne illness are diarrhoeal disease agents, particularly norovirus and Campylobacter. The most frequent causes of food-borne deaths are Salmonella, Taenia solium, hepatitis A virus, and aflatoxin. It turns out that the region with the lowest DALY is the USA, Canada and Cuba (denoted region AMR A) in the study. Dominated by the US, this region has a DALY of 35 per 100,000. All three European groups (EUR A, EUR B and EUR C) have DALYs of between 40 and 50 per 100,000. Using lab report data for Salmonella and Campylobacter, Professor David Paton reports incidences for the US and UK of 15 per 100,000 for both in the US and higher rates of 17 and 108 per 100,000, respectively, in the UK.[210]

Washing chicken in chlorine to eliminate harmful bacteria is one of a number of anti-microbial washes permitted in the US as a pathogen reduction treatment (PRT). The most common washes include trisodium phosphate, acidified sodium chlorite, chlorine dioxide, and peroxyacids.[211] These washes were banned by the EU's European Food Safety Agency (EFSA) in 1997. The reason given was concerns about poor hygiene standards in the production process: "the use of anti-microbial solutions does not replace the need for good hygienic practices during processing of poultry carcasses, particularly during handling." As a consequence, US chicken imports to the EU ceased. However, the EFSA accepted in 2005 that these washes posed "no safety concern" over human exposure.[212] Indeed, the chlorine washing of bagged salads is permitted in the EU.[213]

Yet, far from protecting European consumers, the EFSA allows their food to be injected with potentially dangerous additives that are actually banned in the US.[214] One example is the sweetener Aspartame – used in soft drinks and low-calorie sugar-free foods – which has been linked to increased rates of cancer. Other examples are E104 Quinoline Yellow, E122 Carmoisine and E124 Ponceau 4R which are synthetic dyes derived from coal tar and used in sweets and other foods such as smoked haddock and scotch eggs. They can cause rashes and water retention in people allergic to aspirin, as well as hyper-activity in children. Professor Erik Millstone, Professor of Science Policy at the University of Sussex, said: "Serious avoidable risks are being taken with public health and if the public was well informed about it then they wouldn't tolerate it."

There is nothing in the DEFRA report which prevents a UK–EU trade deal. Just because UK consumers buy US products with different standards from EU products does not prevent UK producers making products that meet EU standards. UK producers have to meet the standards set in all overseas markets that they sell into. Some might only produce products that meet the standard of their most profitable market. Further, consumer labelling will provide UK consumers with a choice. If they prefer less expensive US goods, so long as they understand what they are buying, they should be free to do so. In any event, the Government's negotiating guidelines make clear that "any agreement will ensure high standards and protections for consumers and workers, and will not compromise on our high environmental protection, animal welfare and food standards."

This is what free trade agreements are all about: increasing consumer choice and reducing the prices consumers pay, and, in addition, not condemning cheaper products as "inferior" just because more efficient producers can produce them at lower prices. Liz Truss, the Trade Secretary, says she was "proud" of the UK's high environmental standards, but she wanted to take "a much more free-market approach."

4.3 New Atlantic Growth Pact

This is a proposal from Kristen Silverberg – who served as US Ambassador to the EU during 2008–09 – and Phil Levy – who was senior economist for trade at the Council of Economic Advisers during the George W. Bush administration.[215]

The New Atlantic Growth Pact would involve the US, the UK and the EU. It would be:

> an agreement to remove regulatory barriers to trade, including those in financial services, and to spur cross-border investment could help invigorate all three economies. … A relaunched trilateral deal [following the stalling of the Transatlantic Trade and Investment Partnership (TTIP) talks] would spur growth. It would also provide a framework to address the EU's qualms about appearing to reward Brexit and encouraging other exits. … On the American side, efforts to launch a new trans-Atlantic agreement would show that the US remains serious about defending its role in setting standards for global trade.
>
> … The Atlantic Growth Pact could eventually serve as the anchor to bring in other countries. The US could spur the new talks by offering a significant new concession – the willingness to tackle financial services in the negotiations. This would meet a major European demand from the TTIP negotiations. It would also provide a unique opportunity to address one of the core questions surrounding Brexit – how to avoid a costly disruption of the City of London's role as a centre for international finance. Trilateral negotiations would be challenging. In contrast, it would be relatively easy for the US and the UK to reach a bilateral agreement, and the US should be prepared to pursue bilateral talks if the three-party negotiations fail. But economically and diplomatically, a trilateral trans-Atlantic deal has more to offer. The potential costs to the US of a Europe left fractured and faltering are very high.

This is another sensible proposal, coming from authors with a free market perspective. The problem is how to get the deeply protectionist EU to sign up.

4.4 New Prosperity Zone/Anglosphere/CANZUK

These are proposals to bring together in a free-trade agreement countries that have the same open and cooperative approach to international trade.

Shanker Singham argues that "the direction of travel of international trade thinking is towards countries recognising each other's regulatory systems if they achieve the same ultimate goal of regulation, even if the underlying regulation differs."[216] As a striking illustration of this, Japan and the UK agreed to complete a quick deal on mutual recognition of each other's goods and services standards when the UK left the EU.[217] This is in marked contrast to the EU's bureaucratic approach and what Philippe Legrain calls Brexit's stark trade off with the EU: "if the UK wants its regulations and standards to diverge from those of the EU, it will inevitably suffer a big loss of exports, especially in services, to its main trading partner. To have any hope of offsetting those losses, the benefits from deregulation and new trade deals with the rest of the world need to be very large indeed."[218]

Singham's proposal is to create a new Prosperity Zone:[219]

> What if, instead of making deals on a country-by-country basis, we were to lay the foundations for a new Prosperity Zone, bringing together countries around the world that believe in free trade and competition?
>
> … The lesson of the [stalled] TPP [Trans-Pacific Partnership] is that the more countries [that] are around the table, the harder a deal is to do. So the founding principle of the Prosperity Zone should be that it will not sacrifice quality for quantity.
>
> We should start with countries such as New Zealand, Singapore and Australia, who are all committed to free trade and have jettisoned agricultural protectionism (assuming in the UK's case that it will have come out of the Common Agricultural Policy and Common Fisheries Policy when it leaves the EU).
>
> This small group could maintain an alignment around the core concepts of economic development, open trade, competition and property rights protection. It could also go further than TPP by dealing with distortions inside borders – what are termed Anti-Competitive Market Distortions or ACMDs.
>
> This … would be done not via traditional remedies, such as anti-dumping measures, which are damaging to trade and competition, but by disciplining countries that used government privileges or benefits to confer a cost advantage on their companies that could then increase their market share overseas.
>
> Such rules would be needed because distortions inside borders are inevitably exported – as happened in Port Talbot or Redcar, where local producers went bust as a result of distortions in the Chinese steel market.
>
> The initial grouping of countries would have the advantage of being largely open economies – the UK, New Zealand, Australia and Singapore can boast the least distorted markets in the world. But the platform would be open: other countries, such as Switzerland or the members of NAFTA, could be added in future. The ultimate goal – even if you started with the most likely partners – would be to include all like-minded countries.
>
> Under this vision, the UK would still need to negotiate bilateral FTAs with other major trading partners such as India, China and

> the EU itself. But in each of these cases, we must be realistic about what we can achieve.
>
> There are many things that could derail this vision. Since it depends on the negotiation of agreements with a range of countries in goods and services and over domestic regulatory issues, remaining within any part of the EU Customs Union, or even remaining a member of the European Economic Area, will prevent its realisation.
>
> Far better to negotiate a comprehensive FTA that does not leave our hands tied elsewhere – which is why the recent suggestion that the UK would be seeking a 'CETA-plus' deal modelled on arrangements with Canada was so encouraging.
>
> Viewed in this light, the entire Brexit process should be regarded as part of a wide-ranging exercise – government departments must work together so that we can exit the EU in such a fashion that the high-level vision of growth, prosperity and hope can remain intact in our negotiations with other countries.
>
> We must also use this opportunity to embrace a regulatory reform agenda at home which will eliminate our own domestic distortions and lead to the lowering of prices for key staples, such as food and energy.
>
> This is, as we are all aware, a time of uncertainty. But if the process is handled correctly, the prospects for the British people are bright indeed.[220]

Variations on this are the Anglosphere countries trade deal proposed by Graeme Leach[221] and a smaller subset of Anglosphere, the CANZUK (Canada, Australia, New Zealand and UK) trade deal proposed by Andrew Lilico.[222]

The Anglosphere consists principally of the US and Commonwealth countries, such as Canada, Australia, New Zealand and India.[223] It benefits from having a shared language, democratic institutions, and similar legal systems, based on common law. It accounts for 33% of global GDP, compared with the EU's 17.7%.[224] The former Australian High Commissioner to the UK, Alexander Downer, states: "We are encouraging the UK and the EU quickly to establish a new, mutually beneficial relationship that sustains the economies and global influence of both. We are also keen to strike a free trade agreement with the UK. That shouldn't be too hard to do because we are like-minded free traders who know that protectionism makes people poorer and costs jobs. Finally, we have another hope: that Britain will continue to recognise that it is a global power with global responsibilities, not just a regional player. If it does so, this will mean Australia and the UK finding yet more ways to work together and promote the values and objectives we share."[225]

4.5 The Comprehensive and Progressive Agreement for Trans-Pacific Partnership

The global economic centre of gravity is moving to the Pacific Rim and the UK needs to be fully engaged there if it is to take advantage of the opportunities on offer. There are two main trading initiatives in the region. The first is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

CPTTP is a deep and comprehensive plurilateral Free Trade Agreement between 11 countries in the Asia-Pacific region. These countries – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam – have a combined population of 500mn people and in 2017 generated 13.4% of global GDP.[226] The FTA has not yet come into force. The US had signed the CPTPP's precursor agreement, but later withdrew. Were the US to re-join, CPTPP coverage of global GDP would be around 40%. Other countries have also expressed an interest in signing.

It has been suggested, by Shanker Singham and others, that the UK join CPTPP after Brexit. The UK's Department for International Trade (DIT) has considered the economic benefits of joining.[227]

In 2016, total UK trade with current members of CPTPP accounted for 7% of UK trade, with 50% of that accounted for by Japan and Canada. Exports were £44bn and imports £38bn. Goods trade – mainly machinery, vehicles, pharmaceutical products and electrical machinery – significantly exceeds services trade – mainly financial services, other business services and travel services.

The UK already participates in FTAs with Canada, Mexico, Peru, Chile, Japan, Singapore and Vietnam via FTAs negotiated by the EU. The UK has also started negotiating bilateral FTAs with Australia and New Zealand. The purpose of UK accession to CPTPP would be to deepen these trade and investment relationships by allowing British businesses to benefit from expanding and deepening global supply chains with a group of diverse economies.

The DIT argues that potential UK membership of CPTPP may provide the opportunity to help shape international trade rules in critical and growing areas of trade for the UK economy such as data, digital and e-commerce. It could also mean greater integration of the UK's global value chains in the Asia–Pacific region. These, in turn, could increase productivity through increased knowledge spill-overs.

There is, however, significant opposition in the UK to participation in CPTTP. The Trades Union Congress (TUC), in particular, is opposed "due to the significant threats the deal poses to workers' rights, regulatory standards, public services and democratic decision as well as putting large numbers of jobs at risk:"[228]

Particular concerns raised by the TUC are:

- Workers' rights at risk

  Unions globally have expressed concern that CPTPP contains no mechanism to monitor countries' adherence to core ILO [International Labour Office] standards or whether they promote Decent Work.[229] The labour chapter has no effective enforceable provisions on workers' rights and no mechanism to ensure that violations of ILO standards result in any penalty. This is a particular concern as CPTPP involves countries such as Vietnam where the fundamental ILO standard on freedom of association is not respected, with independent trade unions forbidden by law.

- Threats to democracy

  Workers' rights – as well as democratic decision making more broadly – is additionally undermined by the presence of Investor-State Dispute Settlement in CPTPP. This mechanism allows foreign investors to sue governments for regulations or actions that they believe threaten their ability to make profits. This mechanism has been used in the past to challenge minimum wage laws as well as other rules that affect workers, such as those on health and safety.

  [According to] Joseph Stiglitz, Noble Laureate in Economics and Professor at Columbia University, …"[TPP] is an agreement to manage its members' trade and investment relations – and to do so on behalf of each country's most powerful business lobbies. Make no mistake: … TPP is not about 'free' trade."

- Threats to jobs and increasing gender inequalities

  CPTPP may lead to job losses in some sectors due to increased imports from CPTPP countries. Unions are concerned that workers who lose jobs will be forced to take up new employment on precarious terms with low pay in the informal sector. As women are disproportionately likely to be employed in the informal sector already, any increase in the informal economy will increase the disadvantage women suffer in the labour market and increase gender wage gaps.

- Threats to manufacturing

  CPTPP poses threats to jobs in manufacturing sectors as it would make it easier for Vietnam to export goods to the UK which could include cheap Chinese steel or other manufactured goods such as tyres, cement and glass, deliberately routed through Vietnam to avoid trade remedies. The TUC is concerned this would increase the rate of trade dumping in UK manufacturing sectors, putting thousands of jobs in steel and related supply chains at risk.

• Threats to public services

> CPTPP would also expose public services to further privatisation as it takes the 'negative list' approach to service listing. This means that any services not explicitly exempted will be opened to further privatisation. Furthermore a 'ratchet clause' in CPTPP would mean that services already opened to privatisation could not be renationalised in the future.
>
> The government's ability to exempt public services adequately in CPTPP would be severely restricted as the UK would be joining an existing agreement it would have very little power to alter.
>
> The UK is to seek independent membership of the plurilateral Government Procurement Agreement (GPA). The key aim of the GPA is to open government procurement markets covering goods, services and workers. This also has major implications for the freedom of policy choices for the devolved administrations[230] who have already established devolved powers over public procurement.

Sir David Warren, Associate Fellow of the Asia–Pacific Programme at Chatham House, is also opposed to UK participation.[231] He argues that the UK would be a valuable partner for Japan as it tried to bolster Asian multilateralism, but the benefits are not as clear for Britain. CPTPP membership would only be feasible if Britain left the EU Customs Union, in which case, the UK would "lose its status as a 'gateway to Europe' … which has been a powerful incentive for foreign direct investment (FDI) – not least from over 1,000 companies from Japan – into the UK over the last 40 years. … [It] would jeopardize a level of FDI that has made a major contribution to the British economy. And the balance of advantage is obvious on trade as well. Around 8% of British exports go to the 11 countries of the CPTPP; over 40% to the 27 countries of the EU. … It's hard to escape the conclusion that the idea that CPTPP membership might in some way compensate for a looser trade association with the EU is illusory."

4.6 China's new Silk Road – 'One belt-one road' trade network between Europe and Asia

The second initiative is China's new Silk Road, the "one belt-one road" trade network between Europe and Asia – comprising 65 countries with 29% of global GDP and 64% of the global population.

China's Ambassador to the UK, Liu Xiaoming, states that: "Britain now is China's major trading partner and investment destination in Europe. The Brexit Referendum has certainly not dampened the enthusiasm of Chinese businesses about investing in this country. On the contrary, it opens the door to the possibility of exploring a higher level of bilateral trade and investment arrangements. … London's financial services sector stands to benefit from the ongoing internationalisation of the renminbi, if it continues to sell the City as an offshore centre for the currency. For China and the UK, renminbi internationalisation is an important part of our co-operation in [the] financial sectors. It is an area where we can dovetail respective strengths and produce mutual benefits." He added that as the renminbi (RMB) becomes a reserve currency, "that will give London a further advantage and allow offshore RMB business in London to grow at an even faster speed."[232]

The Confederation of British Industry (CBI) reports that the UK did £55bn of trade with China in 2016, making it Beijing's eight biggest global trading partner. The only two non-Asian countries to surpass this were the US and Germany, with £386bn and £112bn of trade, respectively, in the same year. Guy Dru Drury, head of the CBI's branch in China, said: "The Sino-British relationship is a great success story. As we delve deeper into the Golden Era of ties between China and the United Kingdom, we have so much to offer each other, and British business is keen to play its part. From cars to chemicals, and services to schools, British organisations – especially many smaller companies – are tapping into a growing market in China, one that plays to the UK's best competitive strengths. With the consumer market worth over £3.3trn, instantly recognisable British products are a particularly strong match for a growing generation of affluent Chinese. Moreover, this relationship creates thousands of jobs in the UK and China, raising living standards and boosting productivity. As the UK forges a new global trading future, it is well ahead of the curve in making the most of its relationship with the world's fastest growing economy. By making inroads into China's lesser economically known regions, the UK stands to profit from China's move from manufacturing and infrastructure into technology and services."[233]

4.7 Comment on the UK's future trading relationships with the rest of the world

The UK invented global free trade in the 1840s, following the repeal of the Corn Laws. Initially, the other major economic powers, Germany and the US, joined in – and for a short period in the second half of the 19th century, there was tariff-free international trade.

But it did not take long for protectionism to take hold in Germany and the US. Both came to the view that the UK, because it was the first to start the Industrial Revolution in 1760, had a competitive advantage over them. They both appealed to their governments to impose tariffs on British imports to protect their "infant industries."

The German view was that global free trade "proved in the first place to be an exceptional means of establishing and preserving British world domination. At the moment this system reached its peak, the English had developed their industry most. They went into the race with the largest cost advantages. Because they also possessed the largest merchant marine and navy in the world, they could tune in to the great circuit of world trade in such a way that their economic and political power grew proportionately. Every intensification of traffic in goods created new profits. The whole world worked in English money and the English were the bankers, the manufacturers, the traders, the carriers and, last not least, the policemen of the world."[234] The Germans began a Customs Union in 1843 which broke down trade barriers between the disparate German principalities. This led to rapid economic growth amongst the principalities and to eventual unification of Germany under Bismarck in 1871. US industrialists, like Andrew Carnegie and John D. Rockefeller, took a similar view and grew very rich behind the trade barriers they encouraged the US government to erect following the end of the US civil war in 1865.

Since then, Germany and the US have been big supporters of regional trading blocs involving a customs union protected by trade barriers. Germany was the driving force behind the establishment of the European Economic Community in 1957 which became the European Union in 1993.[235] Similarly, the US initiated the North American Free Trade Agreement (NAFTA) which came into effect in 1994 under Bill Clinton, but was first proposed by Ronald Reagan. The protectionist President Donald Trump said that NAFTA was bad for US jobs and insisted it was replaced by the United States–Mexico–Canada Agreement (USMCA) in 2018.

Given this recent history, it will be challenging to reduce barriers to trade, although that is the WTO's mission statement: "The WTO is the international organisation whose primary purpose is to open trade for the benefit of all."[236]

Yet as the WTO and World Bank recognises, trade is the best way to escape from poverty and to boost prosperity:[237]

> A dramatic increase in developing country participation in trade has coincided with an equally sharp decline in extreme poverty worldwide. Developing countries now constitute 48 percent of world trade, up from 33 percent in 2000, and the number of people living in extreme poverty has been cut in half since 1990, to just under one billion people. Trade has helped increase the number and quality of jobs in developing countries, stimulated economic growth, and driven productivity increases.
>
> But for the World Bank Group to achieve its Twin Goals of ending extreme poverty and boosting shared prosperity, the benefits of trade must be extended to the poorest and most vulnerable. This,

> in turn, requires a concerted effort by the international community working with the private sector and governments to establish and implement a comprehensive array of policies, programs, and financial interventions that will reduce the costs of trade and create a more transparent and predictable environment for regional and global commerce.
>
> The extreme poor face numerous constraints that limit their capacity to benefit from wider economic gains. In this context, trade integration is important not only because of the boost to growth it can provide, but also because there is room for it be executed in ways that more effectively overcome the constraints faced by the extreme poor. [There is a link] between [the] challenges facing people living in extreme poverty and their capacity to benefit from trade, as a key driver of growth. [There are] four leading characteristics of the poor that have a particularly strong impact on their capacity to extract the full potential benefits of trade: rural poverty; fragility and conflict; informality; and gender.

Developing countries gain from lower trade barriers with these large regional trading blocs. Currently, in the case of the EU, the tariffs on unprocessed commodities, such as raw coffee beans, entering the EU is quite low. But the tariffs on processed coffee are very high. Since the majority of the value added comes from processing, this accrues to processors in the EU, rather than to processors in developing countries who are effectively barred from the market by the tariffs. Lowering these tariffs would allow those in the countries where the coffee beans are grown to take a share of this value added.

While the above passage refers to the poor in developing countries, it equally applies to the poor in developed countries who would also benefit from increased trade, not least from the lower prices on consumer goods that international competition brings.

Of course, there will be losers from lower tariff barriers as the TUC above recognises in its objections to CPTPP. But as Daniel Hannan points out: “Many more people lose out from protectionist policies. The overall effect of an open trading environment on the economy is undoubtedly positive.”[238] Nevertheless, popular support for free trade agreements is likely to rapidly diminish if some of the concerns expressed above by the TUC about CPTPP are disregarded. Lower priced goods are of little benefit to people who have lost their manufacturing jobs as a result of state-subsidised imports being dumped onto the UK market. One of the criteria of the “ideal US–UK FTA” that Hannan supports is the preclusion of antidumping measures. This is unlikely to appeal to workers in either the US or UK whose jobs have been displaced by, for example, the dumping of heavily subsidised

Chinese steel. It remains a matter of getting the balance right – and this will inevitably be a dynamic process.

5. The "Costs" of Brexit before the UK left the EU

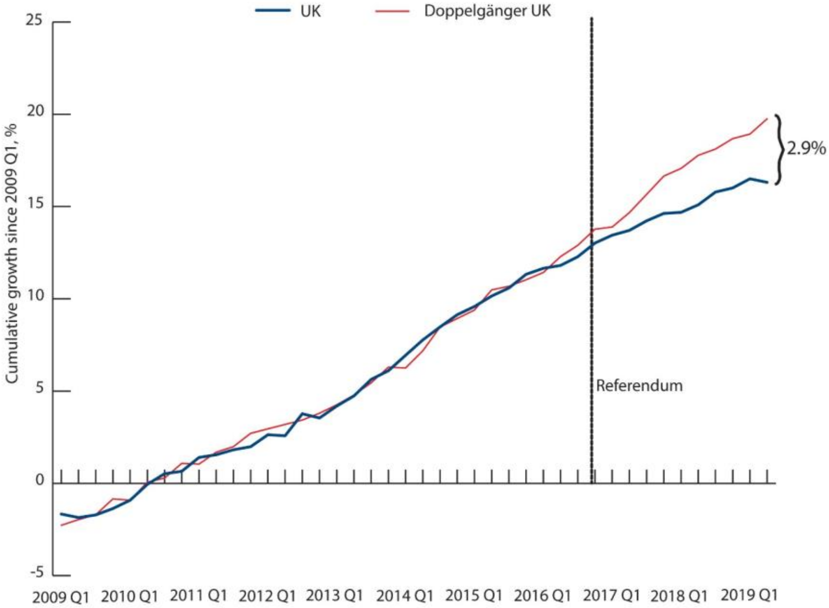
A number of studies claim to have estimated the supposed "costs" of Brexit before the UK has even left the EU. These include the Centre for European Reform (CER),[239] the Centre for Economic Policy Research (CEPR),[240] the Institute for Fiscal Studies (IFS),[241] the Bank of England,[242] and the investment bank UBS.[243] John Springford of the CER asserts that "the main claim made by Brexiters in the Referendum campaign – that Britain could regain sovereignty without damaging its economy – has proven to be false."[244]

These studies create what is called a "doppelgänger UK," a counterfactual version of the UK that did not vote to leave the EU in June 2016. The doppelgänger UK is constructed from a group of countries "whose economic characteristics most closely matched those of the UK in the run-up to the Brexit Referendum" using an algorithm called Synth.[245] In the case of the CER study, the doppelgänger UK is a weighted sum of the economies of Germany (32%), the US (28%), Australia (17%), Iceland (9%), Greece (6%), Luxembourg (4%) and New Zealand (4%).

Figure 6 shows how closely correlated were the cumulative growth in GDP in the "real" UK and the doppelgänger UK in the eight years prior to the Referendum. The Figure also shows that real UK GDP was 2.9% below doppelgänger UK GDP at the beginning of 2019. The CEPR study – whose own version of the algorithm gives high weights to Canada, the US, Japan and Hungary – predicts, using OECD forecasts, that real UK GDP will be 4% below doppelgänger UK GDP by the end of 2020.

How credible is this? For a start, this is a pure correlation analysis, there is no causality implied by any of these studies. Further, neither the countries included in the doppelgänger nor the country weights are stable across the different studies. The previous version of the CER study to the one discussed here had a lower weight for Germany and higher weights for the US and Luxembourg – and the model error "has also been growing over time as the economies of the various countries that form the doppelgänger are affected by factors unrelated to Brexit." For example, Germany's manufacturing sector has been hit by trade wars, while the US has been growing more strongly partly as a result of tax cuts. Removing Germany from the doppelgänger increases the cost of Brexit at the beginning of 2019 to 3.4%, while removing the US lowers it to 2.2%, a margin of error of 150% – see Figure 7. The CER and CEPR studies have very different countries in their doppelgänger UK. In short, this exercise has no economic credibility whatsoever – it is an exercise in measurement without theory. It is also noteworthy that all the organisations producing these doppelgänger models are opposed to Brexit and/or receive grants from the EU which always require the recipients to support the EU and its aims.

Figure 6 Cumulative growth in GDP in the UK and the doppelgänger UK, 2009–2019

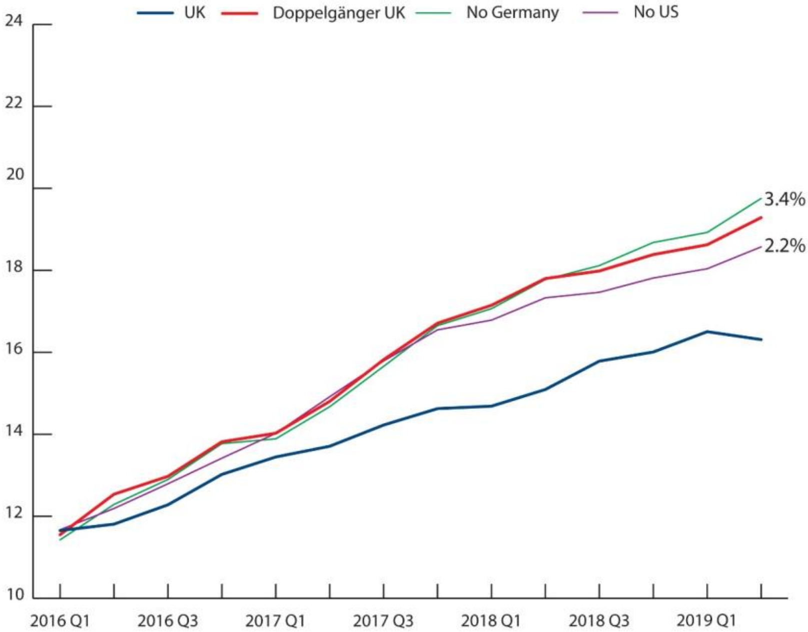


Source: John Springford (2019). "The Cost of Brexit to June 2019," Centre for European Reform, 16 October.

Despite this, we can still assess the validity of the main explanations put forward by the authors of these studies for the apparently lower GDP as a result of the Brexit Referendum:

- Increased uncertainty, which temporarily depresses investment and consumption spending
- Failure of the lower value of sterling following the Referendum to increase exports, and hence compensate for the fall in domestic spending
- Anticipated lower future living standards, as the reduction in trade with the continent would be likely to make the UK permanently poorer and the lower sterling value makes imported goods more expensive.

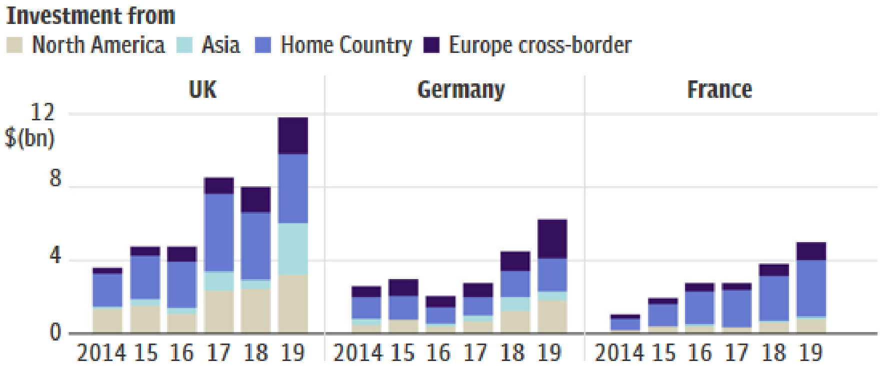
Figure 7 Cumulative growth in GDP in the UK and the doppelgänger UK, excluding Germany and the US, 2009–2019



Source: John Springford (2019). "The Cost of Brexit to June 2019," Centre for European Reform, 16 October.

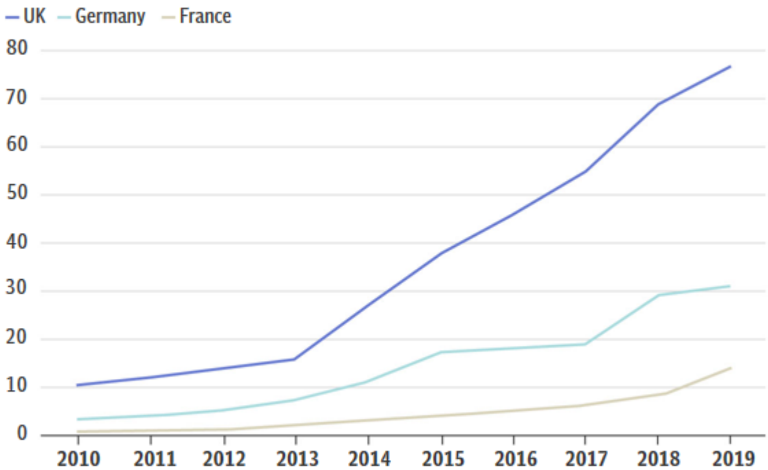
It is certainly true that some business investment was postponed as a result of uncertainty about the UK's future relationship with the EU. However, investment in the technology sector continued to expand, certainly more than in Germany and France as Figure 8 shows.[246] Figure 9 shows that the number of UK unicorns (business start-ups worth more than $1bn) also continued to grow and is almost double that of Germany and France combined.[247] Business confidence returned, according to the January 2020 CBI survey of manufacturers,[248] and general business investment began to recover following Boris Johnson's General Election victory in December 2019.[249] Investors also showed their confidence in the UK by increasing their allocation to UK equities.[250] Further, while general inward foreign direct investment (FDI) also fell in 2017–18 compared with 2016, this was from an unusually high level in 2016 and the FDI level in 2018 at £64.5bn was higher than for 2013–15.[251] Consumption actually increased following the Referendum by 5.6%, but this is less than the 7.2% increase in the doppelgänger UK.

Figure 8 Investment in the technology sector of the UK, Germany and France, 2014–19



Source: Tech Nation, reported in James Cook (2020). "How Britain's Technology Industry Shrugged off Brexit Fears – and Kept on Growing," *Daily Telegraph*, 15 January.

Figure 9 Cumulative number of $1bn start-ups by year



Source: Tech Nation, reported in James Cook (2020). "How Britain's Technology Industry Shrugged off Brexit Fears – and Kept on Growing," *Daily Telegraph*, 15 January.

Figure 10 Export growth, UK and G7, 2014–18

Source: Josh De Lyon and Swati Dhingra (2020). "UK Economy since the Brexit Vote: Slower GDP Growth, Lower Productivity, and a Weaker Pound," LSE blog.

Figure 11 Import growth, UK and G7, 2014–18

Source: Josh De Lyon and Swati Dhingra (2020). "UK Economy since the Brexit Vote: Slower GDP Growth, Lower Productivity, and a Weaker Pound," LSE blog.

The sharp fall in the exchange rate for sterling against the dollar following the Referendum by 12%[252] resulted in UK exports growing faster than imports between 2016 and mid-2018, but then the effect dissipated. Figure 10 shows that the fall in sterling did little to improve exports relative to G7 economies.[253] Import growth, by contrast, was slower than in the G7, as Figure 11 shows. However, the depreciation of sterling increased the cost of intermediate inputs for UK businesses. This, according to the London School of Economics, lowered wage growth and reduced training opportunities in these businesses.[254] The fall in sterling also had an inflationary impact on UK consumers. The LSE estimated that consumer prices increased by 2.9%,[255] helping to offset increases in nominal wages: real wages were broadly unchanged between the Referendum and 2018, but increased during 2019.

According to economist Julian Jessop, the estimates of a loss of GDP of 3% or more since the Referendum are exaggerated. He puts the loss at no more than 2%, not least because, with employment levels at their highest recorded levels, the economy just did not have the capacity to grow at a faster rate.[256] He contrasts this with the Treasury's warnings at the time of the Referendum that GDP would be 6% lower within two years and unemployment 820,000 higher.[257]

He is particularly critical of the LSE study on exchange rates: "The study assumes that higher import costs are passed on in full to consumers and that they are unable to avoid them by switching to domestic goods and services. It also ignores other channels through which the fall in the exchange rate might have had a positive impact on the economy and on at least some households, including the boosts to competitiveness and asset prices.[258] But my main objection is the assumption that the fall in the exchange rate is permanent,"[259] pointing out that sterling has risen by 6% on a trade-weighted basis since Boris Johnson became prime minister. In 2019, the UK grew faster than Germany, France, Italy and Japan, and was the third fastest growing country behind the US and Canada amongst the G7 economies.

6. The Costs and Benefits of the WTO or "No Deal" Option

In this final section, we review various studies that have estimated the costs and benefits of trading with the EU without a formal trade deal, i.e., what has become known as the WTO or 'no deal' option.

6.1 Estimating the costs of "no deal"

If there is a "no-deal" Brexit agreement between the UK and EU, the worst-case scenario is to trade with the rest of the world – including the EU – on the basis of WTO most favoured nation (MFN) tariffs.[260] The UK is free to set its own tariffs, but the same tariffs must be applied to all countries (unless a

FTA is agreed with specific countries or trading blocs). Table 6 shows that the average WTO-MFN tariff is around 3.1%.[261] Services, such as financial services and transport, are not covered by standard WTO agreements, so a separate agreement with the EU would need to be implemented for these. There are also non-tariff barriers: Kee and Nicita (2017) estimate that average NTBs imposed by the EU on imported goods, despite being discriminatory and hence illegal under WTO rules, are equivalent to an additional tariff of 3.6%.[262] The sum of tariff and non-tariff barriers at 6.8% is half the 14% fall in the sterling exchange rate against the euro that followed the Referendum.[263] Even if we assume higher average tariffs of 4%[264] and NTBs equivalent to an additional tariff of 10.5% – as estimated by the UK government in January 2018[265] – the total additional cost of 14.5% is still substantially ameliorated by sterling's depreciation. Further, as previously mentioned, the UK would be a net recipient of £7.7bn of the WTO-MFN tariffs (£12.9bn received less £5.2bn paid out).[266]

Table 6 WTO – Most favoured nation tariffs

Tariff (%)	Weight (%)
0	43.7%
>0% to 5%	45.9%
>5% to 10%	7.5%
>10%	3.0%
Average tariff ≈ 3.1% (using 40% as the average tariff above 10%)	

Source: www.brexittoolkit.co.uk; Sir David Ord, Bristol Ports.

The US trades more – under WTO-MFN rules – with the EU than does the UK. In 2018, US goods exports to the EU were $319bn, while its goods imports were $488bn, implying a goods trade deficit with the EU of $169bn. US service exports to the EU were $256bn, while its services imports were $196bn, implying a services trade surplus of $60bn.[267] Total US exports to the EU were therefore of the order of $575bn, while total US imports from the EU were of the order of $684bn. In comparison, in 2018, total UK exports to the EU were £289bn ($384bn), while total UK imports from the EU were £345bn ($459bn).[268]

At the time of the Referendum, the Treasury estimated that there would be a 24% reduction in trade and a 7.5% reduction in GDP in the event of "no deal" which imposed WTO-MFN tariffs and NTBs on trade with the EU.[269] The Treasury used a "gravity" model of trade[270] to derive this estimate. This model assumes that trade between countries increases with the size of their economies and reduces as the distance between them increases. A change in tariffs and NTBs will change the level of trade and this will have knock-on effects on wider macroeconomic variables, such as investment, productivity, and GDP. Assumptions need to be made about the size of these knock-on effects.

One key assumption relates to the linkage between foreign direct investment (FDI) – which the Treasury model "assumes" will fall as a result of the reduction in trade – and a consequential change in productivity. However, the Treasury model overestimated the impact of EU membership on FDI inflows. It made the assumption that EU membership increases both internal and external FDI inflows by 35% – and that FDI inflows would fall by the same percentage if the UK left the EU – whereas there has been no significant increase in FDI inflows into EU member states from outside the EU (except for into the UK).[271]

Another key assumption relates to the linkage between a reduction in trade and a consequential change in productivity. The Treasury model "assumes" a significant fall in productivity in response to a reduction in trade (in part, via the "assumed" reduction in FDI), whereas there is no relationship between the growth rate in goods trade and the growth rate in per capita GDP (a key measure of productivity improvements) in OECD countries over the period 1980–2015.[272] Indeed, David Frost, the UK's chief trade negotiator with the EU, goes further and argues that "there is at least as much evidence that the relationship is the other way around – that it is actually productivity which drives trade. The claims that trade drives productivity are often in fact based on the very specific experience of emerging countries opening up to world markets, beginning to trade on global terms after a period of authoritarian or communist government – these are transitions that involve a huge improvement in the institutional framework and which make big productivity improvements almost inevitable. And I think the relevance of such experiences drawn from that for the UK, a high-income economy which has been extremely open for over a century, seems highly limited to me."[273]

The gravity model also overemphasises the importance of geographical proximity in the case of countries with a high share of services in national output (80% in the case of the UK), since, as Walsh (2006) has demonstrated, services trade is influenced by size of economy and common language, but not by distance.[274] As we pointed out above, Japan and Australia buy more UK services than the average EU member state.[275]

Let's do a quick reality check. UK exports to the EU amounted to around 14% of UK GDP in 2018, additional tariffs and NTBs lie between 6.8% and 14.5%, and sterling has fallen by 14% against the euro since the Referendum. Yet the Treasury estimates that UK GDP will fall by 7.5%, i.e., the UK will lose 54% of its exports to the EU when it leaves the EU, and those exports will not be diverted to other markets. In the words of John McEnroe, "you cannot be serious."

The Treasury, in response to the criticisms it received,[276] subsequently changed the model it used. It switched to a "computable general equilibrium" model of trade called GTAP.[277] However, the model was calibrated to produce a fall in GDP in the event of a "no deal" of 7.7%, virtually unchanged from the model used at the time of the Referendum.[278] The 7.7% is made up as follows: 1% due to tariffs, 1.1% NTBs (immediate loss of access), 3.4% NTBs (gradual regulatory divergence), 1.3% NTBs (customs) and 0.9% (migration controls).[279, 280] In other words, of the estimated fall of 7.7% in GDP, 5.8% (or 75% of the total) is due to NTBs that are illegal under WTO and other international rules and conventions. For example, there are: the WTO Most Favoured Nation (MFN) principle of non-discrimination;[281] the legal obligation to allow timely customs clearance of inwards goods under the WTO Trade Facilitation Agreement;[282] international agreements on product regulations,[283] on services trade and regulations[284] and on government procurement contracts;[285] the G20 global principles of 2009 which recognise that the free flow of capital is critical for the real economy; the BIS support for a level playing field in financial services; and making use of "reverse solicitation exemptions" which allow financial institutions to provide cross-border services to a wholesale client without being registered or authorised in that client's state, provided that the services are provided on the initiative of the client.[286]

Even if there will be new and unavoidable frictional costs, the Treasury has grossly overestimated them. The Treasury estimates that there will be a 1.3% reduction in GDP due to frictional border (i.e., customs) costs. Yet if the same border costs as in the EU's trade deal with Switzerland are applied to the UK, these amount to just 0.14% of GDP, around ten times lower.[287] The new model has been used to predict that the max-fac proposal would wipe 1.8% off GDP.[288] Back to John McEnroe for a comment.

Using different modelling assumptions, Kee and Nicita (2017)[289] estimate that UK exports to the EU would fall by just 2% in a "no deal" scenario, while Coutts et al (2018)[290] estimate that, by 2030, per capita GDP would be unchanged, while GDP would be 2% lower than otherwise, due to lower immigration.[291]

In other words, the costs of a "no-deal" outcome are not significant in the long term. Further, a "no-deal" agreement "would not result in a major slowdown or recession," since policymakers will respond in ways that reduces the consequences. This is the prediction of a study by Capital Economics.[292] While there would be some economic dislocation with growth falling below 1%, the government would react with a combination of low interest rates, low taxes and increased subsidies to counteract the market shock.

6.2 Estimating the benefits from "no deal"

Not only did the Treasury assume the costs to the UK of leaving the EU would be high, it also assumed that the gains from "general free trade via FTAs" with the rest of the world would be low, increasing UK GDP by only 0.5–0.8%. This is despite the fact that 90% of future global economic growth will take place outside the EU. This could only be explained by assuming that EU trade barriers are very low.

However, Professor Patrick Minford estimates that EU tariff and non-tariff barriers on trade in food and manufactures raise their prices by 20%, or by an average of 8% across all goods purchased.[293] EU trade barriers against the rest of the world reduce UK GDP by 7% (£144bn p.a.), while the UK remains a member.[294] This is made up of a 4% cut in GDP due to lower productivity[295] and a 2% cut in GDP due to the costs of excessive EU regulations.[296] The remaining 1% is accounted for by the net UK contribution to the EU Budget (0.6% of GDP),[297] and the taxpayer subsidy in the form of in-work benefits to unskilled immigrants (0.2% of GDP)[298] and other factors (0.2% of GDP).

By leaving the EU and removing these trade barriers, the UK will be able to recover this loss in GDP, which to reiterate comes from four sources: moving to free trade with non-EU countries that currently face high tariff and non-tariff barriers on goods and services imports; substituting UK-based regulation for EU-based Single Market regulation; ending the Budget contribution to the EU; and ending the subsidy that Single Market membership obliges the UK to give to EU unskilled immigrants.

This will not be without some cost, however. UK companies will face greater competition for the goods and services that they produce and they will have to become more competitive if they are to maintain their market share and increase their exports. This will, in turn, have two effects. The first is to reduce domestic prices. The second will be to increase investment in both physical and human capital in order to increase productivity.[299] But this is the only way in the long run to increase trade and prosperity. The costs can be reduced if the economy is sufficiently flexible, especially the labour market. Workers made redundant in industries now open to fair international competition can be retrained to work in different parts of the economy where demand for labour is growing. A further benefit arises from ending the unrestricted immigration of unskilled EU workers. This had the effect of depressing the wages of unskilled UK workers in areas of high immigration. It constitutes a transfer from those unskilled UK workers to the consumers who used their products and services. This distributional effect can reversed (at least partially) when unrestricted EU immigration ends.[300] The number of EU workers in the UK peaked in 2017 at just below 2.5mn and has been falling at the rate of around 150,000 p.a. since. Real wages in the UK have been growing since 2018 at the rate of around 0.8% (excluding bonuses), as employers are having to compete for workers.[301] By December 2019, average real wages in the UK had recovered to their previous highest recorded level which was in February 2008 just before the start of the Great Recession, while employment was at its highest level of 33mn.[302]

Using a computable general equilibrium model of trade similar to the GTAP model,[303] Minford estimates that if EU trade barriers on food and manufactures were reduced from 20% to 10%, UK GDP would rise by 4% and consumer prices would fall by 8%.[304, 305] Removing excessive Single Market regulatory burdens could add another 2% to UK GDP.

As an interim measure, tariffs could be lowered on imported goods that the UK does not have a domestic industry to protect, such as tea, coffee and oranges. Similarly, the 14% devaluation of sterling against the euro following the Referendum raised the prices of imports by 14%; the prices of these imports could be restored to their pre-Referendum levels by abolishing all import tariffs of 14% or less.[306] Minford estimates additionally that if the UK left the EU without a deal, then under WTO rules, the tariffs collected by the UK on EU imports are worth £650bn in present value terms.[307]

One of the world's most successful trade liberalisation policies is that of Australia, beginning in 1986. Using the GTAP model, this has been shown to have increased Australia's GDP by 5.4%,[308] which is similar to 6% gain predicted by Minford.

Finally, we should note the limits to protectionism. Hiding behind the protective wall of the Common External Tariff did not prevent the share of UK manufacturing in GDP falling from 35% when the UK joined the EU to around 8% now.[309]

7. Conclusion

The UK's prospects for trade and prosperity after Brexit will be inversely related to the size of the tariffs on international trade that the UK itself sets. The lower the tariff barriers, the brighter the prospects will be. A study by the UK Trade Policy Observatory at the University of Sussex estimated that if the UK imposed WTO-MFN tariffs on EU imports after Brexit, this would increase the "average cost of living by around 1% and increase it for 8% of households by 2% or more."[310] Similarly, the Treasury predicts a 7.7% reduction in GDP in the event of "no deal" in which the UK retained the existing Common External Tariff with the rest of the world and also imposed the same tariffs on trade with the EU. But why would the UK government do this? It would be a policy choice, not a consequence of Brexit.

So long as the UK government liberates itself from the protectionist mercantilist mindset of the EU – which regards trade as a weapon – and reduces trade barriers after Brexit, and UK businesses respond positively to the challenge of increased international competition by raising investment and productivity, the prospects for UK trade and prosperity post-Brexit are very bright indeed. EU barriers on trade in food and manufactures raise their prices by 20%, or by an average of 8% across all goods purchased. If these barriers were reduced from 20% to 10%, UK GDP would rise by 4%. Removing excessive Single Market regulatory burdens could add another 2% to UK GDP. The total gain in GDP is 6%. If anyone questions the plausibility of these numbers, they only have to look at Australia's move to free trade which added 5.4% to its GDP.

Furthermore, on the basis of both international and EU law, the monetary costs to the UK of leaving the EU should be fairly low. Similarly, the frictional costs to both the UK and the EU of their post-Brexit relationship should also be low.[311] However, as a consequence of both the concessions made to date by the UK in order to demonstrate its goodwill and the hard line taken by the EU in order to discourage other member states from leaving, these costs could well end up being much higher than they need be for both sides. The EU's "level playing field" demand, laid out in its negotiating Guidelines for a future trading relationship, is worse than a standard "no compete" clause when a senior employee leaves a company. The EU wants to put the UK on permanent gardening leave. It would effectively prevent the UK from achieving regulatory autonomy or from pursuing an independent trade policy. To avoid all this this, it is vital that the issues raised in this article are fully recognised.

We should also bear in mind the counterfactual and ask what it would be like to remain in the EU. The EU is like the Titanic, but with a big difference. Whereas Captain Edward Smith of the Titanic did not see the iceberg in his path, Captain Ursula von der Leyen and First Officer Michel Barnier of the good ship "European Union" knows full well that there is an iceberg – indeed multiple icebergs – in their path, but believes that collective political will in the EU is strong enough to plough straight through: it is going to be a very bumpy ride for those remaining on board.

Note

This is a write-up of a presentation given at the Brexit and Trade conference, organised by The UK in a Changing Europe, and held at the British Academy on 2 November 2017. It has been updated to account for events that have occurred since then.

Postscript

At the time of publication of this article, the whole world is experiencing the beginning of the global COVID-19 coronavirus pandemic. It officially began in the Chinese city of Wuhan on 31 December 2019 (although there might well have been earlier unreported cases) and spread around the world in just two months. It is clear that this is potentially a public health crisis on the same scale as the Spanish flu pandemic of 1918–19 which infected one-third of the world's population and killed 5% (50mn). It is too early to say how many people will be infected by COVID-19, but hopefully many fewer than in 1918–19 because of the extreme public health measures being taken across the world, including social distancing and self-isolation. Apart from the human tragedy of the deaths incurred, there will be a massive reduction in global GDP as all but essential businesses and services have been closed down across the world to reduce the spread of the virus. It will take many years for the global economic system to recover fully.

From the viewpoint of this article, two points are worth making. First, it is the nation state that is leading the way in protecting its citizens from the coronavirus by, e.g., closing its borders to travellers from abroad. This should not be surprising, given what we said in Section 1.7 above about the importance of the nation state in solving critical problems. What is particularly striking is what is happening in the European Union. France, Hungary, Austria, Denmark, Estonia, Latvia, Slovenia, Slovakia and the Czech Republic all imposed border restrictions, some without even informing the European Commission. The call by the European Commission President for EU-wide solidarity fell on deaf ears. Andrej Babis, the Czech Prime Minister, responded by saying: "President von der Leyen is concerned about the internal market – at a time when protecting the health of all of us is an absolute priority for me."[312] Eventually, the Commission suspended the Schengen agreement on the free movement of people, a cornerstone of the Single Market. We can only imagine the catastrophe that would have befallen the people of Europe if Michel Barnier had got his way and broken up the nation states of Europe into small regions.

Second, there will be an effect on how we organise global trade and supply chains, given how fragile the "just-in-time" model has been shown to be. In the short-term, supply chains will be shortened and international trade will be reduced. An immediate example is the manufacture in the UK of the ventilators used on patients with COVID-19 in intensive care. The National Health Service had only 8,000 ventilators at the beginning of the pandemic. But a collaboration between Dyson and the UK aviation, car and medical equipment industries was able to produce 30,000 ventilators in a matter of months.[313] There will be further boosts to the domestic manufacturing of strategically important products which will require investment and productivity improvements to be sustainable.

Over the longer term, there is no reason to suppose that international trade in goods should not fully recover and then continue to grow as before. The international trade in services involving the movement of people will only begin to recover once an effective vaccine has been developed in approximately 18 months. Particularly badly affected initially will be the purchase of services by consumers while abroad, such as tourism and university education (mode 2 in the terminology of the WTO's General Agreement on Trade in Services), and services supplied by people travelling to another country (mode 4). Less badly affected will be the supply of services cross border (mode 1) and the establishment of a commercial presence abroad to provide services (mode 3).

The quantitative predictions made in this article therefore need to be nuanced to take into account both the short- and long-term impact of COVID-19, but there is no reason to change the underlying analysis. The virus will have a long-term negative impact on GDP in the UK, irrespective of Brexit. The same will be true for all other countries. There is no way around that. But the UK will be far better off in the long run determining how it responds to future challenges and opportunities than being shackled to the European Union.

Author Contributions
The author confirms being the sole contributor of this work and approved it for publication.

Conflict of Interest Statement
The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

NOTES AND REFERENCES

1. The most striking evidence for this claim is the support of the Confederation of British Industry and Institute of Directors for then Labour leader Jeremy Corbyn – someone who has devoted his entire political career to destroying capitalism – in his ambition to keep the UK in the EU Customs Union after Brexit (Benjamin Kentish (2018). “Business Bodies Throw Support behind Corbyn’s Calls to Keep Customs Union after Brexit,” *Independent*, 27 February).

2. See: lobbyfacts.eu/reports/lobby-costs/companies; www.scribd.com/document/281758925/Lobbying-in-the-EU-The-cost-of-a-lack-of-transparency. Simon Boyd, managing director of REIDSteel and a member of the CBI Manufacturing Council, argues that “The Customs Union is no more than a protectionist racket. … It is the opposite of fair trade. It damages many businesses throughout the UK and serves to control the market as the big players like. Membership has been harmful for us and other British businesses. It has excluded many of our traditional markets, particularly the Commonwealth; it prevents us from making our own trade agreements worldwide. … I and many others have been working for decades to try and highlight just how damaging our membership of the EU has been to us. We have seen our international trade shrink and have watched over the demise of our manufacturing capabilities as businesses have been less able or willing to invest for the future. Our productivity has plunged because it is often easier to invest in cheap labour rather than train and invest at home. Multinationals have seen fit to export our jobs and expertise to other locations where labour is cheaper and incentives are greater, often with help from the EU: our money is being spent to export our jobs and our industries. Our massive trade deficit in the Single Market and the Customs Union outweighs all of the other downsides and costs of belonging to the EU: nearly 5% of our GDP” (Simon Boyd (2018). “SMEs Have Felt First-Hand the Negative Effects of the EU and Its Customs Union,” *Brexit Central*, 2 May).

3. Similarly, the EU average tariffs for industrial products at 4.3% are only a little higher than the US at 3.8%. Source: WTO, *World Tariff Profiles 2019*.

4. The Institute for Economic Affairs estimates that the Common Agricultural Policy raises food prices by 17%; https://iea.org.uk/blog/abolish-the-cap-let-food-prices-tumble

5. Ahmed Shiaan (2017). "On Behalf of the Maldives, I Don't Just Respect the Brexit Vote – I Welcome It," *Brexit Central*, 11 December.

6. http://www.dw.com/en/high-duties-keep-food-imports-from-poor-countries-out-of-europe/a-5127705

7. There are many more examples: see, e.g., Kevin Dowd (2018). "Remainer Lord Hannay Is Wrong about EU Tariffs on African Imports," *Brexit Central*, 24 April.

8. These include quotas, prohibitions, import licences, product standards (such as regulatory standards on labelling and testing), dual certification, customs documentation requirements and border delays, and rules of origin requirements. Rules of origin are the criteria used to determine the national source of a product. They are used to set duties and restrictions on imported products. For example, requiring a minimum percentage of components to be sourced from the domestic economy of the trading partner. See: https://www.wto.org/english/tratop_e/roi_e/roi_info_e.htm

9. The precautionary principle; https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Al32042

10. Singham is a well-known trade expert then at the Legatum Institute Special Trade Commission, currently Head of Trade at the Centre for Economics and Business Research. He is the author of a *General Theory of Trade and Competition* and *Trade Liberalisation and Competitive Markets*.

11. Shanker Singham (2018). "EU's Regulation Obsession is Protectionist in Nature," *Daily Telegraph*, 22 February.

12. This is particularly true of financial services regulation as Ashley Fox MEP points out: "Many of my colleagues in Europe get very worried about entrepreneurs and banks solving problems. They sometimes see innovation as something that should be controlled and managed. As a result, the EU often ends up writing blunt regulations that stunt progress and hurt European competitiveness, despite the best intentions. We have got into the habit of writing regulations that are not flexible or adaptive but blanket restrictions applied across countries and sectors; reworkings of current law rather than thinking differently." See: Ashley Fox (2018). "Time the EU Updated Its Way of Regulating Financial Services," *Financial News*, 14 May.

13. WTO (2018a), *WTO Technical Barriers to Trade Agreement* (TBT); https://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm

14. WTO (2018b), *The GATS (General Agreement on Trade in Services)*; https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm

15. More commonly known as the European Court of Justice (ECJ).

16. See Patrick Minford (2018, p. 6). "How the Civil Service Has Misled Us on the Costs of Brexit and the Customs Union," Economists for Free Trade, May; https://www.economistsforfreetrade.com/wp-content/uploads/2018/05/EFT-How-the-Civil-Service-has-misled-us-on-costs-of-Brexit-and-the-customs-union-May-2018.pdf. But, Dyson lost a follow-up case in which the CJEU decided that "no information relating to the conditions under which the energy efficiency of vacuum cleaners was

measured may be added to the energy label"; https://curia.europa.eu/jcms/upload/docs/application/pdf/2018-07/cp180117en.pdf. This indicates that British producers face a constant battle with the EU to ensure that WTO anti-discrimination rules are upheld.

17. Also known as the Internal Market.

18. *Statistics on UK–EU Trade*, House of Commons Briefing Paper, No 7851, 16 December 2019; https://researchbriefings.files.parliament.uk/documents/CBP-7851/CBP-7851.pdf. UK GDP in 2018 was £2,061,408; https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/abmi/qna

19. http://www.bbc.co.uk/news/uk-politics-eu-referendum-36029211

20. Richard Tice, co-chair of Leave Means Leave and chair of the Brexit Party, argues that "Being encased by the protectionist wall of the EU's Customs Union has kept prices of food, clothing and footwear artificially high, while uncontrolled unskilled EU immigration thanks to our membership of the Single Market has depressed the wages of working people. These two factors have conspired to hit the pockets of the poorest in society" (Richard Tice (2018). "Start Measuring the Countdown to Freedom and Opportunity in Days, Not Years," *Brexit Central*, 27 March).

21. In 2005, an internal Treasury report, which later emerged because of a Freedom of Information request, found that the Single Market had only a marginal impact on UK trade.

22. Had we assumed that the present 27 EU members had all been Single Market members over the same period, the CAGR of UK goods exports to all 27 would have been slightly higher at 0.78%.

23. Table 2 of Michael Burrage and Phil Radford (2020). "WTO vs the EU: An assessment of the UK's trade relationships 1999–2018," *Civitas*, forthcoming.

24. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD 2010

25. And also higher than the 1.73% growth rate of the EU27.

26. This could be explained by the Rotterdam effect: goods from EU member states exported via the port of Rotterdam will be recorded as Dutch exports.

27. Hugo Duncan and James Salmon (2020). "Exports Hit Record High Ahead of Brexit: Sales of UK Goods to EU Fall 0.9% but Soar 14% to the Rest of the World," *This is Money*, 11 February; https://www.thisismoney.co.uk/money/news/article-7993135/Sales-UK-goods-EU-fall-0-9-soar-14-rest-world.html

28. UK's service exports are 44% of total exports.

29. This figure has not increased since 1999. 52% of UK service exports to the EU comprise financial services and other business services (mainly legal, accounting, advertising, research and development, architectural, engineering, and other professional and technical services).

30. *Statistics on UK–EU Trade*, House of Commons Library Briefing Paper, No. 7851, 16 December 2019; https://researchbriefings.files.parliament.uk/documents/CBP-7851/CBP-7851.pdf

31. "EU Finally Shows How Badly It Needs UK's Business, Revealing 2019 Figures," Brexit Facts4EU.Org, 15 February 2020; https://facts4eu.org/news/2020_feb_uk_trade_essential_for_eu27

32. Liam Halligan (2020). “The EU Is Fatally Complacent about the Crisis That Is about to Engulf It,” *Daily Telegraph*, 17 February; https://www.telegraph.co.uk/politics/2020/02/17/eu-fatally-complacent-crisis-engulf/

33. Wolfgang Münchau (2015). “Would It Actually Matter If We Left the EU?,” *Financial Times*, 18 June. The UK has seen little benefit from its membership of the EU. Annual average real per capita GDP growth was 2.4% during 1950–1973, 1.8% during 1973–1995, 2.6% during 1995–2007, and 0.2% during 2007–2018 (https://www.indexmundi.com/facts/united-kingdom/gdp-per-capita-growth).

34. Fredrik Erixon and Rosita Georgieva (2016). “What Is Wrong with the Single Market?,” European Centre for International Political Economy, February: https://ecipe.org/publications/wrong-single-market

35. https://ec.europa.eu/info/strategy/eu-budget/how-it-works/fact-check_en

36. http://news.bbc.co.uk/1/hi/programmes/panorama/2823015.stm

37. By Paola Tamma (2018). “China’s Trash Ban Forces Europe to Confront Its Waste Problem,” *Politico*, 21 February; https://www.politico.eu/article/europe-recycling-china-trash-ban-forces-europe-to-confront-its-waste-problem/

38. Monnet went on to say “I have always believed that Europe would be built through crises, and that it would be the sum of their solutions. But the solutions had to be proposed and applied” (Quoted in John Lanchester (2016). “The Failure of the Euro,” *CAPX*, 24 October; http://capx.co/external/the-failure-of-the-euro/)

39. Michel Barnier, the EU’s chief Brexit negotiator, goes further than this and wants a unified Europe and not just a federal Europe (this was mentioned to Nigel Farage at their meeting in Brussels on 8 January 2018 and reported on Farage’s LBC show on 14 January 2018).

40. Adrian Hilton has used the same words in *The Principality and Power of Europe: Britain and the Emerging Holy European Empire*, Dorchester House Publications, Rickmansworth, 1997.

41. John Ishiyam, William J. Miller, and Eszter Simon (eds.) (2015). *Handbook on Teaching and Learning in Political Science and International Relations*, Edward Elgar, Cheltenham, p. 379.

42. John Ishiyam, William J. Miller, and Eszter Simon (eds.) (2015). *Handbook on Teaching and Learning in Political Science and International Relations*, Edward Elgar, Cheltenham, p. 379.

43. A particularly significant illustration of this statement is the way in which the EU Constitutional Treaty – designed to set up a United States of Europe with a president, a foreign minister, an army, and an anthem – failed to get ratified in 2005 – when the French and Dutch rejected it in referenda – only for it to re-emerge as the Lisbon Treaty which was then ratified by member state parliaments – without a referendum – in 2007 (see James Holland (2017). “Europe Is Still Living with the Consequences of the Lisbon Treaty,” *CAPX*, 15 December). Similarly, the way in which the 1972 European Communities Act – which took the UK into what became the EU – was passed in the House of Commons by means of a secret agreement between the Tory Chief Whip, Francis Pym, and pro-European Labour MPs, such as Roy Jenkins and Shirley Williams, was described as anti-democratic by Tony Benn: “It was a coup d’état by a political class who didn’t believe in popular sovereignty. That’s what it was – a coup d’état. The power was seized by parliamentarians. They

seized power that did not belong to them and used it to take away the rights of those they represented" (*Europe: Them or US – An Island Apart*, BBC2, 12 April 2016; https://www.bbc.co.uk/mediacentre/proginfo/2016/15/europe-them-or-us).

44. This was well illustrated in an interview with former UK government minister Kenneth Baker conducted by Peter Hennessy on BBC Radio 4's *Reflections* programme on 23 August 2016. Lord Baker reported that it is common for European Commission civil servants to come up with proposals which were rejected by ministers from national governments only to come back with a virtually identical set of proposals a few months after these ministers have moved on to other responsibilities; http://www.bbc.co.uk/programmes/b07pgvjg

45. Bruno Waterfield (2018). "Anger Grows over Aide Promoted by Juncker," *The Times*, 27 March.

46. Jim Brunsden (2018). "EU Watchdog Criticises Promotion of Martin Selmayr," *Financial Times*, 4 September.

47. Although he was subsequently appointed to be the EU's Permanent Representative to Austria.

48. More commonly known as the Maastricht Treaty.

49. For an alternative interpretation of Poland's actions, see Andrea Hossó (2018). "Central Europe and Spain Show the EU's Double Standards in Enforcing 'Democratic Values,'" *Brexit Central*, 3 January.

50. Alex Barker, Michael Peel and James Shotter (2017). "EU Set for Unprecedented Rebuke to Poland over 'Authoritarianism,'" *Financial Times*, 20 December.

51. Lara Deauville (2018). "We Were Lied to! Secret Document FCO 30/1048 Kept Truth about EU from British for 30 Years," *Daily Express*, 12 May.

52. http://e-lawresources.co.uk/Purposive-approach.php

53. German lawyer Gunnar Beck argues that "It is difficult to overstate the case that the [CJEU] is neither an impartial nor a conventional court. … [I]n interpreting EU law the [CJEU] does not … accord primacy to the ordinary meaning of words as most other international courts. Instead the [CJEU] adopts an ultra-flexible approach which allows the [CJEU] to choose between various interpretative criteria – literal, contextual, purposive and meta-teleological – and to give the greatest weight to whichever criterion best promotes a pro-EU outcome. For instance, this approach allows the [CJEU] to depart from the wording in favour of a purposive interpretation even where the wording of the relevant provision is neither ambiguous nor leads to an absurd outcome. Purposive interpretations generally give courts far greater interpretative room for manoeuvre than text-based interpretations. Specifically, the problem with purposive interpretations of law is that courts, and the [CJEU] more so than any other court, do not confine themselves to purposes written into the documents they are asked to interpret and has used the purposive approach to resolve legal disputes concerning the distribution of powers between the EU and its members in a pro-integrationist manner. In this manner, the court has over time and without textual support in the Treaties substantially extended the scope of EU law and established its own judicial oversight over many areas of national law. It has not infrequently done so in a departure from clear language in the Treaties or EU legislation" (Gunnar Beck (2018). "The European Court of Justice Should Not Adjudicate Treaty Rights in Post-Brexit Britain," *Brexit Central*, 4 May).

54. As a counter to such criticisms, one referee argued that: "There are valid reasons why a purposive approach is taken by the Court when interpreting EU law, not least the number of official languages and the difficulties in finding a single universal meaning for certain words and concepts."

55. http://www.ce.uw.edu.pl/pliki/pw/y13_niedzwiedz.pdf

56. A current example is the General Data Protection Regulation which is having a "stifling impact" on businesses and organisations that possess "personal data" which could include anything written about a person in an email, for example, and hence susceptible to a subject access request (see Daniel Stafford (2018). "The GDPR Chaos Is a Reminder of How Taking Back Control Will Allow Us to Make Better Laws," *Conservativehome*, 3 May).

57. https://curia.europa.eu/jcms/upload/docs/application/pdf/2018-12/cp180191en.pdf; https://www.independent.co.uk/news/uk/politics/brexit-court-case-ecj-ruling-article-50-theresa-may-deal-uk-european-court-justice-latest-a8675541.html

58. Respectively in the following cases: Case 6/64 Costa v ENEL [1964] ECR 585 and Case C-26/62 Van Gen den Loos v Nederlandse Administratie der Belastingen [1963] ECR I

59. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Al14547

60. "The Imperial Court across the Sea: Why Those on the Left, Who Long to Re-Join the EU, Will Be Conveniently Ignoring the Court of Justice," *Briefings for Britain*, 17 February 2020; https://briefingsforbritain.co.uk/conveniently-ignoring-the-court-of-justice/

61. Not only within the EU, but also globally.

62. The first budget of the new German finance minister, Olaf Scholz, is as rigid as that of his predecessor, Wolfgang Schäuble, in its adherence to balanced budgets, debt repayment and fiscal discipline (Jeremy Warner (2018). "Trump May Actually Be Doing Some Good in Targeting the Eurozone's Destabilising Trade Surplus," *Daily Telegraph*, 8 May).

63. TARGET2 is the high-value real-time gross settlement payment system for the euro, comprising the national high-value payment systems of the 19 Eurozone member states, the euro-denominated high-value payment systems in five non-Eurozone EU member states, and the arrangements between TARGET2-participating central banks and the ECB to make cross-border payments. All business in euros contracted with Eurosystem members must be settled through TARGET2, and it also carries the main financial markets business between financial institutions, as well as the settlements of balances in other Financial Markets Infrastructures.

64. http://www.eurocrisismonitor.com/

65. See David Blake (2018). "TARGET2: The Silent Bailout System that Keeps the Euro Afloat," https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3182995. Italian senator Alberto Bagnai says that "Everybody now knows that there will have to be a negotiated orderly dismantling of the euro" (quoted in Ambrose Evans-Pritchard (2018). "Whoever Governs Italy Will Destroy the Euro from Within," *Daily Telegraph*, 7 March).

66. Ambrose Evans-Pritchard (2018). "Bundesbank Back in Charge of ECB, Sending Shivers through Italy," *Daily Telegraph*, 8 May).

67. Professor Hans Rosling (2017). "Don't Panic," *This World*, BBC2, 9 February.

68. Matthew Holehouse (2015). "Europe's Glory Days at an End, Warns Juncker," *Daily Telegraph*, 22 October; http://europa.eu/rapid/press-release_SPEECH-15-5889_en.htm

69. Rowena Mason (2012). "Britain 'Shackled to Corpse' of EU, Says Douglas Carswell," *Daily Telegraph*, 26 October.

70. Virtually every member state of the EU has similar movements, see https://en.wikipedia.org/wiki/List_of_active_separatist_movements_in_Europe

71. "No Repression in Catalonia, Spain Is not Yugoslavia," Tanjug, 27 October 2017; https://www.b92.net/eng/news/world.php?yyyy=2017&mm=10&dd=27&nav_id=102659

72. Dani Rodrik (2017). *Straight Talk on Trade: Ideas for a Sane World Economy*. Princeton University Press, Princeton, NJ.

73. The EU has shown itself to be incapable of controlling its own external borders. Frontex has only 700 employees, rising to 2,000 in 2021; https://frontex.europa.eu/faq/key-facts. Accessed 14 March 2020.

74. Katya Adler (2015). "Brand Merkel Comes under Pressure over Migrants," *BBC News*, 15 October.

75. Jon Rogers (2017). "Tusk Pens Letter to EU Leaders BEGGING Them to Align against UK on Brexit as Cracks Appear," *Daily Express*, 18 October; Ross Logan (2017). "EU's Longest Serving Foreign Minister in SHOCK Revelation: 'This Could Destroy Europe,'" *Daily Express*, 31 October; Joe Barnes (2017). "EU to IMPLODE? Italian MEP Predicts Growing Bloc of Eurosceptism to Challenge Brussels," *Daily Express*, 31 October.

76. Daniel Boffey (2018). "Orbán Defiant as EU Parliament Considers Sanctions on Hungary – Populist PM Claims His Country Is Being Punished for Not Being 'Country of Migrants,'" *Guardian*, 11 September.

77. See David M. Herszenhorn (2017). "How the EU Broke Ukraine (with Help from Russia)," *Politico*, 24 November, https://www.politico.eu/article/the-eu-broke-ukraine-with-help-from-russia/. At the very least, the EU is guilty of remarkable naivety, although Charles Grant argues that the "EU's failure to predict Russia's actions does not make it responsible for them" (see Charles Grant (2016). "Is the EU to Blame for the Crisis in Ukraine?," *Centre for European Reform*, 1 June; https://www.cer.eu/insights/eu-blame-crisis-ukraine).

78. http://www.telegraph.co.uk/news/worldnews/europe/11209248/EU-auditors-refuse-to-sign-off-more-than-100billion-of-its-own-spending.html

79. A current example is the Commission's attempt to increase the EU budget during the next multi-annual financial framework from 2021–2027, despite the loss of the UK's contribution (Kai Weiss (2018). "Brussels Still Refuses to Face Up to the Fiscal Reality of Brexit," *CAPX*, 2 May).

80. The 2018 EU Withdrawal Act copied 12,000 EU rules and 7,900 statutory instruments onto the UK's statute book. That's around 270 EU rules and 180 statutory instruments for every year that the UK was a member of the EU.

81. We should be under no illusion that EU leaders are planning to create a European Empire to take on the US and China. During a speech at the London School of Economics on 28 September 2017, Guy Verhofstadt MEP – chair of the European Parliament's Brexit Steering Group and a former prime minister of

Belgium – openly called for the EU to turn itself into an empire: "The world of tomorrow is a world of empires, and only a united Europe will play a role of significance"; http://www.lse.ac.uk/Events/2017/09/20170928t1830vLSE/the-future-of-europe

82. Joseph Tainter (1988). *New Studies in Archaeology*, Cambridge University Press, New York.

83. Gwythian Prins (2018). "The EU Is at Clear Risk of Collapse – and the 'Remainiacs' Just Don't See It," *Briefings for Brexit*, 2 April.

84. https://hansard.parliament.uk/lords/2018-01-16/debates/C4415486-F320-4216-A32D-49EEE467E961/BrexitDealOrNoDeal(EuropeanUnionCommitteeReport)

85. Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840655/Agreement_on_the_withdrawal_of_the_United_Kingdom_of_Great_Britain_and_Northern_Ireland_from_the_European_Union_and_the_European_Atomic_Energy_Community.pdf

86. Political Declaration setting out the Framework for the Future Relationship between the European Union and the United Kingdom; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840656/Political_Declaration_setting_out_the_framework_for_the_future_relationship_between_the_European_Union_and_the_United_Kingdom.pdf

87. http://www.legislation.gov.uk/ukpga/2020/1/contents/enacted

88. https://publications.parliament.uk/pa/ld201919/ldselect/ldeucom/7/7.pdf#page=9

89. Devolved government in Northern Ireland was restored after a three-year break as a result of the "New Decade, New Approach" agreement (10 January 2020) between the UK and Irish governments and Northern Ireland's political parties.

90. The "maximum facilitation" solution relies on technology to minimise border checks. Declaration and clearance procedures would take place in advance, online, away from the border, and surveillance would be intelligence-led, rather than old-fashioned random searches. Critics say that the technology to do this would not be available for 10 years and further, it would not solve the Irish border question as there would still need to be tariff checks. See: Laura Kuenssberg (2019). "Brexit – The Return of the 'Max Fac' Solution to the Irish Border," *BBC News*, 4 February; https://www.bbc.co.uk/news/uk-politics-47123330

91. http://www.europarl.europa.eu/RegData/etudes/STUD/2017/596828/IPOL_STU(2017)596828_EN.pdf. Karlsson reports that arrangements without a physical infrastructure were successfully trialled on the Sweden-Norway border, but were not adopted because the existing border arrangements were working well and so the cost of a new electronic system was not justified.

92. Switzerland also has an electronic customs clearance system with the EU. See: Adrian Hill (2018). "Switzerland: A Borderline Case," *Briefings for Britain*, 6 April.

93. Worth £3.4bn p.a., less than 0.1% of the EU's annual external trade of £3.5trn.

94. Shanker Singham (2018). "How to Fix the Irish Border Problem," *CAPX*, 19 March; https://capx.co/how-to-fix-the-irish-border-problem/

95. These technological solutions are standard under the Transport Internationaux Routiers (TIR) system: "The Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention, 1975) is one of the most successful international transport conventions and is so far the only universal Customs transit system in existence. To date, it has 73 Contracting Parties, including the European Union. It covers the whole of Europe and reaches out to North Africa and the Near and Middle East." All transit declaration information is contained in a single document, the TIR Carnet, as well as electronically in advance using TIR-EPD (Electronic Pre-Declaration. (https://www.unece.org/tir/welcome.html).

96. Peter Foster (2018). "Why Boris Johnson's 'Max-Fac' Customs Plan Cannot Solve the Irish Border Question," *Daily Telegraph*, 9 May. See also Richard North (2018). "Brexit: A Psychic Epidemic," *Euroreferendum*, 19 April; http://eureferendum.com

97. Katy Hayward (2018). "How Not to Fix the Irish Border," Queen's University Belfast, March; https://www.qub.ac.uk/brexit/Brexitfilestore/Filetoupload,814295,en.pdf

98. George Parker and Jim Pickard (2018). "Theresa May Invites Conservative MPs to Briefings to Discuss Brexit," *Financial Times*, 15 May.

99. Nick Timothy (2018). "How Theresa May Can Get the Brexit She Wants – And Still Keep Her Party Together," *Daily Telegraph*, 9 May.

100. "Michel Barnier's Three Wishes for Britain and the EU in 2020 – The European Union's Chief Negotiator for Brexit Maps Out the Path to Securing a Trade Deal within the Coming 12 Months," by Michel Barnier, *Financial News*, 23 December 2019; https://www.fnlondon.com/articles/michel-barniers-three-wishes-for-britain-and-the-eu-in-2020-20191223

101. Statement by Michel Barnier at the presentation of the Commission's proposal for a Council recommendation on directives for the negotiation of a new partnership with the UK, Brussels, 3 February 2020; https://ec.europa.eu/commission/presscorner/detail/en/speech_20_185 See also: *Recommendation for a COUNCIL DECISION Authorising the Opening of Negotiations for a New Partnership with the United Kingdom of Great Britain and Northern Ireland*, Brussels, 3.2.2020 COM(2020) 35 final; https://ec.europa.eu/info/sites/info/files/communication-annex-negotiating-directives.pdf. And: "Future EU–UK Partnership: European Commission Takes First Step to Launch Negotiations with the United Kingdom," press release, Brussels, 3 February 2020; https://ec.europa.eu/commission/presscorner/detail/en/ip_20_176

102. https://ec.europa.eu/commission/brexit-negotiations/negotiating-documents-article-50-negotiations-united-kingdom_en

103. Derived from General Principles – §5 of European Council guidelines of 29 April 2017, §3,7, 8, 9 and 12 of European Council guidelines of 23 March 2018, reported in European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship: "Free Trade Agreement,"* UKTF (2020) 2 – Commission to EU 27, 13 January 2020; https://ec.europa.eu/commission/sites/beta-political/files/seminar-20200113-fta_en_0.pdf

104. Kevin Dowd (2017). "The EU's Thousands of Senseless Tariffs Simply Serve to Punish the Poor," *Brexit Central*, 16 September; https://brexitcentral.com/

eu-thousands-senseless-tariffs-punish-poor/. Note, the tariff rates are subject to frequent changes.

105. "What Would 'Trading on WTO Terms' Mean for the UK?," *The UK in a Changing Europe*, undated; https://ukandeu.ac.uk/wp-content/uploads/2018/12/What-would-trading-on-WTO-terms-mean-Long-Guide.pdf

106. Justin Protts (2016). "Potential Post-Brexit Tariff Costs for EU–UK Trade," *Civitas*, October; https://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf

107. See David Blake (2019). "Why Does the EU Go On about the 'Integrity' of the Single Market when it has been such a Failure?," *Briefings for Brexit*, 13 August; https://briefingsforbrexit.com/why-does-the-eu-go-on-about-the-integrity-of-the-single-market-when-it-has-been-such-a-failure/

108. The UK exported £120bn in services to the EU in 2018 and UK GDP in that year was £2.11 trn. Source: *Statistics on UK–EU Trade*, p. 8, and https://www.statista.com/statistics/281744/gdp-of-the-united-kingdom-uk-since-2000/.

109. "Brexit Britain is Servicing the World" – latest official figures are revealed, *Facts4eu*, February 2020; https://facts4eu.org/news/2020_feb_UK_services_the_world

110. §8 of European Council guidelines of 23 March 2018, reported in European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship: "Free Trade Agreement"*, UKTF (2020) 2 – Commission to EU 27, 13 January 2020; https://ec.europa.eu/commission/sites/beta-political/files/seminar-20200113-fta_en_0.pdf

111. So long as a financial institution is regulated in one member state, it can offer financial services in any other member state – in the same way an EU citizen can visit any other member state so long as they show their passport.

112. §§35–37 *Political Declaration*, reported in European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship: "Free Trade Agreement"*, UKTF (2020) 2 – Commission to EU 27, 13 January 2020; https://ec.europa.eu/commission/sites/beta-political/files/seminar-20200113-fta_en_0.pdf

113. Reported in European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship: "Personal Data Protection (Adequacy Decisions); Cooperation and Equivalence in Financial Services"* (III. Equivalence assessments), UKTF (2020) 1 – Commission to EU 27, 10 January 2020; https://ec.europa.eu/commission/sites/beta-political/files/seminar_20200110_-_data_protection_adequacy_-_financial_services_en.pdf

114. The minimum is 30 days.

115. Barney Reynolds (2017). "A Template for Enhanced Equivalence," *Politeia*, 10 July.

116. §§48–49 (IX. MOBILITY) of the Political Declaration. See also European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship: "Mobility of Persons,"* UKTF (2020) 10 – Commission to EU 27, 20 January 2020; https://ec.europa.eu/commission/sites/beta-political/files/seminar-20200120-mobility_en.pdf

117. A total of 70 points is required to be eligible to apply for immigration into the UK; some characteristics are tradeable:

Characteristics	Tradeable	Points
Offer of job by approved sponsor	No	20
Job at appropriate skill level	No	20
Speaks English at required level	No	10
Salary of £20,480 (minimum) – £23,039	Yes	0
Salary of £23,040 – £25,599	Yes	10
Salary of £25,600 or above	Yes	20
Job in a shortage occupation (as designated by the MAC)	Yes	20
Education qualification: PhD in subject relevant to the job	Yes	10
Education qualification: PhD in a STEM subject relevant to the job	Yes	20

Notes: MAC – Migration Advisory Committee, STEM subjects – science, technology, engineering, and mathematics.
Source: The UK's points-based immigration system: policy statement, Home Office, 19 February 2020; https://www.gov.uk/government/publications/the-uks-points-based-immigration-system-policy-statement/the-uks-points-based-immigration-system-policy-statement

118. §8 of European Council guidelines of 23 March 2018, reproduced in European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship: "Fisheries"*, UKTF (2020) 3 – Commission to EU 27, 14 January 2020; https://ec.europa.eu/commission/sites/beta-political/files/seminar-20200113-fta_en_0.pdf

119. §7 of European Council guidelines of 23 March 2018, reproduced in European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship:* "Law Enforcement and Judicial Cooperation in Criminal Matters," UKTF (2020) 7 – Commission to EU 27, 16 January 2020; https://ec.europa.eu/commission/sites/beta-political/files/seminar-20200116-lawenf_en.pdf

120. European Commission Task Force for Relations with the United Kingdom, *Internal EU27 Preparatory Discussions on the Future Relationship: "Level Playing Field,"* UKTF (2020) 4 – Commission to EU 27, 14 January 2020 (II. Competition – State-owned enterprises: Substantive Rules); https://ec.europa.eu/commission/sites/beta-political/files/seminar-20200114-lpf_en.pdf

121. James Crisp (2020). "EU Will Use Flybe Bailout to Heap Pressure on UK Brexit Negotiators," *Daily Telegraph*, 16 January. In the event, this failed to save Flybe which went into insolvency on 5 March 2020.

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255. Found by taking 0.29 (the share of imports in UK consumer expenditure) and multiplying by 10% (the fall in an import-weighted sterling exchange rate index). See Holger Breinlich, Elsa Leromain, Dennis Novy and Thomas Sampson (2019). "Exchange Rates and Consumer Prices: Evidence from Brexit," Centre for Economic Performance Discussion Paper No 1667, London School of Economics, December 2019; http://cep.lse.ac.uk/pubs/download/dp1667.pdf

256. Julian Jessop (2020). "Has Brexit Britain Turned the Corner?," *Global Vision*, 24 February; https://globalvisionuk.com/has-brexit-britain-turned-the-corner/

257. *HM Treasury Analysis: The Immediate Economic Impact of Leaving the EU*, May 2016; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/524967/hm_treasury_analysis_the_immediate_economic_impact_of_leaving_the_eu_web.pdf

258. Individuals and institutional investors, such as pension funds, with overseas investments, experience an increase in the sterling value of those investments when the exchange falls. This generates a wealth effect which increases consumption. This is not taken into account in the LSE study.

259. Julian Jessop (2020). "The Problem with the Big 'Cost of Brexit' Numbers," *CAPX*, 29 January; https://capx.co/the-problem-with-the-big-cost-of-brexit-numbers/

260. https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm

261. A figure of 3% is reported in Richard Barfield (2018), "UK trade and the World Trade Organisation: A Brexit Briefing for Non-Specialists," September; https://brexitfactbase.com/pdfs/UKTradeWTO.pdf

262. Hiau Looi Kee and Alessandro Nicita (2017). "Short-term Impact of Brexit on the UK's Exports of Goods," Vox Blog, World Bank and UNCTAD.

263. 1 GBP = 1.309 EUR (23 June 2016) and 1 GBP = 1.123 (23 October 2016) or 1.100 EUR (15 March 2020); https://www.exchangerates.org.uk/GBP-EUR-spot-exchange-rates-history-2016.html

264. The average EU tariff is around 4% (https://researchbriefings.files.parliament.uk/documents/CBP-7851/CBP-7851.pdf) and 2.8% for non-agricultural products (http://cep.lse.ac.uk/pubs/download/brexit08_book.pdf)

265. See page 9 of "EU Exit Analysis: Cross-Whitehall Briefing," January 2018 (prepared for House of Commons Exiting the European Union Committee); https://www.parliament.uk/documents/commons-committees/Exiting-the-European-Union/17-19/Cross-Whitehall-briefing/EU-Exit-Analysis-Cross-Whitehall-Briefing.pdf.

266. Justin Protts (2016). "Potential Post-Brexit Tariff Costs for EU–UK Trade," *Civitas*, October; https://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf

267. https://ustr.gov/countries-regions/europe-middle-east/europe/european-union

268. *Statistics on UK–EU Trade*, House of Commons Library Briefing Paper, No 7851, 24 July 2019; http://researchbriefings.files.parliament.uk/documents/CBP-7851/CBP-7851.pdf; Average USD/GBP exchange rate for 2018 was 1.33.

269. H. M. Treasury (2016a). *H M Treasury Analysis: The Long-term Economic Impact of UK Membership and the Alternatives*, Cm 9250, April; H. M. Treasury, (2016b). *The Immediate Economic Impact of Leaving the EU*, Cm 9292, May.

270. Introduced by Walter Isard (1954). "Location Theory and Trade Theory: Short-Run Analysis," *Quarterly Journal of Economics* 68(2): 305–320. Later developed by Jan Tinbergen (1962). *Shaping the World Economy*. The Twentieth Century Fund, New York.

271. See pp. 18–19 of Ken Coutts, Graham Gudgin and Jordan Buchanan (2017). "How the Economics Profession Got It Wrong on Brexit," Centre for Business Research, University of Cambridge Working Paper No. 493, January. Further, most of what are classified as FDI inflows into the UK are related to mergers and acquisitions, rather than representing genuine new investment.

272. Hiau Looi Kee and Alessandro Nicita (2017). "Short-Term Impact of Brexit on the United Kingdom's Export of Goods," World Bank Policy Research Working Paper No 8195, November; https://ssrn.com/abstract=3036712. See also Chart 7 in Ken Coutts, Graham Gudgin and Jordan Buchanan (2017). "How the Economics Profession Got It Wrong on Brexit," Centre for Business Research, University of Cambridge Working Paper No 493, January.

273. Speech at ULB Brussels University on the British government's plans for a UK–EU trade deal on 17 February 2020; https://blogs.spectator.co.uk/2020/02/full-text-top-uk-brexit-negotiator-david-frost-on-his-plans-for-an-eu-trade-deal/amp/?_twitter_impression=true

274. Walsh, K. (2006). "Trade in Services: Does Gravity Hold? A Gravity Model Approach to Estimating Barriers to Services Trade," Discussion Paper Series, No 183, Revenue Commissioners, Dublin.

275. "Brexit Britain Is Servicing the World" – latest official figures are revealed, Facts4eu, February 2020; https://facts4eu.org/news/2020_feb_UK_services_the_world

276. See, e.g., David Blake (2016). "Measurement without Theory: On the Extraordinary Abuse of Economic Models in the EU Referendum Debate, City University of London, June; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2819954

277. Global Trade Analysis Project at Purdue University. This is a more "classical" model of trade and has both a "supply" side (involving production functions with factors of production, such as labour and capital) and a "demand" side (like the gravity model).

278. See page 16 of "EU Exit Analysis: Cross-Whitehall Briefing," January 2018 (prepared for House of Commons Exiting the European Union Committee); https://www.parliament.uk/documents/commons-committees/Exiting-the-European-Union/17-19/Cross-Whitehall-briefing/EU-Exit-Analysis-Cross-Whitehall-Briefing.pdf

279. See page 18 of "EU Exit Analysis: Cross-Whitehall Briefing," January 2018 (prepared for House of Commons Exiting the European Union Committee); https://www.parliament.uk/documents/commons-committees/Exiting-the-European-Union/17-19/Cross-Whitehall-briefing/EU-Exit-Analysis-Cross-Whitehall-Briefing.pdf

280. A study by Oliver Wyman and Clifford Chance in March 2018 estimated the cost to the UK of WTO-MFN tariff and NTBs at 1.5% of gross value added (GDP plus taxes on products minus subsidies on products) or £27bn. This is equivalent to around 11.5% of the value of UK exports to the EU. The cost to the EU27 would be £31bn or 0.4% of GVA (The 'Red Tape' Cost of Brexit).

281. Shanker Singham and Catherine McBride (2018). *Improving Global Financial Services Regulation*, Institute of Economic Affairs, May.

282. World Trade Organisation (2018). "The WTO Trade Facilitation Agreement;" https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm

283. "The Agreement on the Technical Barriers to Trade (TBT)," 1979, and "The Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures," 1995 (covers food safety and animal and plant health).

284. "General Agreement on Trade in Services (GATS)," 2000; Trade in Services Agreement (TiSA) currently being negotiated by 23 members of the WTO which account for 70% of world trade in services.

285. WTO Agreement on Government Procurement (GPA).

286. Barnabas Reynolds (2017). "The Art of the No Deal: How Best to Navigate Brexit for Financial Services," *Politeia*, November; "Continuity of Contracts and Business on a "Hard" Brexit: Human Rights and Reverse Solicitation to the Rescue!," Shearman & Sterling, 31 October 2017.

287. Dr Michael Ambühl, Professor of Negotiation and Conflict Management at ETH Zurich and former Swiss State Secretary, who negotiated one of the Swiss bilateral FTAs with the EU, estimates that border costs in the EU–Swiss FTAs are 0.1% of the value of trade. Given that UK trade with the EU is equal to 14% of UK GDP, border costs would amount to only 0.014% of GDP. Further, only 1% of goods are physically inspected (Slide 8 of Michael Ambühl (2018). "Where Next on Brexit? Lessons from the Swiss Model," Policy Exchange presentation, London, 19 April).

288. Alex Spence and Alberto Nardelli (2018). "The Brexiteers' Customs Plan Would Wipe 1.8% Off GDP, Ministers Have Been Told," BuzzFeed, 9 May; https://www.buzzfeed.com/alexspence/the-brexiteers-customs-plan-would-hurt-145000-uk-companies?utm_term=.fbO0RWNOm#.hc8ORqex6

289. Using a direct model of trade which directly calculates the additions to production costs from tariffs and NTBs and uses sector- or commodity-specific elasticities to estimate the impact on demand for exports and imports.

290. Using a macro-economic model – similar to that used by both Cambridge Econometrics and Oxford Economics – estimated using actual historical data rather than derived from general equilibrium theory and assumptions as in the Treasury model. See Chart 8 in Ken Coutts, Graham Gudgin and Jordan Buchanan (2017). "How the Economics Profession Got It Wrong on Brexit," Centre for Business Research, University of Cambridge Working Paper No 493, January.

291. This would have the additional benefit of reducing the strain on the UK's housing, transport, school and hospital infrastructure.

292. "Brexit: Where Are We Now?," 8 November 2017.

293. For more on EU NTBs, see K. Berden, J. Francois, S. Tamminen, M. Thelle, and P. Wymenga (2009). *Non-Tariff Measures in EU–US Trade and Investment: An Economic Analysis*, Final report, Ecorys – Table of NTBs on p. 123. Cited in H. Breinlich, S. Dhingra, G. Ottaviano, T. Sampson, J. Van Reenen, and J. Wadsworth (2016). "BREXIT 2016: Policy analysis from the Centre for Economic Performance," London School of Economics.

294. Patrick Minford (2018). "From Project Fear to Project Prosperity," Economists for Free Trade, 15 August; https://www.economistsforfreetrade.com/wp-content/uploads/2017/08/From-Project-Fear-to-Project-Prosperity-An-Introduction-15-Aug-17-2.pdf

295. UK companies protected by trade barriers are less competitive and hence invest less in new productivity-enhancing physical capital. They also have access to a large pool of unskilled immigrants from the poorer parts of the EU, significantly reducing their incentive to train and hence improve the human capital of British workers, especially poorly educated and poorly motivated school leavers. Both factors help to reduce UK productivity.

296. EU regulations raise business costs and Minford estimates that the benefit from replacing them with regulations more suited to the interests of UK producers

and consumers is 2% of GDP which would be gradually achieved over a fifteen-year period, adding 0.15% pa to GDP over that period. See also Patrick Minford (2018, p. 10). “How the Civil Service Has Misled Us on the Costs of Brexit and the Customs Union,” Economists for Free Trade, May; https://www.economistsforfreetrade.com/wp-content/uploads/2018/05/EFT-How-the-Civil-Service-has-misled-us-on-costs-of-Brexit-and-the-customs-union-May-2018.pdf

297. Estimate from the Office of Budget Responsibility.

298. In-work benefits for 2.4m EEA nationals cost the Treasury £4.4bn in 2014/15 or £1,800 per capita, equivalent to a 20% wage subsidy (https://www.conservativehome.com/platform/2017/12/andrew-green-the-immigration-policy-that-we-need-after-brexit.html). Other benefits include free education and health care. See: Paul Ashton, Neil MacKinnon, and Patrick Minford (2016). “The Economics of Unskilled Immigration,” Economists for Free Trade, September; http://www.economistsforfreetrade.com/the-economics- of-unskilled-immigration.

299. Minford is not the only economist to argue that lowering trade barriers helps to increase productivity. Ian Mitchell believes that Brexit provides a “genuine opportunity for UK global leadership [in implementing a sustainable, market-orientated agricultural policy] outside the EU in the next decade. … [This] would lower prices for consumers, lift the economy’s productivity and allow for substantial budget savings to support the environment and public finances … [especially given that there is] no real prospect of substantial reform of the EU agricultural model in the next decade.” See: Ian Mitchell (2017). “The Implications of Brexit for UK, EU and Global Agricultural Reform in the Next Decade,” Chatham House, 2 November; https://www.chathamhouse.org/publication/implications-brexit-uk-eu-and-global-agricultural-reform-next-decade).

300. Neil MacKinnon (2018). “Immigration: A Central Brexit Issue,” Economists for Free Trade, November; https://www.economistsforfreetrade.com/wp-content/uploads/2018/11/Immigration-a- central- Brexit-issue.pdf

301. Gavin Jackson (2018). “Fall in EU Workers Is UK’s Steepest since Records Began: Businesses Warn of Labour Shortages as They Struggle to Fill Jobs,” *Financial Times*, 13 November; https://www.ft.com/content/1d23012e-e723-11e8-8a85-04b8afea6ea3

302. Annual average real earnings (deflated by CPIH) were £26,700 in both February 2008 and December 2019. Source: *UK Budget Statement*, HM Treasury, 12 March 2020; https://www.gov.uk/government/publications/budget-2020-documents/budget-2020

303. Called the Cardiff World Trade Model.

304. Patrick Minford, Sakshi Gupta, Vo Phuong Mai Le, Vidya Mahambare, Yongdeng Xu (2015, chapter 4). *Should Britain Leave the EU? An Economic Analysis of a Troubled Relationship*, Edward Elgar, Cheltenham; Patrick Minford (2018, p. 9). “How the Civil Service Has Misled Us on the Costs of Brexit and the Customs Union,” Economists for Free Trade, May; https://www.economistsforfreetrade.com/wp-content/uploads/2018/05/EFT-How-the-Civil-Service-has-misled-us-on-costs-of-Brexit-and-the-customs-union-May-2018.pdf

305. Furthermore, there would be a particular benefit to UK low-income households of about 15% of their living costs from the combination of ending the unskilled

immigrant subsidy and the trade-led reduction in the consumer prices. See: Neil MacKinnon (2018). "Immigration: A Central Brexit Issue," Economists for Free Trade, November; https://www.economistsforfreetrade.com/wp-content/uploads/2018/11/Immigration-a- central- Brexit-issue.pdf.

306. As recommended in Patrick Minford (2017). "A Budget for Brexit 2017," Economists for Free Trade, November.

307. Patrick Minford (2019). "No Deal Is the Best Deal for the UK," Economists for Free Trade, March; https://www.economistsforfreetrade.com/wp-content/uploads/2019/03/No-Deal-is-the-best-deal-for-the-UK.pdf

308. Centre for International Economics (2017). *Australian Trade Liberalisation – Analysis of the Impacts*, report prepared for the Australian Ministry of Foreign Affairs, CIE, Canberra and Sydney; https://dfat.gov.au/about-us/publications/trade-investment/Documents/cie-report-trade-liberalisation.pdf

309. Patrick Minford (2018). "From Project Fear to Project Prosperity," Economists for Free Trade, 15 August; https://www.economistsforfreetrade.com/wp-content/uploads/2017/08/From-Project-Fear-to-Project-Prosperity-An-Introduction-15-Aug-17-2.pdf

310. S. Clarke, I. Serwicka, and L. A. Winters (2017). "Will Brexit Raise the Cost of Living?," *National Institute Economic Review*, Issue 242, October; https://www.niesr.ac.uk/publications/will-brexit-raise-cost-living

311. In the EU-Swiss FTA, only 1% of goods are physically inspected and the actual "frictional" cost to traders at the border is only about 0.1% of the value of the goods. Presentation at Policy Exchange on 19 April 2018 by Professor Dr Michael Ambühl.

312. Global Vision UK: Daily Brief, 17 March 2020.

313. Sam Neil and Owen Slot (2020). "Industries Answer Coronavirus Challenge to Make 30,000 Extra Ventilators," *The Times*, 24 March; https://www.thetimes.co.uk/article/industries-answer-coronavirus-challenge-to-make-30-000-extra-ventilators-zx3qrtpfm. Simon Jack (2020). "Coronavirus: Government Orders 10,000 Ventilators from Dyson," *BBC News*, 26 March; https://www.bbc.co.uk/news/business-52043767