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# BREXIT BRIEFING

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## FREE TRADE AGREEMENTS (FTAs)



## WHAT IS A FREE TRADE AGREEMENT (FTA)?

A Free Trade Agreement is an international agreement between two or more countries which tries to achieve, as the name suggests, free trade between the parties. How is this achieved? By reducing or eliminating barriers to trade and investment, and growing trade between the countries.

### HOW HAVE FTAs COME ABOUT?

Originally, the WTO had been the main vehicle for liberalising trade between countries and was effective because any trade openings became automatically available to all WTO members. However when WTO negotiations became deadlocked during the last round of negotiations among WTO membership (the Doha Round) for over a decade, FTAs started becoming the main mechanism for trade liberalisation, where countries negotiated bilaterally or regionally and committed to more direct agreements to open up trade between them.

### WHAT DO THEY DELIVER?

The gains achieved through these negotiations were far deeper and more comprehensive and FTAs became more prolific over time. FTAs are now the mainstay of trade liberalising agreements. They are particularly important as they can go beyond just reducing or removing tariffs. They can address behind-the-border, non-tariff barriers to trade such as:

- import bans
- domestic subsidies
- restrictive regulation
- competition policies
- foreign exchange controls
- import licenses
- unreasonable product standards and
- other issues that make trade difficult and costly.

### HOW LONG DO THEY TAKE TO NEGOTIATE?

FTAs can take many years to negotiate, and hardly ever come into effect immediately. The most recent and advanced FTA, The Comprehensive and Economic Trade Agreement (CETA) took 8 years of negotiations to complete. At the last minute, one EU member state exercised a veto calling for stronger safeguards on labour, environmental and consumer standards for a minority region. Similarly the Trans-Pacific Partnership (TPP) negotiations began in 2008 and were concluded in 2015. In January 2017, the US announced its withdrawal and negotiations were temporarily shelved. In March 2018, 11 countries finally signed the agreement which is yet to be ratified. Similarly the China–Australia Free Trade Agreement (ChAFTA) commenced in 2004 and negotiations concluded in November 2014 after 21 negotiating rounds.

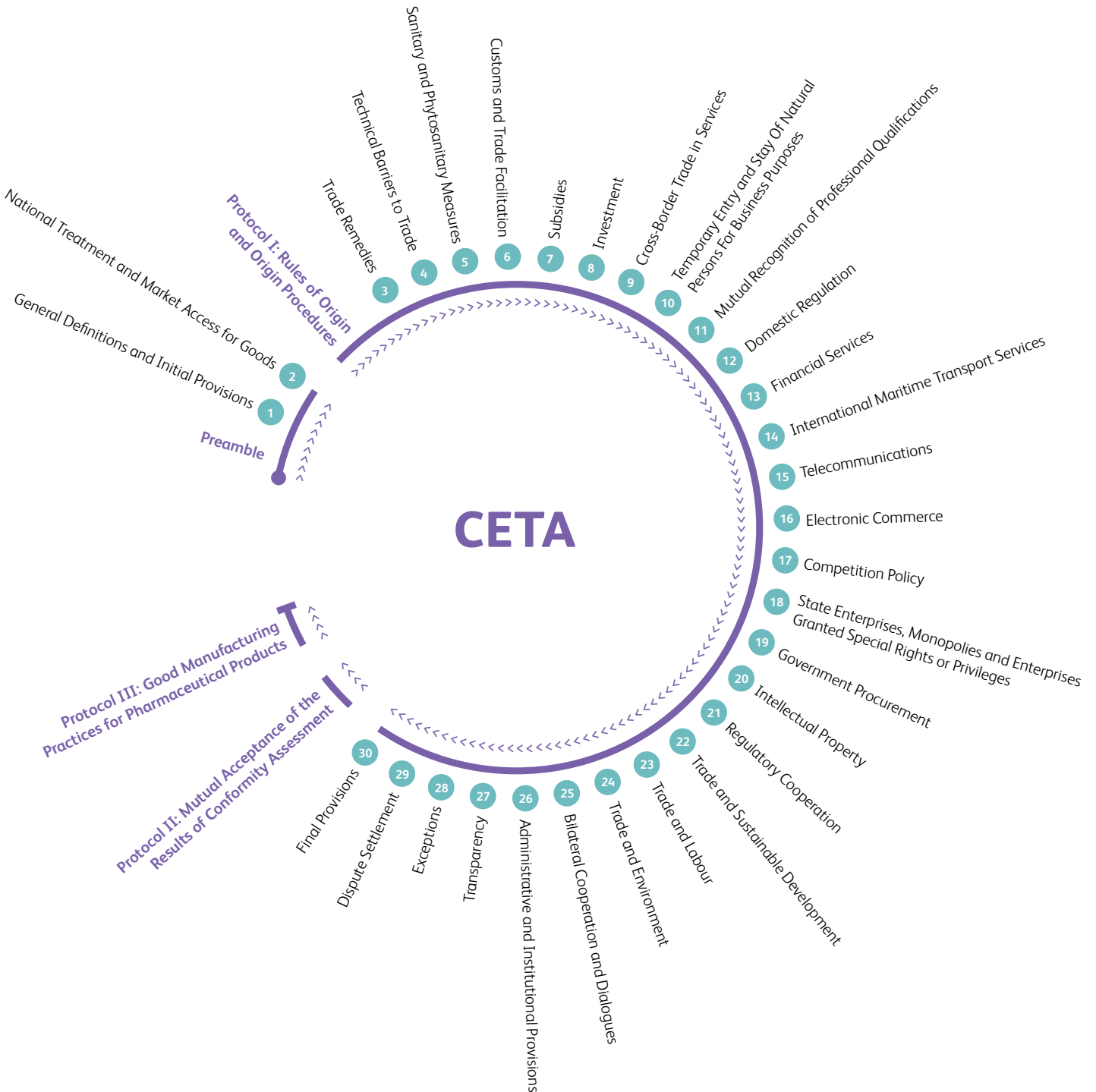
Countries normally undertake comprehensive and independent economic scoping and impact studies in preparation for an FTA as well as extensive public consultation with public and industry bodies, especially on technical elements that will directly impact businesses in their country such as rules of origin and non-technical barriers to trade. These processes provide crucial input for developing offensive and defensive negotiating positions in the negotiation itself.

### WHAT DO THEY LOOK LIKE?

FTAs are negotiated chapter by chapter and the legal text is finally presented in the same format.

Negotiations usually commence on the basis of the countries' existing commitments in the WTO and then more open access is negotiated from there.

Taking the Comprehensive Economic and Trade Agreement (CETA) as an example, following are the range of issues covered under each chapter of the agreement:



FTAs such as CETA cover chapter-specific issues comprehensively and ensure all partners makes significant gains and that trade is opened up enough and in line with the objectives of the WTO.

In CETA there was an agreement to:

- lower customs tariffs and other barriers to trade between the EU and Canada and eliminate tariffs on 98% of products traded with Canada;
- respect the EU's standards in the areas of food safety, workers' rights and the environment
- It allowed EU companies to bid on public procurement contracts
- Abolished duplicative product testing and long customs procedures for small businesses;
- On services it offered legal certainty and greater mobility for company employees, and mutual recognition of professional qualifications.

## **CURRENT EU FTAs WITH OTHER COUNTRIES – IMPLICATIONS FOR THE UK**

The UK currently has access to approximately 70 trade agreements through its membership of the EU, which it is looking to duplicate in its own right.

The ability to do so easily would be by a number of countries wanting to re-open the negotiation from scratch if this path were to be followed.

## **PROSPECTS FOR A UK-EU FTA**

The EU has signalled its willingness to enter into an FTA negotiation with the UK that could potentially go further than the EU's recent FTA with Canada. As such it could prove to be the most progressive FTA around, however it would still offer significantly less access than a customs union or the current Single Market and Customs Union combination.

## **AN FTA DEAL VS NO DEAL**

Despite this lower level of market access afforded by an FTA compared to membership of the EU, in comparison to a no deal scenario, an FTA is a significant opportunity for UK businesses to maintain a reasonable level of market access to goods, services and investments in the EU and to maintain the competitiveness of UK firms. An FTA would be considerably preferable to a no-deal scenario for British businesses.

EEF is dedicated to the future of manufacturing. Everything we do, from business support to championing manufacturing and engineering, is designed to help our industry thrive, innovate and compete locally and globally.

In an increasingly uncertain business environment, where the UK is now on a path to leave the European Union, we recognise that manufacturers face significant challenges and opportunities. We will work with you throughout this period of uncertainty to ensure that you are on top of any legislative changes and their implications for your business.

Furthermore, as the collective voice of UK manufacturing, we will work tirelessly to ensure that our members' voices are heard during the forthcoming negotiations and will give unique insight into the way changing legislation will affect their business.

Our policy, employment law, health, safety and sustainability and productivity experts are on-hand to steer you through Brexit with rational, practical advice to help your business succeed.

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