

EU trade policy ends up with new tariffs on Scotch whisky

The World Trade Organisation is a body designed to lower tariffs and enforce the common global rules on trade to the benefit of consumers. It is a blow when after long and careful deliberation and investigation it feels it has to make a judgement which entails another country imposing tariffs on a trading counterparty. That is what happened this week thanks to the behaviour of Airbus and the EU.

The WTO found that Airbus had received subsidies that broke the rules of fair trade, which in turn had cost Boeing sales of planes. They therefore have allowed the USA to impose tariffs on goods up to a value of \$7.5bn which reflects their calculation of the amount of sales damage done to the US company. The USA has decided to impose a 10% tariff on Airbus planes, which will hit future sales. The UK makes the wings for these products.

The USA has also chosen some high profile food and drink products from EU countries for a 25% tariff. This includes Scotch whisky, which is particularly unwelcome. It is a reminder that the EU which makes us impose high tariffs on food and drink from non EU parts of the world can through its wider policies end up costing us exports in these same areas as countries impose retaliatory tariffs.

None of this is helpful at a time of manufacturing downturn. There is already an intense tariff based trade spat between the USA and China. The refusal of the EU to lower its high 10% tariff against non EU cars is also a continuing sore with the USA which charges only one quarter of that level on EU cars. The danger is this WTO judgement will take us closer to a broad based trade war between the USA and the EU, just as we have seen develop with the USA and China.

The EU response to the offer

The three features I like most about the UK proposals are

1. The whole UK leaves the Customs Union
2. Great Britain leaves the single market
3. Northern Ireland leaves the single market unless Stormont meets to vote to stay in

This is in accord with what both sides said in the referendum, that leaving the EU means leaving the single market and customs union at the same time.

It turns out these are the three key features of the proposals which the EU dislikes and now wishes to remove or water down.

The Prime Minister was right to say this offer represented still more UK concessions on other things and they should not expect more concessions. I recommend stressing the free trade offer within the letter, which could change the nature of the discussions, given the problems with the draft Withdrawal Agreement and costly and cumbersome so called transition period. .

Manufacturing gloom

The latest figures from German industry point to a continuing recession, with substantial falls in orders from the peaks last year. The US is still stronger, but even there the forward indicators are now in negative territory suggesting a downturn. As forecast here we are living through a nasty world manufacturing downturn.

I do find it bizarre that a few people write to tell me the UK share index has gone down this week owing to Brexit, when all the world share markets are flashing red over global events led by EU manufacturing figures.

What can the authorities do about it?

The first thing they need to do is to review their policies towards the vehicle market. There is a gap between what the governments want people to buy and what they are prepared to buy. The big transition from diesel and petrol to electric is proving difficult to achieve at the pace the governments want, leading to a shortfall in demand. As the governments want to intervene extensively in this market they need to help the industry adjust.

The second thing is to examine other areas where demand is falling short or capacity is too extensive and see if government itself can speed transition to new products or can stimulate demand for things that are still needed and valued.

General demand for industrial products is affected by numbers in employment, by levels of income, and the impact of taxation. India is now joining the USA with a large reduction in company taxation to act as a stimulus to investment and activity. China has introduced some tax cuts to boost consumer demand. The US and UK have good recent records at increasing employment and real incomes, which should help.

Some believe further monetary activism could assist. Clearly if home loans, car loans and other consumer credit is readily available to those who can afford it, at low interest rates, it should help demand. The US car market looks as if it is improving following interest rate cuts. However, in the

Eurozone and Japan official rates are already at or below zero so there are limits to how much monetary action can achieve. The UK does have a severe monetary squeeze which is helping slow our economy.

Those who write in saying we should not borrow more should remember that borrowing is an important part of an enterprise economy. Of course it should not be taken to excess, and lenders need to satisfy themselves that practically all of their borrowers will be able to repay. There is everything to recommend a business borrowing to expand where there is a profitable market to serve. There is nothing wrong with an individual borrowing to buy a home or a decent car if they have reasonable prospects of continuing employment with future pay rises.

The manufacturing fall probably means Germany is now in overall recession, given the salience of manufacture and the car industry to her economy. China is still growing, but as the world's major manufacturer it too has been slowed by recent trends.

The UK offer for talks

The Prime Minister's letter yesterday to Mr Juncker offered sustained talks for a new Agreement in the next few days, and proposed a way through the difficulty of the Irish backstop.

It also said something more significant that has enjoyed scant attention. It said "the backstop acted as a bridge to a proposed future relationship with the EU in which the UK would be closely integrated with EU customs arrangements and would align with EU law in many areas. That future relationship is not the goal of the current UK government. The government intends that the future relationship should be based on a Free Trade Agreement in which the UK takes control of its own regulatory affairs and trade policy"

The government seeks a major rewrite of the Political declaration to reflect this different future relationship. It leaves open the other issues surrounding the existing Withdrawal Agreement, which would need to be changed to avoid its provisions stifling the intent of a genuine Brexit with a possible Free Trade Agreement for the future relationship.

The government is right that the most objectionable feature of the old Withdrawal Agreement is the way the Irish situation is used to lock the UK into large areas of EU law for the future, alongside the close subservient relationship envisaged. There is a long way to go to get an Agreement which does allow a proper Brexit, but the very different approach to where we wish to go is most welcome. I have urged successive governments to just table a Free Trade Agreement and then leave, with GATT 24 allowing tariff free trade on departure if the EU agrees to such talks.

So what is Parliament doing now?

Yesterday afternoon Parliament moved early to its Adjournment debate at 4.47 pm. The House had been given four Statutory Instruments to scrutinise and talk about on Brexit matters. Practically no Opposition backbench MPs turned up to do so. The SIs were hurried through without a vote. The Speaker had granted three Urgent Questions which used up much of the time that was spent. These were about the situation in Yemen, homeless people and the endlessly discussed Irish border.

Many Conservative MPs stayed at party conference correctly predicting the Opposition would not that day do anything interesting or challenging in the Commons. We were left wondering why Labour voted down a brief recess for the Conservative conference when Labour and Lib Dems had enjoyed the traditional recess for their conferences. They said they wanted to scrutinise Brexit, but not when it comes to detail about farming and trade.

Parliament needs to ask itself some simple questions about how it wishes to handle the next few weeks. Will it now do what it can to facilitate Brexit, to fulfil promises made by all Labour and Conservative MPs in 2017, or will it continue to do all in its power to stop it?

Will it continue to undermine the Prime Minister's efforts to negotiate a better Agreement with the EU, or will it at the last moment recognise that the loyal opposition should reinforce the government's requests for a better outcome to EU talks in our and their mutual interest?

Do MPs seriously think Parliament should try to enforce a requirement on the Prime Minister to act against his judgement to break his promises over Brexit?

Do a majority of MPs think whether we leave or remain in the EU this autumn should fall to be decided by 11 Supreme Court judges, after the massive public debate, referendum and General election we have held to settle this matter in the high court of public opinion?