

BREXIT BRIEFING

WORLD TRADE ORGANIZATION (WTO) – IN A NUTSHELL



World Trade Organization (WTO) – in a nutshell

What is the WTO?

The World Trade Organization (WTO) is the single international organisation where countries negotiate and set legally binding rules of international trade. These are designed to make sure trade flows as smoothly, fairly and as predictably as possible. It is the fundamental framework of the global trading system and the foundation on which all other trade agreements, such as [Free Trade Agreements](#) are built.

The WTO has over 160 members – with more than 20 members waiting to join, and collectively the membership represents 98 per cent of world trade.

If the UK left the European Union without a trade deal, these fundamental WTO rules would automatically apply. This would change the way in which we trade with the EU and as a result the rest of the world.

What does the WTO mean for UK manufacturers?

The ability to access international markets easily with minimal costs and trade barriers is fundamental to UK manufacturers and the UK economy. The WTO operates and arbitrates the system of trade rules that governs and facilitates international trade between countries.

What happens in the WTO?

In the WTO, member countries negotiate and agree on a set of trade agreements across a range of disciplines – such as goods, services and intellectual property working in comprehensive committee structures throughout the year. Final trade agreements are signed by countries and ratified in their parliaments and all major decisions are made by the WTO's Member governments: either by ministers (who usually meet at least every two years) or by their ambassadors or delegates (who meet regularly in Geneva). Fundamental to the WTO is also a robust and binding mechanism to resolve trade disputes when they arise. In addition, the WTO encourages transparency by regularly reviewing each member country's domestic trade policies, and helps developing country members to comply with international trade rules.

What are the basic principles underpinning WTO trade rules?

There are a few important principles that form the foundation of the international trading system:

Non-discrimination: a country should not discriminate between its trading partners and it should not discriminate between its own and foreign products, services or people.

More open trade: lowering trade barriers to encourage trade; these barriers include customs duties (or tariffs) and measures such as import quotas or bans that restrict quantities selectively.

Predictable and transparent trade: with stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition – choice and lower prices. Therefore foreign companies, investors and governments should be confident that trade barriers should not be raised indiscriminately.

More competitive trade: Discouraging 'unfair' practices, such as export subsidies, product standards and dumping products at below cost to gain market share; the issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade.

More beneficial trade for less developed countries: allowing more time to adjust, greater flexibility and special privileges; over three-quarters of WTO members are developing countries and countries in transition to market economies. The WTO agreements provide transition periods to adjust to the less familiar WTO provisions.

Protecting the environment: The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health. However, these measures must be applied in the same way to both national and foreign businesses. In other words, members must not use environmental protection measures as a means of disguising protectionist policies.

What aspects of trade does the WTO cover?

- Goods (apply mainly to manufacturing):
 - Agriculture & non-agriculture
 - Import licensing
 - Antidumping
 - Rules of Origin
 - Non-Tariff Measures
 - Sanitary & Phytosanitary (SPS) Measures
 - State Trading Enterprises
 - Subsidies and other measures
 - Tariffs
 - Technical Barriers to trade (TBT)
 - Trade Facilitation
 - Trade Related Investment Measures
- Services
- Intellectual Property
- Dispute Settlement
- Regional Trade Arrangements
- The current negotiating round – the Doha Development Agenda
- Trade Monitoring
- Trade Capacity Building

How do Free Trade Agreements (FTAs) and customs union arrangements fit into this structure?

While the WTO is based on the principle of non-discrimination between countries, there are some exceptions to this - the most important of which allows for the existence of free trade agreements and customs union arrangements to provide more favourable treatment to its own members. To qualify, such a separate trade arrangement must cover "substantially all the trade" in goods (and services), and any restrictions in place should not be higher or more restrictive than those existing before the FTA.

If the UK was to be part of a customs union or FTA, it would be obliged to notify it (and comply with the exemptions) to the WTO. Also if any new members were to join a trade arrangement there is a requirement to notify the WTO.

What about the UK in a post-Brexit context?

The UK has been a WTO Member since 1995 (and its predecessor, the GATT, since 1948) and will continue to be so once it leaves the EU. It is also a signatory in its own right to the majority of WTO Agreements. However, its commitments (both for trade in goods and trade in services) are currently set out under the umbrella of the EU, along with the other EU member states. Once the UK leaves the EU, it will have to set out its own commitments in what is commonly known as its WTO schedules. The WTO schedules are the main legal tool that describe the treatment a member must provide to the trade of other WTO members, predominantly on tariffs, quotas and subsidies and services. The UK Government recently set out its aims for a UK tariff schedule once it leaves the EU in the event of a 'no deal'.

The UK will then also have to make decisions about participating in the WTO, its committees and negotiations in its own right and assign resources to this. For the manufacturing industry, it will be important to feed into these processes to ensure manufacturing interests are well represented in trade negotiations.

WTO rules in the event of a 'no deal'?

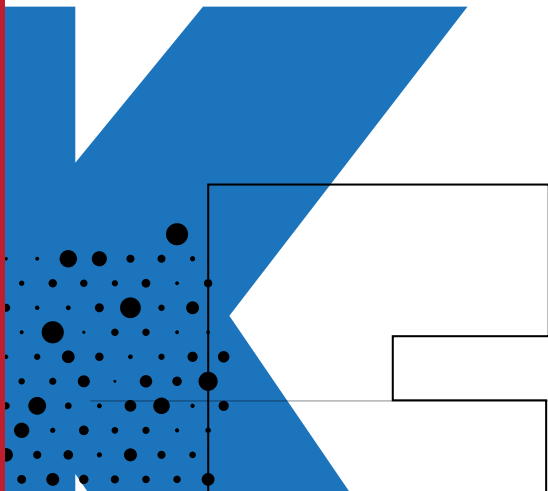
In a no-deal scenario the UK will be trading under its Membership requirements of the WTO (i.e. WTO trade rules). Under these rules the EU must treat every WTO member around the world with which it does not have a trade deal in the same way. Some immediate changes will be:

- Products currently being traded between the UK and EU will no longer be assigned an automatic zero rate tariff
- Where the UK applies a zero tariff for the import of some products – it will also have to offer it to all members of the WTO without discrimination
- The UK will now face high tariffs on products exported to the EU that were previously set at zero
- New non-tariff barriers in the form of:
 - Customs documentation, checks, levying of tariffs and other arrangements related to assessing each product crossing the border
 - Complying with changed rules of origin requirements (in order to apply the correct tariff rate to it)
 - Potential increased costs of compliance with any changed EU standards
- The loss of a free market for services exports to the EU
- The need for a trade remedy mechanism and dispute settlement expertise

How can manufacturers get more information?

Given the importance of the WTO system to international trade, it is beneficial for manufacturers to build their basic knowledge and understanding of the system and with relevant trade rules. Being engaged in the WTO will ensure that your industry's key concerns are taken account of when important trade deals are struck.

Make UK can arrange delegations to introduce our members to the WTO system and its rules. If you are interested in taking part in such a mission, please get in touch with us at brexit@makeuk.org.uk



ABOUT



Make UK - The Manufacturers' Organisation, is the voice of manufacturing in the UK, representing all aspects of the manufacturing sector including engineering, aviation, defence, oil and gas, food and chemicals. Representing some 20,000 members employing almost one million workers, Make UK members operate in the UK, Europe and throughout the world in a dynamic and highly competitive environment.

Britain is one of the world's biggest manufacturing nations. Almost 3 million people work in our sector and deliver almost half of all UK exports. Our companies drive over 60 percent of all UK research and development. As a result of that investment, manufacturing as we know it is changing, adapting, and transforming each and every day.

We're at the cutting edge of innovation; leading the way in developing skills and driving competitive advantage for the UK. Make UK is focused on creating the most supportive environment for UK manufacturers to thrive, innovate and compete. We do this so that together, we can build a platform for the evolution of UK manufacturing.

MakeUK.org

For further information contact:

Jenny McMillan
Head of Brexit Policy
020 7654 1536
jmcmillan@MakeUK.org

Follow us online:

Blog: www.MakeUK.org
Twitter: @MakeUK_
LinkedIn: www.linkedin.com/company/makeuk



MakeUK.org

Make UK is a trading name of EEF Limited Registered Office: Broadway House, Tothill Street, London, SW1H 9NQ. Registered in England and Wales No. 05950172