

Brexit trade problems: What's gone wrong and can it be fixed?

January 15 2021, by Billy Melo Araujo



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[Queues of lorries](#) at borders and [empty supermarket shelves](#) confirm what most already knew: the [EU-UK Trade and Cooperation Agreement](#) (TCA) has increased trade barriers between the EU and the UK.

So what problems are arising, and can anything be done to improve them?

1. Rules of origin

Upon announcing the deal on Christmas Eve, [Boris Johnson claimed](#) it would "enable UK goods to be sold without tariffs, without quotas in the EU market." This has since been [proven to be misleading](#).

Goods traded between the EU and UK avoid tariffs and quotas only where they originate from whichever side exported them. This is governed by the rules of origin, which aim to ensure that goods imported from, say, India into the UK can't be sold on to the EU tariff-free.

Complying with these rules [is notoriously difficult](#) – especially for processed agricultural or industrial goods, which typically include components from around the world. Different products are also subject to different minimum percentages, while some processes incur exclusions while others do not. In some sectors, such as automotive, compliance has [already led](#) to increased consumer prices.

The difficulty is heightened by the highly integrated nature of UK-EU supply chains and distribution networks. One [perverse consequence](#) is that EU goods sold into the UK tariff-free are [subject to tariffs](#) if re-exported to the EU—unless they have undergone sufficient processing in the UK. This is particularly a problem for the island of Ireland, for whom the UK has long acted as a land bridge for EU products. For many UK-EU traders, accepting tariffs may be easier than trying to comply.

2. Customs hold-ups

The prime minister has [also incorrectly claimed that](#) the TCA removed all

non-tariff barriers to [trade](#) with the EU. Like most free-trade agreements, the TCA does little to address regulatory barriers to trade. As the UK and the EU are no longer in a customs union, for example, customs checks and formalities now apply, which can be time-consuming and burdensome.

Notably, [seafood exporters have been struggling](#) to handle the mountain of customs paperwork needed to ship produce [to the EU](#). Customs bureaucracy has also caused [freight forwarders to reject](#) contracts for delivery of goods into the UK.

3. Services

Services [represent over 80%](#) of the UK economy, and the EU is the UK's largest services export and import market. Yet the TCA does very little for services beyond including standard market access and the non-discrimination obligations that are typical of modern EU free-trade agreements. This is largely because the major [trade barriers](#) in services are not tariffs but regulations.

The EU internal market in services is imperfect but still easily the most successful example of [cross-border services market integration](#). National restrictions persist on member states offering services across borders or setting up offices in other member states, but must be applied in a proportionate manner by reference to legitimate public interest objectives.

Other rules also massively assist services trade between EU members, including mutual recognition of professional qualifications, and sector-specific legislation such as for legal professions and [financial services](#).

The TCA replicates none of this. UK nationals no longer enjoy mutual recognition of professional qualifications, for instance. UK financial

services providers must now seek prior authorisation from relevant authorities in EU member states.

Even before Brexit, UK financial institutions [had started taking steps](#) to move some operations back to cities such as Paris, Dublin and Amsterdam. This process [has since continued](#).

4. Level play

The "level playing provisions" in the TCA aim to satisfy EU concerns that the UK could use its regulatory and policy autonomy to gain a competitive advantage in trade or attract investment. The provisions go further than typical EU free-trade agreements and could curb the regulatory autonomy of both parties. It remains to be seen whether they will be used and, if so, how TCA arbitrators will interpret them.

5. Northern Ireland

Northern Ireland's trading relationship with the EU was settled before the TCA by the [Protocol on Ireland and Northern Ireland](#) in the EU-UK Withdrawal Agreement. It means that Northern Ireland remains subject to EU customs law and huge swathes of EU law on trade in goods.

Designed to avoid checks at the Irish border, the new trade barriers with the rest of the UK are becoming increasingly apparent, with [supermarket shelves empty](#) in Northern Ireland because British suppliers are being held up by customs bureaucracy. In the long term, Northern Ireland may have to rely less on Great Britain and strengthen supply chains and distribution networks with Ireland.

What can be done

The TCA provides the framework for UK-EU trade, but aspects such as [financial services recognition and data transfers](#) are to be developed separately. Talks on financial services [have begun](#).

The TCA itself will not stand still. Commitments will be tested, defined and clarified through dispute settlement. The TCA also created numerous specialised committees to oversee implementation and explore improvements. The parties could explore relaxing the rules of origin, for example.

Agreements on mutually recognising each side's conformity-assessment procedures—where the EU would recognise the power of UK bodies to assess the conformity of specific UK goods with EU regulations and vice versa - [would reduce](#) some of the burden of regulatory compliance checks on goods. This could help both UK-EU trade, and trade between Great Britain and Northern Ireland. An expansion of [sectors that can benefit](#) from visa-free EU travel would also be welcomed, not least by the creative sector.

But there are limits to what can be realistically achieved. The limited ambition of the TCA in addressing trade barriers between the EU and the UK should not come as a surprise. It is a direct consequence of political decisions made by the UK and the EU. Unless priorities change, these barriers are here to stay.

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