



## **ERG: Trading on WTO terms with the EU**

- The UK has been a member of the WTO since 1995<sup>1</sup>
- WTO members grant each other 'Most Favoured Nation Status' (MFN). This means a deal given to one has to be given to all.
- The WTO default is that all states trade on MFN terms. The only exceptions are for Customs Unions and bilateral free trade agreements (FTA).
- Without a FTA the UK could not grant the EU a zero tariff deal unless it granted it to all MFN states.
- The WTO's provisions on services trade are General Agreement on Trade in Services (GATS)

### **Background:**

If the UK left the EU without agreeing a free trade agreement it could fall back on its membership of the WTO. Under the WTO trade between members, which include the EU and its member states, would be conducted on Most Favoured Nation terms. This means that the EU's external tariffs would be imposed on the UK. The EU would not be allowed to impose greater tariffs on the UK's goods exports than other states, but could not reduce them either. The only exceptions to this principle are Free Trade Agreements and Customs Unions.

The UK would then have to decide on its own external tariffs to impose on all other states. These rates could then be reduced within the bounds of bilateral Free Trade Agreements.

The proliferation of bilateral trade agreements is a result of the stalling of the Doha Trade Round, the WTO's first preference being to liberalise trade at a global rather than a regional or bilateral level.

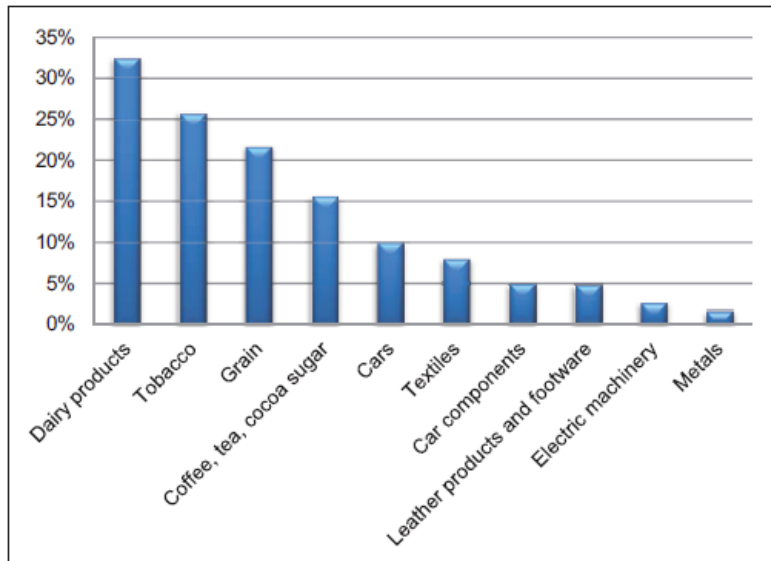
### **EU External tariffs:**

The EU's external MFN tariffs vary across different types of goods. Generally agricultural products have high tariffs, manufactured products lower and primary products (minerals, oil, fish etc) lower still.

### Some specific tariffs:

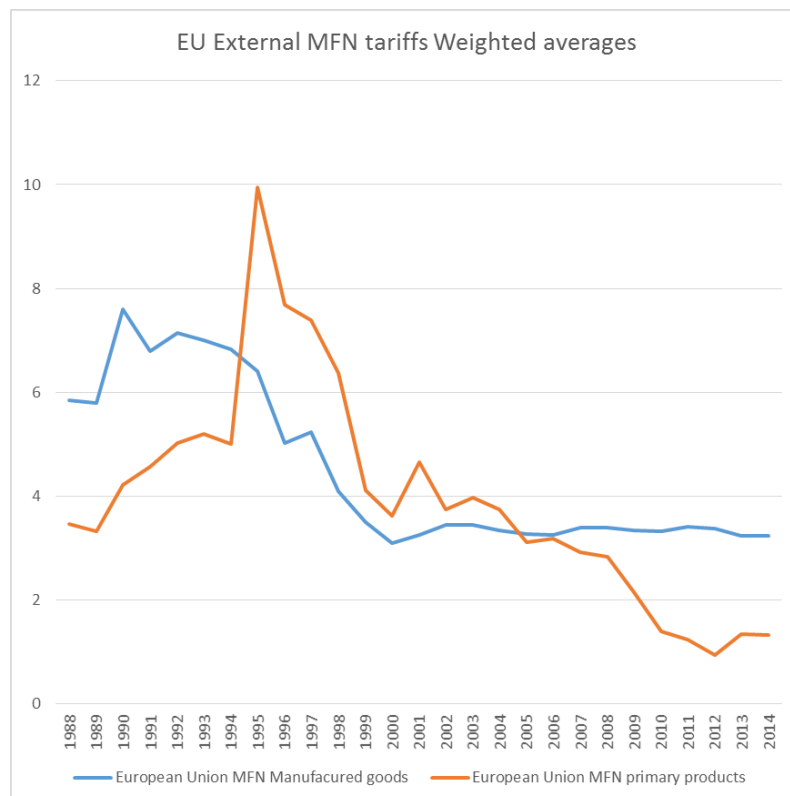
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<sup>1</sup> WTO: UK membership; [https://www.wto.org/english/thewto\\_e/countries\\_e/united\\_kingdom\\_e.htm](https://www.wto.org/english/thewto_e/countries_e/united_kingdom_e.htm)



Source: Open Europe<sup>2</sup>

### Trade weighted average tariffs:



Source: World Bank<sup>3</sup>

<sup>2</sup> Open Europe: Trading Places (2012) Howarth and Booth;  
<http://conservativehome.blogs.com/files/2012eustrade-2.pdf>

<sup>3</sup> World Bank; <http://data.worldbank.org/indicator/TM.TAX.TCOM.WM.FN.ZS?locations=GB>

## WTO Services trade - General Agreement on Trade in Services (GATS)

The WTO has its own agreement on services trade the General Agreement on Trade in Services (GATS) with allows for non-discrimination of trade based on place of establishment as well as some aspects of free-movement of persons related to business investments.

The agreement covers four 'modes' of cross-border services trade. Under the MFN regime:

*"Members are held to extend immediately and unconditionally to services or services suppliers of all other Members "treatment no less favourable than that accorded to like services and services suppliers of any other country".*

### The four 'modes' of services trade

1. **Cross-border supply:** flows from the territory of one Member into the territory of another Member (e.g. banking or architectural services transmitted via telecommunications or mail);
2. **Consumption abroad:** where a service consumer (e.g. tourist or patient) moves into another Member's territory to obtain a service;
3. **Commercial presence:** a service supplier of one Member establishes a territorial presence, including through ownership or lease of premises, in another Member's territory to provide a service (e.g. domestic subsidiaries of foreign insurance companies or hotel chains)
4. **Presence of natural persons:** consists of persons of one Member entering the territory of another Member to supply a service (e.g. accountants, doctors or teachers).<sup>4</sup>

### Would WTO terms suit the EU?

The EU will want to preserve its preferential access to the UK for its agricultural goods and car exports. This means zero tariffs on goods, but also (as at present) that the UK does not allow goods from elsewhere in at a lower rate, i.e cheaper agricultural goods and cars.

Trading on WTO terms would mean EU agricultural goods and cars competing on the same basis as the rest of the world which would put them at a considerable disadvantage compared to the present.

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<sup>4</sup> WTO, Services: [https://www.wto.org/english/tratop\\_e/serv\\_e/gatsqa\\_e.htm#5](https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm#5)