

Brio, Verve and Zap? The Improbability of a Trade Agreement with Peru

By Professor Alex de Ruyter and David Hearne, Centre for Brexit Studies

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The Foreign Secretary's visit to Latin America has attracted a great deal of media attention, much of which has been focussed on calls for a "Brexit plane" labelled a "Jumbojet" by some in the media [1]. This follows his criticism of the lack of availability of the existing Voyager aircraft and its colour [2] – presumably because the latter fails to exude sufficient brio and verve. Nevertheless, the substantive issue remains a desire to substantially grow British trade with the region post-Brexit [3].

The mechanics of precisely how Brexit is likely to facilitate this remains unclear. After all, of the three countries that his five-day tour encompasses, the EU already enjoys a free trade agreement (FTA) with two of them (Chile and Peru – although in the latter case the agreement is currently in the process of being applied). The agreement with Peru also encompasses Colombia and Ecuador, although the latter only joined in 2017 (and in all cases is currently provisionally applied). This leaves Mercosur and the "economic powerhouses" of Venezuela and Bolivia as major "Brexit targets" with which the UK might seek to grow trade.

The EU is in active negotiations with Mercosur (the trade bloc that encompasses much of the remainder of the continent, including Brazil, Argentina Uruguay and Paraguay) to strike a preferential trade agreement. In spite of criticisms that the EU lacks the dynamism that post-Brexit Britain needs, its present agenda in terms of negotiating trade partnerships is relatively ambitious. Indeed, one of the ironies of recent developments is that just as the Foreign Secretary's attentions are focussed on Latin America, the EU is pursuing a trade agreement with some of Britain's most important Commonwealth trade partners.

It is therefore not unlikely that, post-Brexit, trade barriers could be higher between Australia and Britain than between Australia and the EU [4]. Given the importance ascribed to potential trade with the UK's Commonwealth partners by some in the Cabinet [5] this is indeed ironic, particularly given the (possibly insurmountable) obstacles in the way of FTAs with other members of the Commonwealth, including India and Nigeria (*ibid.*)

A further problem is the absence of diagonal cumulation in almost all trade agreements. At present, many of the goods that the UK specialises in exporting (for example cars and automotive products) would have tariffs levied on them *even if an FTA were signed*. This is because of so-called "rules of origin" criteria. In most FTAs, there is a stipulation that the exporter prove that at least 55% (although sometimes as low as 50%) of the value of the goods exported is from the country in question.

The UK's automotive industry, however, is highly integrated with its counterparts across the EU – many of the components in British cars are produced in France or Germany (just as many components in French and German cars are produced in the UK). As a result, an insufficient proportion of the total value of the car is produced in the UK for it to be exported duty-free. At present, this doesn't matter – trade deals are signed with the EU and not any individual country and so, providing a sufficient proportion of the value comes from the EU as a whole, British cars can be imported duty-free.

This is likely to be a major problem for the post-Brexit "Brave New World" envisaged by the Foreign Secretary and the Secretary of State for International Trade: any new trade deals would need to allow so-called "diagonal cumulation" with the EU. In order to do so, the country in question would almost certainly need to have signed a trade deal with the EU as well, which rather negates the benefits of the swashbuckling approach that the Foreign Secretary appears to favour.

Whilst there might be a desire to develop deeper and more comprehensive agreements than those the UK presently enjoys as a result of its membership of the EU, it is difficult to see how these are likely to be achieved in practice. Most non-tariff trade barriers today take the form of regulatory differences between standards and the physical difficulties and costs associated with customs clearance and transport (although there are many examples of other, more pernicious, deliberate barriers such as quotas).

The UK has managed to eliminate customs barriers with the EU by dint of sharing the same (or at least equivalent) regulatory standards and tariffs vis-à-vis the outside world (the latter being a product of the EU Customs Union). It is difficult to see how any trade agreement with Peru could replicate this without making trade with other (far larger) trade partners much more difficult. Furthermore, geography is a crucial factor in limiting the impact of comprehensive economic and trade agreements (however comprehensive they might be) relative to EU membership, irrespective of the zeal and ardour with which they might be pursued by the Foreign Secretary and others.

In particular, at present it is possible for goods produced in the Black Country to be loaded onto a lorry and driven to a client in Spain (or Slovakia, for that matter). An entire system is in place to facilitate this. The EU Customs Union obviates the need for customs checks at Calais, whilst membership of the European Economic Area means that standards are the same (and hence the goods don't need to be checked to ensure that they meet Spanish (or Slovakian) regulations. There is no need to change vehicle or driver (saving further time at the border) because of the existence of the Community License, which permits drivers to use a single permit for travel throughout the EU (and can be granted free of charge to any haulier in possession of the Standard International Operators License necessary to operate in the UK). Naturally, this is linked to freedom of movement of labour.

Even if such an agreement were possible with Peru, it would have vastly less impact. Firstly, the minor matter of an ocean voyage would require a vehicle change. Unlike cross-channel ferries, modern container ships do not typically carry HGVs across the Atlantic. The financial impact of taking a vehicle off the road for several days whilst it crosses the ocean differs by several orders of magnitude from taking it on a 2-hour ferry crossing. Similarly, in order to avoid customs checks, the

UK would need to ensure that goods from the UK were shipped in sealed containers (to avoid smuggling). These would still need to be unpacked and loaded onto HGVs upon arrival. A 2 hour delay at customs makes a big difference to a journey of 18 hours and might be critical for a firm shipping just-in-time components from Birmingham to Bavaria. The same 2 hour delay is unlikely to be such an issue in the context of a 28-day voyage to Peru.

Moreover, any move towards regulatory alignment with other trading partners would move the UK away from the regulatory orbit of the EU. In practical terms, this is likely to increase trade frictions with a trade partner that accounts for well over 40% of total UK trade, in the hope of greater alignment with trade partners that account for a fraction of this amount.

[1] Glaze, B. (2018). Jumbo Jet: Outrage as Johnson calls for his own private plane. *The Mirror*.

[2] Stewart, H. (2018). Boris Johnson wants a plane as PM's is rarely available – and too grey. *The Guardian*. Retrieved from <https://www.theguardian.com/politics/2018/may/22/boris-johnson-foreign-office-own-plane-voyager>

[3] Ross, T. (2018). U.K.'s Boris Johnson Seeks to Woo Latin America for Brexit Trade. *Bloomberg*. Retrieved from <https://www.bloomberg.com/news/articles/2018-05-20/u-k-s-boris-johnson-seeks-to-woo-latin-america-for-brexit-trade>

[4] Boffey, D. (2018). EU talks with Australia and New Zealand deal blow to UK free trade plans *The Guardian*. Retrieved from <https://www.theguardian.com/politics/2018/may/22/eu-trade-talks-australia-new-zealand-brexit-commonwealth>

[5] Hearne, D., De Ruyter, A., & Davies, H. (2017). *The Commonwealth: A Panacea for the UK's Post-Brexit Trade Ills?* Birmingham City University Centre for Brexit Studies Working Paper.