

Brexit: What would trading under “WTO terms” mean for the Welsh economy?

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Last week the Prime Minister wrote to the President of the European Council, Donald Tusk, to notify him of the United Kingdom’s intention to leave the European Union. This act [triggered Article 50](#), the section of the Treaty on European Union that governs how a Member State would leave the EU.

Deal or no deal?

In this letter Theresa May outlines the UK’s desire to forge a “deep and special partnership that takes in both economic and security cooperation”. She points out that, in terms of a future economic relationship between the UK and the EU, an exit without an agreement would mean conducting trade on World Trade Organisation terms, which she sees as not an “outcome that either side would seek”. However, in her [January speech](#) setting out the UK Government’s Brexit objectives she stated that “no deal for Britain is better than a bad deal for Britain”.

The European Council [draft negotiating guidelines](#) echo the UK’s desire for an “ambitious free trade agreement” with the EU. However, whereas Theresa May has called for the future relationship between the two – including future trading arrangements – to be agreed alongside an agreement on the UK’s departure, Donald Tusk has stated that the future relationship can only be discussed once “sufficient progress” has been made in the withdrawal negotiations.



Both sides acknowledge the scale of the task at hand. Accordingly, both Tusk and May talk about the possibility of agreeing transitional arrangements before the terms of the future relationship are agreed: in May’s language this would be an “implementation period, and in Tusk’s terminology a “transition period”. However, the chance remains



that the UK could leave the EU without a future relationship agreed or transitional arrangements in place. The UK and EU would therefore trade with each other on World Trade Organisation terms. What would this mean for the Welsh economy?

What is the WTO?

The World Trade Organisation (WTO) is an international organisation that regulates and seeks to liberalise international trade among its 164 members. Though the UK is an individual member, it is currently represented at the WTO by the European Commission. Under WTO agreements, countries negotiate lists of market access commitments, known as ‘schedules’. These can take the form of tariff levels on goods and how much market access foreign providers of services are allowed.

Trade under WTO rules operates under the “most favoured nation” principle. This means that countries cannot normally discriminate between their trading partners. For example, if a country chose to lower a tariff on a good for a particular trading partner, it would have to do the same for all other WTO members. Exceptions to this principle include comprehensive free trade agreements and customs unions (such as the EU).

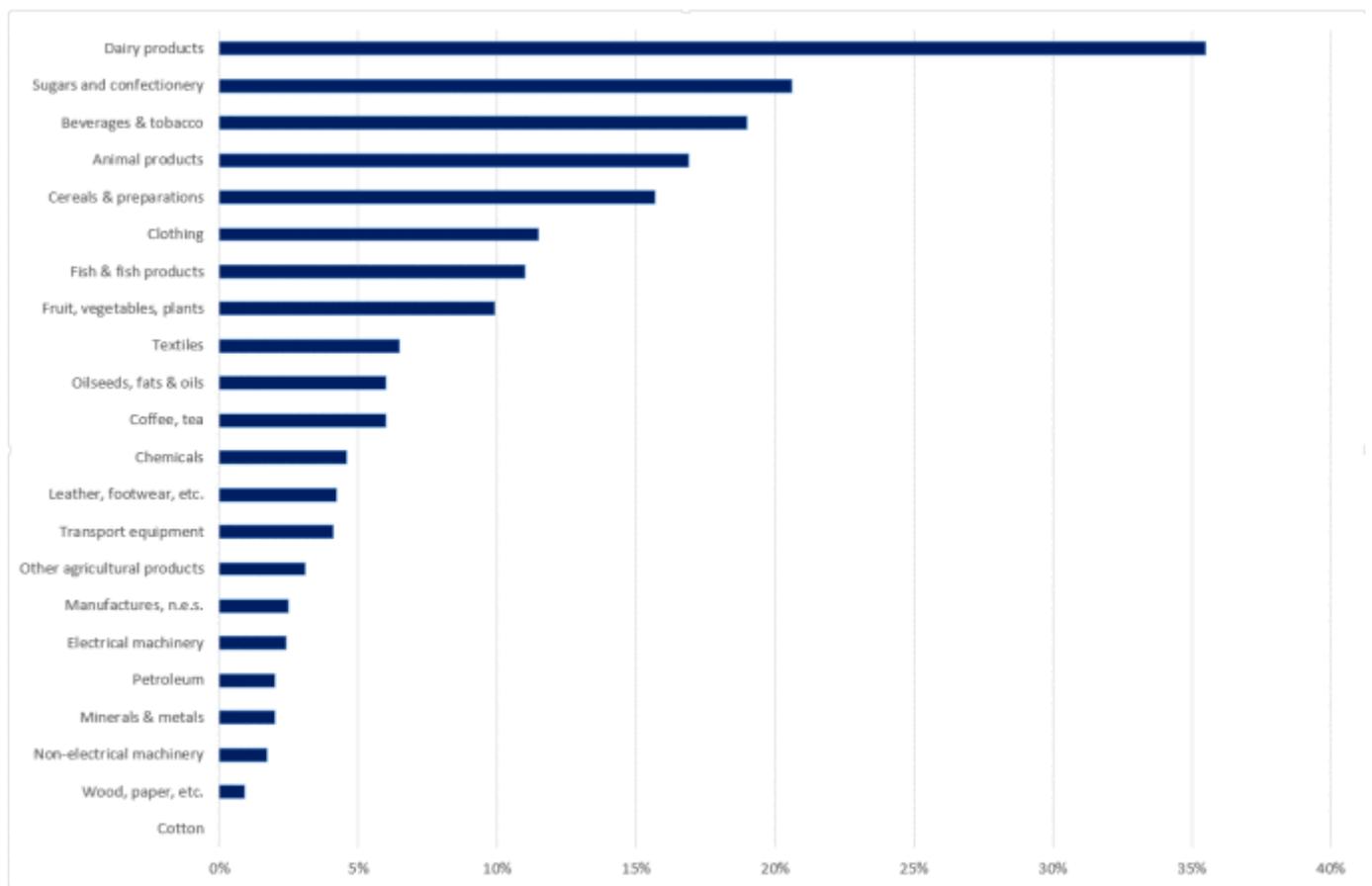
What would “WTO terms” for the UK look like?

Following the UK’s departure from the EU it will represent itself at the WTO and will need to negotiate its own set of schedules. The UK Government has indicated that it will seek to replicate the EU’s existing schedules where possible. [Experts differ](#) on the extent to which this could prove contentious among the WTO’s other members.

If the UK replicates the EU’s existing WTO schedules this will mean, for the first time since the creation of the EU Single Market, the existence of tariffs on trade between the UK and the EU. This would have a differentiated impact across the economy, as tariffs vary significantly across sectors [see below].

Average final bound tariff rates applied by the EU by broad category of goods





(Source: House of Lords Library Note, Leaving the EU: WTO, using WTO data from [here](#))

These figures are based on average tariffs per category; actual tariffs vary still more widely. For example, the [House of Lords EU Committee](#) heard last year that automobiles were a “heavily restricted sector”, with a 10% tariff on cars and a 22% tariff on trucks and lorries.

Average final bound tariff rates applied by the EU by broad category of goods

Further information about the EU’s WTO schedules is available on the WTO website [here](#). However, this data is at such a level of granularity, and subject so to many complex rules, that politicians and other commentators frequently talk in terms of average tariffs across broader sectors. For example, politicians talk about the tariff on “textiles” rather than the many sub-sets of textile goods, many with different tariff rates, beneath this.



What would the impact of “WTO terms” be on Wales?

Regional and national economies across the UK differ. This means that a new trading relationship between the UK and the EU would most likely have a differentiated relationship across the UK. The following table compares Wales and the UK’s EU exports as proportions of their total trade:

Export of Goods, 2016

	Wales		UK	
	Share to EU (%)	Sector share (%)	Share to EU (%)	Sector share (%)
Food & live animals	81%	2%	71%	5%
Beverages & tobacco	39%	1%	38%	2%
Crude materials, inedible, except fuels	22%	2%	38%	2%
Mineral fuels, lubricants & related materials	41%	12%	69%	7%
Animal & vegetable oils, fats & waxes	44%	0%	78%	0%
Chemicals & related products, nes	59%	12%	54%	18%
Manufactured goods classified chiefly by material	67%	16%	55%	9%
Machinery & transport equipment	80%	45%	43%	41%
Miscellaneous manufactured articles	56%	10%	49%	14%
Commodities/transactions not classified elsewhere	88%	1%	16%	2%
All	67%	100%	49%	100%

Source: National Assembly for Wales, HMRC data

These goods categories are not directly comparable with those of the WTO, so further analysis is required to determine the precise nature of how Welsh exports could be impacted upon by the introduction of tariffs between the UK and the EU. However, it is clear that certain sectors of exports are currently dominated by EU trade in Wales (for example, food and live animals), and that a significantly higher proportion than the UK average of Welsh exports currently go to the EU.

Though none of this analysis looks at possible gains to be had from new trading arrangements post-Brexit, or broader macro-economic impacts, it gives policymakers in Wales some idea of what is at stake by falling back on “no deal” with the EU.

This week the House of Commons [Exiting the EU Committee](#) concluded that the UK Government’s assertion that “no deal is better than a bad deal” is “unsubstantiated”, and called for the Government to “conduct a thorough assessment of the economic, legal and other implications of leaving the EU without a deal in place”. If this takes place, a clearer picture will emerge of the possible impact of “WTO terms” on the Welsh economy.



Further reading:

- National Assembly for Wales, In Brief, [Understanding Welsh exports: a look at the latest Regional Trade Statistics](#)
- House of Lords Library Note, [Leaving the EU: World Trade Organisation](#)
- House of Lords European Union Committee, [Brexit: the options for trade](#)
- National Farmers' Union, [Implications of a UK exit from the EU for British agriculture](#)
- Welsh Government and Plaid Cymru, [Securing Wales' Future: Transition from the EU to a new relationship with Europe](#)
- Demos, [Making the most of Brexit](#)

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