

»» At what level might tariffs be set after a “hard Brexit”?



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WTO rules will apply after a “hard Brexit”

The British currently leave no doubt that they want the “hard Brexit”. They appear to be willing to sacrifice the free trade of goods and services with the EU in order to gain complete control over migration. But what exactly does that mean for future economic relations? How high might tariffs end up after the Brexit?

The WTO tariff data are clear about this. If the UK leaves the single market without a replacement agreement, its trade with the EU will then be subject to the rules of the World Trade Organisation. WTO members are required to comply with certain provisions in setting tariffs. One of them is the ‘Most-Favoured-Nation’ principle. It is an expression of the WTO’s multilateral approach. It prohibits countries from granting tariff concessions to individual countries outside bilateral free trade agreements – with the exception of developing countries. Rather, the same tariff regulations must always apply to all trading partners. Another provision is that the members set what are known as bound tariffs that may be charged at most.

Within the European Union, an average tariff level of 5% currently applies for third countries. However, tariffs differ greatly by categories of products. Labour-intensive sectors are usually protected more strongly from external competition. Tariffs are lower in capital-intensive sectors such as the manufacture of electronics or machinery and equipment.

No carte blanche for the UK

Due of the international rules, the UK will not receive a carte blanche to unilaterally design its trade relations with the global market. Nevertheless, a residual risk remains in this regard for

two reasons. First, the UK government might ignore applicable WTO law. But the UK’s internal market is not large enough for it to withstand retaliatory measures from its trading partners without significant damage.

Second, the UK is currently a member of the WTO only in its capacity as EU member. Since EU countries have agreed on a common external tariff vis-à-vis third countries in the framework of the European Customs Union, they appear only as a community in the World Trade Organisation and no longer as individual states. It is deemed likely that the UK will adopt the regulations that apply to the EU after it exits. Another possibility would be for it to negotiate new terms, eventually leading to higher tariffs – even if that would be a tedious and protracted process at the end of which the UK would have to expect higher tariffs on its exports in return.

Germany would cope with the burden – the UK economy would lose out

If the UK were to adopt the EU’s tariff structure vis-à-vis third countries after exiting, it would impose a 10% import tariff on German cars, for example. For comparison: China charges an import tariff of 25%. For machinery and equipment the tariff would range from 0 to 4%.

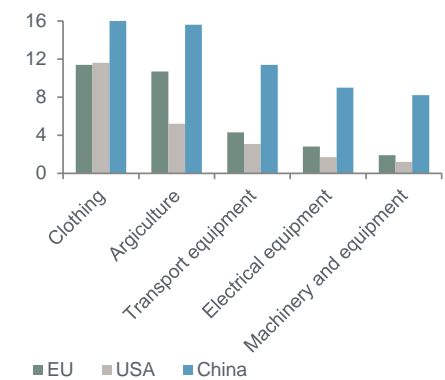
For individual sectors such as the automotive industry, tariffs would thus rise significantly under WTO rules. But many German export products are regarded as not being very sensitive to price, convincing buyers primarily through quality. Besides, capital-intensive industries are Germany’s typical exporters. Even a hard Brexit would not result in a strong rise in tariffs and would thus not put the brakes on most of them.

Obviously, individual companies whose business focus is on the UK would definitely feel impacts. German industry delivers a total of 7% of its exports to the UK – it is the third largest export market. But the British themselves will come under even higher pressure. For a highly developed country, their economy has unusually small industrial capacity – which makes it dependent on goods imports.

Overall, the hard Brexit reflects the worst-case scenario. The UK government has repeatedly stressed its willingness to maintain close economic relations with the European Union. High tariffs are not in the UK’s interest. It is quite possible that an interim solution will be initially negotiated for the period after the conclusion of the Brexit negotiations in 2019 and the country will retain access to the single market for a while. A new agreement with preferential terms of trade will likely be negotiated between the UK and the EU for the period after that. ■

Tariffs differ by category of products

Import tariffs in selected industries, in per cent



Source: WTO