

Brexit High Level Advisory Group

1 September 2017



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Brexit and WTO Rules: Options for the U.K.

Presentation to
The High Level Advisory Group on Brexit

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Outline of the presentation

- **Introduction**
- **U.K. trade after Brexit: WTO Rules**
- **“WTO Plus” arrangements: FTAs and Customs Unions**
- **Impact of leaving the EU**
- **Conclusions**

WTO Rules

- **WTO a comprehensive multilateral treaty with binding rules on trade in goods, services, and intellectual property**
- **U.K. a founding member of the GATT (1948) and the WTO (1995)**
 - **But now needs to regularize its status as an independent Member of the WTO**
 - **New Schedules could trigger compensation demands**

WTO Rules

- **WTO rules the default option for the U.K. upon a hard Brexit**
 - **U.K. trade with the EU**
 - **U.K. trade with third countries**

WTO Rules

- **“Most Favoured Nation” treatment a fundamental obligation**
- **In a hard Brexit scenario, EU would treat imports of goods and services from the U.K. the same as any other third country (e.g., the U.S.).**
- **MFN treatment will raise new barriers to U.K. exports to the EU**

WTO Plus: FTAs and Customs Unions

- **Key exception to the MFN principle: FTAs and Customs Unions**
- **Many countries have sought such preferential agreements to expand trade**
 - **FTA: reduction of internal barriers to trade**
 - **Customs union: reduction of internal barriers, plus common tariff wall (relatively few, and unlikely for the U.K.)**
- **Higher degree of economic integration with a customs union**

WTO Plus: FTAs and Customs Unions

- **Preferential agreements must cover “substantially all...trade” between the Parties.**
 - **Sector-specific agreements (eg financial services) not permitted.**

WTO Plus: FTAs and Customs Unions

- **EU has signed FTAs with about 50 countries**
 - **Customs Union with Turkey**
- **U.K. will lose preferential access to those markets on day one of Brexit**
- **Many EU FTAs have territorial limitations**

WTO Plus: FTAs and Customs Unions

- **Negotiation of preferential agreements: time consuming and resource-intensive**
 - **Example: Canada-EU Agreement**
- **Ratification can be blocked EU Member States**
 - **The “hostage” problem**

WTO Plus: FTAs and Customs Unions

- Rules permit formation of customs unions/FTAs or “an interim agreement”, to be implemented “within a reasonable length of time”.
- WTO Ministerial Understanding: The “reasonable length of time” for interim agreements “should exceed 10 years only in exceptional cases.”
 - Not a hard rule

Impact of leaving the EU

- ❑ **Trading with the EU on an MFN basis will mean an immediate reduction of market access for U.K. exporters of goods and services.**
- ❑ **Application of tariffs on goods where none existed before.**
- ❑ **Reduced access to EU services market**

Impact of leaving the EU

- **Financial Services:**
 - **UK financial services suppliers would trade into the EU based on the EU's GATS Schedule**
 - **Loss of Passporting rights**

Impact of leaving the EU

□ Financial Services:

- EU GATS Schedule is reasonably liberal but other requirements would apply:
 - Domestic regulation
 - Prudential carve-out (protection eg of investors or depositors)
 - Mutual recognition rules – establishing “equivalence” of regulation and supervision requirements can be time-consuming

Conclusions

- **WTO rules as a default option would provide starting point for post-Brexit U.K. trade**
- **But trading on WTO/MFN basis would mean immediate reduction of U.K. access to EU goods and services market**
 - **Tariffs and other restrictions would apply**
 - **UK on same footing as all other non-preferential countries**

Conclusions

- **Preferential agreements would provide additional access to third country markets**
 - **But this is time-consuming, resource-intensive process**
- **None of the preferential access arrangements would provide the U.K. with the same level of trading opportunities that it now has as an EU Member State.**

Questions?

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Update on FMMLC's work on Brexit



- **Paul Double**, City of London Corporation