

ANALYZING TECHNICAL CHANGES IN BREXIT-RELATED TRADE¹

Miklós Vásáry*

* associate professor Budapest Metropolitan University, Faculty of Business, Communication and Tourism, H-1148 Budapest, Nagy Lajos Király str. 9-11., research fellow, University of Szeged, Faculty of Agriculture, H-6800 Hódmezővásárhely, Andrassy str. 15. mvasary@metropolitan.hu,

ABSTRACT

The conditions for the United Kingdom's withdrawal from the EU are not yet known at the finishing of this paper. But it can already be known that it will have merit and a significant impact on both parties. At present, this process can be completed in a number of ways, and it is possible to develop more alternatives to exit conditions.

At the same time, it is important to see that the transformation of the rule that emerges from the potential of the EU single market, i.e. the abolition of the freely negotiable border raises a number of substantive issues and highlights important problems.

In this process, substantial problems will mainly arise in the flow of products. In particular, products that require special attention, for example, are in a special position, e.g. food and agricultural products should be prepared for changes in regulations. It is therefore necessary to collect and describe changes in the physical, technical and administrative rules affecting trade policy changes. The purpose of this study is to summarize the impacts of agri-food commodity flows and to formulate conclusions along these lines.

Introduction

As everybody know the United Kingdom (UK) had been due to leave the European Union (EU) on 29 March 2019, two years after it started the exit process by invoking Article 50 of the EU's Lisbon Treaty². But the withdrawal agreement (EC, 2019b) reached between the EU and UK has been rejected three times by the fifty-seventh Parliament of the United Kingdom. The EU leaders first time granted an initial extension of the Brexit process until 12 April 2019. After this at the special summit on 10 April EU leaders agreed an extension of Article 50 until the end of October 2019.³

So, the processes around Brexit have not been completed and solutions have not been reduced to number. But in what framework should the effects of Brexit be interpreted in trade topics.

In terms of the potential economic scenario of Brexit, the fundamental issue is the relationship to the internal market based on the four freedoms after the termination of British membership. If, after legal separation, the UK were (to some extent) part of the

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² As a result of a longer preparation process, 51.9 percent of voters voted in the United Kingdom on 23 June 2016 in the form of a referendum to leave the European Union. The referendum turnout was 71.8%, with more than 30 million people voting. (BBC, 2016)

³ At the special summit on 10 April EU leaders agreed an extension of Article 50 until the end of October 2019. If the withdrawal agreement is ratified by both sides earlier, the UK will leave on the first day of the following month. (European Council, 2019)

internal market, it would not be excluded from the system of European integration in the real economy. The latter is called soft Brexit. While the irreversible abandonment of the internal market is the hard Brexit.

The (hard) Brexit argued - among others - that:

- Eliminate unnecessary regulations. This would place a huge burden on British businesses, which could become more effective;
- Britain could enter into better trade contracts than the EU, and commercial policy conditions for British companies could improve on the world market;
- The British Government would be free to decide who would be allowed to enter and who would reduce social-cultural tensions and lead to more balanced labor market conditions;
- Britain would get rid of the net contributor position of the common budget. (Halmai, 2018)

What happens to customs when the UK exits the EU? The United Kingdom can reduce its import duties on third countries while, in the absence of negotiated agreements, export duties and non-tariff barriers are increasing. If the United Kingdom enters the WTO system independently, it can reduce the import duties set by the EU Customs Union (Common Customs Tariff). These latter duties are sometimes high. For example, the average duty burden on animal products in the EU is around 20%. In the EU, the average duty rate was 5.3% in 2014, slightly higher than in some developed economies. In the United States, this indicator was 3.5% (IMF 2016). In the WTO system, the United Kingdom either sets a higher MFN duty on imports from 60 countries with a preferential agreement with the EU or has to remove all barriers to all WTO members.

The situation is similar for the EU. If there is no agreement with the EU, UK exports to the EU are subject to EU standard MFN duties. (Unlike the current barrier-free internal market opportunity.) British companies exporting to the EU, and since the UK is no longer a member of the EU Customs Union, face higher administrative costs and higher non-tariff barriers. (With the latter, primarily to the extent that EU product and service standards differ from the UK.)

The big challenge for Brexit scenarios is that the British want a solution that:

- have access, to a certain extent, to the European Union's goods and services market, and in particular to the money and capital markets,
- and to close their labor markets (that is, they may restrict the free movement of persons in a sense).

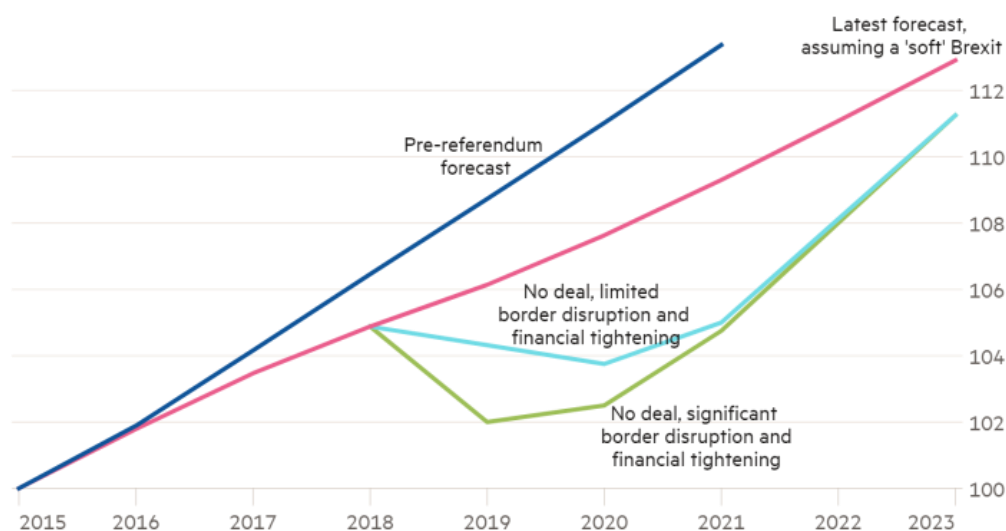
The above can predict the sensitive points of the precipitation construct. The leaders of the EU Member States and the EU institutions have strongly indicated that the four fundamental freedoms will not be "loose" for Britain during the accession negotiations

The negotiation of a trade agreement with the EU is a complex task. The possible arrangements will vary depending on whether the UK is a member of the European Economic Area (like Norway), to the extent that it completely exits, renouncing all EU rules and regulations. (OECD, 2016) Different options have different effects. There is no consensus among the advocates of Brexit in the preferred layout. The negotiations took even a long time and between the formal exit and the new agreement, the MFN rules apply.

The Brexit referendum resulted in a prolonged period of increased uncertainty. Uncertainty and unfavorable outlooks can make investment and economic expectations a long time. All this leads to a reduction in the output dynamics. In important markets - as they adapt to new circumstances - fluctuations may increase. At the same time, the unfavorable scenario can push the British economy into recession.

The effects on British issuance and income are also likely to be negative and significant. Research clearly demonstrates long-term losses (e.g. OECD 2016, IMF 2019). Increased restrictions reduce migration, investment and productivity, resulting in increased trade, foreign direct investment, and increased labor supply. The broad range of estimated losses reflects the assumptions made by the UK on possible future economic relations with the EU and the rest of the world.

Figure 1.: Forecast that a no deal Brexit would lead to recession (UK real GDP, 2015-100)



Source: IMF forecast and scenarios, FT 2019

There is considerable uncertainty in the magnitude of these effects. The impact of Brexit is estimated to be between 1% and 10% of UK GDP per capita. The losses of other EU Member States are smaller than this. The uncertain assessment of the effects of Brexit has two main factors. On the one hand, alternative research strategies provide different quantitative results. On the other hand, the potential loss depends on the conditions under which the UK trade with the European Union after Brexit. Disintegration, and the resulting decline in trade, is likely to cost far more than the UK economy to save on a lower contribution to the EU common budget. For the British and European economies, further participation in the internal market would be the best choice. If the UK leaves the internal market, keeping non-tariff barriers at a low level and providing market access to services is crucial for minimizing Brexit costs. It is not just about focusing on customs.

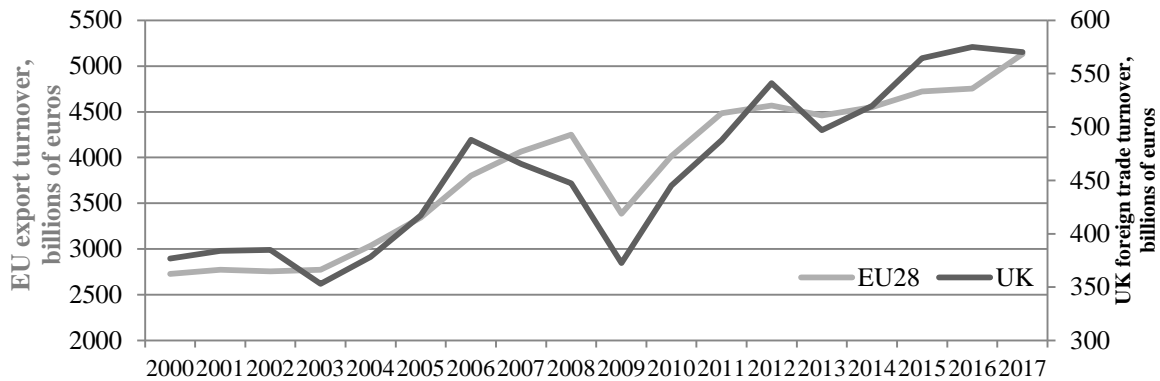
Most of the leaks will be perceived by EU Member States. The most affected are Ireland, Cyprus, Malta, the Netherlands and Belgium. (EUROSTAT, 2019) These countries and the highly regulated sectors in case of the commercial processes face a challenge. It is worth briefly reviewing the commercial processes and critical regulation elements.

Results

Trade between the UK and other EU Member States is very significant. In this commodity, the 27 Member States collectively achieve a surplus. Bilateral trade is clearly more

important for the UK than for its partners. In 2017, bilateral trade accounted for 3.1% of EU GDP and 20.6% of the UK. Moreover, trade between the EU and the United Kingdom increased significantly during the period under review. (Figure 2.)

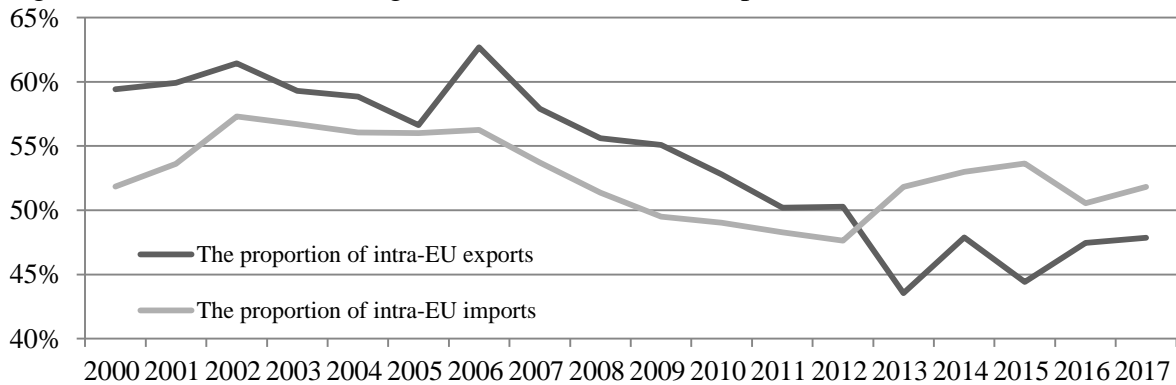
Figure 2.: United Kingdom and EU exports 2000–2017 (billion euros)



Source: own editing based on Eurostat data

At the same time, exports to the EU showed a declining or stagnating trend after 2000. (Figure 3.) Trade with the EU is still of decisive importance for the British economy. However, its share in total British trade has declined somewhat.

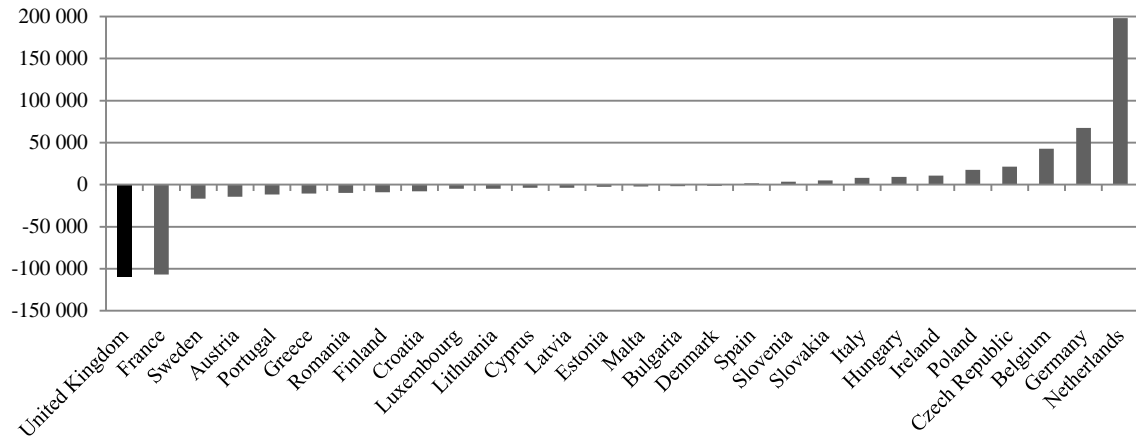
Figure 3: Share of United Kingdom trade within the European Union,%, 2000–2017



Source: own editing based on Eurostat data

In 2000, 59.4% of British exports to the EU (intra-EU). By the end of the period, this ratio decreased to 47.8% as a result of a 19% decline. The reasons for this process should be sought primarily through the strengthening of partners and markets outside the EU. All this is the result of more effective (EU) trade policy agreements, the strengthening of the economies of the former colonies, the effects of exchange rate effects or globalization. In parallel with this process, the share of imports from the second largest importing country in the EU (after Germany and before the Netherlands) also decreased compared to the 2000 base. Looking at the balances of intra-EU trade in EU Member States, the United Kingdom's foreign trade deficit is the largest.

Figure 4. Trade balance within the EU by Member States (2007, EUR million)



Source: own editing based on Eurostat data

EU-UK trade is decisive despite changes in trade processes. Thus, during Brexit, the influencing factors will have a significant impact on the effective execution. Before reviewing the effects, an overview of the expected regulatory areas is needed. Due to the size constraint, only areas for agricultural and food products will be reviewed below.

Animal welfare: The EU has the strongest legislation on animal welfare, including production, transport and slaughter. Five laws provide for the cultivation and production of agricultural animals. The species concerned are laying hens, broiler chickens, slaughter pigs and pigs. Depending on the approach taken by the UK government to food standards, animal welfare rules can be reduced, maintained or increased. Animal welfare rules applicable at international level are less stringent than those applied in the EU.

Plant health: The new rules also make it possible to extend, simplify and harmonize the existing plant passport system. Plant passports are necessary for all movements between professionals but not for sale to final non-professional users. If the United Kingdom is not part of the EEA, the EU and the UK should apply stricter rules in this area.

Plant protection: Access to markets depends mainly on the health status of certain products and the Maximum Residue Limit (MRL) system. In some sectors (cereals and protein crops, industrial plants, fruits and vegetables and ornamental plants), the regulations and their effects are completely different. Since in some sectors the UK is in a net importer position with respect to the EU, the plant health provisions of the import system (and its changes) may have a major impact on market access.

Land resources: If the United Kingdom exits the European Union, the possibilities for UK citizens to acquire land or to use land may vary according to the form of exit: (1) If exit from the EU does not involve exit from the EEA, UK citizens are also considered to be nationals of a Member State in terms of land traffic. (2) If the United Kingdom also exits the EEA, the question is: is there an international treaty under which a British citizen may be treated in this respect with nationals of Member States. (In this context, an existing international treaty may be considered or a question arises as to whether such an international agreement can be considered as an international treaty in the event of an orderly exit between the European Union and the United Kingdom.

General food law: Since 2002, the General Food Law Regulation (178/2002 European Parliament and Council Regulation) is the basis for food and feed law. It defines the general principles (i.e. the principle of risk analysis, the responsibility of food business operators, the precautionary principle), the requirements for food and feed safety decision-making (i.e. traceability) and the procedures covering all stages of food and feed production. The provisions cover the entire chain from production to consumer. The

legislation provides the basis for food and feed safety, in particular: (1) a high level of protection of human health, (2) protecting consumers against misleading and fraudulent practices, (3) lay the foundations for linking science, (4) ensures effective crisis prevention. The Regulation has established a consistent legal framework for the development of food and feed legislation. The European Food Safety Authority (EFSA) has also set up an independent agency for scientific advice and support. In addition, it established the main procedures and tools for dealing with emergencies and crises, and the Rapid Alert System for Food and Feed. The principles laid down by the Regulation are also supported and implemented by other countries (eg Norway). It is questionable how the UK will implement the principles in the future.

Food labeling: Some EU regulations are an essential element of food labeling legislation. For example, Regulation (EC) No 1169/2011 (the Regulation on food information for consumers) is the general framework or Regulation (EC) No 1924/2006 which regulates the use of health and nutrition claims. Several laws deal with origin labeling. On the one hand, Regulation (EC) No 1169/2011 lays down general provisions, such as voluntary rules on the country of origin. There are also sectoral rules that apply to fresh poultry, sheep and goats and pork. On the other hand, the sector is also affected by vertical regulation on marketing and the quality of certain EU sectors. Honey, fresh fruits and vegetables, unprocessed fish, olive oil, wine, eggs, beef and beef products are subject to specific vertical legislation in this area. The United Kingdom will no longer be obliged to comply with these standards after the withdrawal, unless otherwise agreed.

Labeling of feed: The rules for the marketing of feed materials and compound feed are laid down in Regulation (EC) No 767/2009 on the placing on the market and use of feed in the EU. The feed materials catalog is also an example of coordinating and coordinating the use of names and compliance with different feed ingredients. Key questions: How will the UK apply feed labeling rules, how it will be able to ensure a harmonized approach, and how it will be able to consider the possible indirect costs of changing labels. The basic question is how the UK will adapt to the new language requirements if the trade flows will change significantly.

Food and feed hygiene: In the area of food and feed hygiene, legislation is also key to guaranteeing European safety standards. Regulation (EC) No 1831/2003 on the hygiene of feed and Regulations (EC) No 853/2004, (EC) No 854/2004 and (EC) No 855/2004 concern the hygiene of products and foodstuffs of animal origin. Obligatory registration of food and feed business operators by competent authorities, issues related to specific hygiene practices or specific requirements for certain operations are among the areas covered by this legislation. These rules try to harmonize and simplify hygiene requirements. At the same time, a uniform hygiene standard is applied throughout the food chain for all food market operators. It will be crucial to ensure that these provisions continue to be respected in the UK.

Animal by-products legislation: Regulation (EC) No 1069/2009 and Commission Regulation (EU) No 142/2011 are also an important piece of legislation in the area of food and feed safety, especially as regards animal by-products legislation. Both regulations include risk-based solutions for handling processes, transport, processing, use, and import. It also lays down traceability rules, requirements based on technical standards for animal by-products or enforcement measures. It is questionable how these laws will be applied in the UK in the future.

Official control and enforcement: Harmonized EU rules have been established to prevent, eliminate or reduce risks to humans, animals and plants in the agri-food chain. The purpose of official controls carried out by the competent authorities of the Member States is to check that these rules are properly implemented. Special rules apply to imports.

In the EU, the 'Safer Foods Better Training' (BTSTF) initiative, which aims to organize the EU education strategy in the areas of food law, feed law, animal health and animal welfare rules and plant health rules, is decisive.

General areas

- The United Kingdom Competition Act (1998) and the Entrepreneurship Act (2002) are based on EU law, so Brexit is not necessarily in immediate competition policy.
- The UK Competition and Market Surveillance Authority will continue to enforce the enforcement of British territorial antitrust procedures.
- Harmonization and cooperation will be needed to regulate major transactions for the EU and UK markets.
- State aid rules under Article 107 of the Treaty will no longer be binding on the United Kingdom in the agri-food industry and in other sectors.
- UK courts will probably not be affected by EU judgments in competition law and public procurement after Brexit.
- The reference for a preliminary ruling to the European Court of Justice by the British courts will no longer be possible after Brexit.
- Due to the new administrative measures, the time required for crossing the border will increase, and the cost of storage will be reduced due to additional storage costs: The European Union, with its common borders with the United Kingdom, should apply its regulations and tariffs to third countries, including the control and control of customs, veterinary and phytosanitary standards, and compliance with EU standards. This would seriously affect transport between the UK and the European Union. Customs, veterinary and phytosanitary controls can cause significant delays, for example in road transport, and in ports.
- Non-tariff barriers can pose as significant or greater a barrier as tariffs to trade in goods. (House of Lords, 2017)

Conclusion

The end of the Brexit is not yet visible, but the more time it takes the more it will be possible to solve technical problems and other details. The more time it takes to get out, the better and more effective solutions can be achieved. It is important to see that concluding a "good" agreement is important and decisive for a party. Commercial rules and regulations are decisive in assessing the effectiveness of exit. Prevention rules, labeling and other regulations are areas dominated by the EU. The British party will have to adjust to this. Although the UK will have more room for maneuver in defining national rules, the detailed rules laid down by the EU will always be a guideline.

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