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Discussion Paper-UK Preferential International Trade and Brexit

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Abstract

The preferential international trade agreements are currently processed by the EU to enhanced trade with Lesser Developed countries. The EU negotiates these agreements over many years and have a Generalised System of Preference (GSP) committee in place, which oversees the current GSP process. Now the situation is changing as the UK has voted to come out of the EU on the 23 June 2016. So how is this going to affect the UK importers? UK Importers are concerned if trade agreements and preference agreements can be renegotiated and how long will it take to for this process to be completed. The impact could be a large rise in cost of manufacture and retail goods which may have to be passed onto the end consumer.

Background

Since 1971, the European Union has encouraged trade with developing countries [1]. The main mechanism used to facilitate trade is to lower importation tariffs at the point of entry into the EU. The discount system is called the Generalised System of Preferences (GSP). Its application makes goods supplied by lesser developed countries (LDCs), cheaper and hence more attractive to EU importers. GSP was first implemented by the EU in 1971. It is a nonreciprocal trade programme. It is reviewed and renewed every ten years, [2] The EU has the ability of withdrawing preferences when the recipient's exports have increased [3].

Due to the globalisation of trade the UK currently is part of the global supply chain with a number of multinational companies trading with the UK and importing/exporting goods to Non-EU countries. The EU GSP currently allows Lesser Developed Countries (LDC) to import to the UK with a reduction of tariff, normally to zero. However, there is a concern that if the preference is not continued after the UK leaves the EU and the UK has to start from scratch with its GSP negotiations, this could take between 3 to 4 years, that these goods will have to revert to the World Trade Organisation (WTO) tariff. This could see goods, in particular retail clothing having a rise in cost from zero to 12% of value after March 2019 when it leaves the EU.

Due to the fact that Brexit is ongoing, this discussion paper has been written to highlight the many issues that could affect GSP and how GSP could become instrumental within the UK trade policy as a temporary trade agreement while the free trade agreements are negotiated.

Current Brexit Situation

29 March 2017, Article 50 is triggered. 29 March 2019, UK leaves the EU. There is uncertainty at the moment as the UK has to still declare to the EU the sort of relationship the UK wants with the EU after it leaves. Michel Barnier European Chief Negotiator, BBC [4] gave a speech on 9 January 2018 highlighting the current situation.

With regards to trade the UK has declared it wants impendence to be able to negotiate its own international agreements and therefore it wishes to leave the EU customs union. It is possible that this will trigger the EU to form trade barriers with the UK and goods exported to the EU will require documentation to be checked, as well as, tariffs being applied when crossing the EU boarders BBC [4]. A transition period has been requested by the UK and the commission of 27 countries have preliminary agree to a 21-month period from the UK withdrawal to 31 December 2020.

UK government is currently considering its options with how it approaches its trade agreement with the EU. The UK had GSP as part of its trade policy in 1971 and did not become an EU member until 1973. Therefore, the UK already has had GSP as part of its trade law and this could be utilized as a temporary preference while the main trade agreements are negotiated. Penalties could be reduced for UK business while encouragement for trading more effectively could be introduced. After all an increase in trade = increase in profits = increase in tax revenue.

This would be very effective with regards to making the preference more accessible for smaller/medium size business.

Also, it will increase exports for LDCs. However, there is the issue that the exporters will only export to the EU as this has more benefit due to more countries being accessible. So, if there is too much difference then this would be an issue and therefore needs to be considered. Options to try and remain comparable with the EU system will make the UK easier to trade with but will not necessarily allow improvements to be made, or to make it more UK defined, but it will have to be still accessible for the LDC as well as, the importers. House of Lords 2017 suggested that if a transitional period is agreed, the UK government could negotiate access to the EU's preferential trade agreements with third countries.

Conclusion

This discussion paper was written to highlight the current issues in relation to GSP with respect to the future UK trade after it leaves the EU. There is academic literature available which raises the issues that currently the EU GSP scheme has developed over the last forty-six years. The UK is in a very unusual situation by leaving the EU and it can consider developing its own GSP and therefore there is a good opportunity for it to improve the scheme and thus enabling LDCs to continue or even increase trade to the UK.

The UK is in a unique position as by leaving the EU it can negotiate its own trade agreements and become an independent global economy. However, it is going to take time for the UK to establish itself after leaving the EU. Currently there is a great deal of uncertainty with regards to the UK's future relationship with the EU. Also, the UK has to disentwine itself from EU legislation which is complicated and time consuming. The two years the UK has to negotiate its exit is proving to be difficult and a transition period has been agreed to 31 December 2020.

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