

# Brexiteers need a re-think on regulation

Over the last few years, if there is one thing I have learned about trade, it is that it is complex. If there is one thing I have learned in the last year particularly is that it's even more complex than that. What has marked the trade debate on the Brexit side is an absence of concern for non-tariff barriers. Self-styled Brexiteer economists speak only in terms of tariffs – ignoring the all important non-tariff barriers, the costs of which far exceed the average tariff.

Over the last twenty years the global effort in trade has been geared toward the eradication of non-tariff barriers through regulatory harmonisation. There is enormous social and economic utility in it, the benefits of which we all enjoy on a daily basis.

As much as regulation is central to Brexit, it is now central to trade. This is an aspect largely lost on Tories who have an instinctive aversion to regulation of any kind. They believe the removal of regulation enhances commerce – rather than harmonisation and refinement. It is part of the liberal “free market” tendency.

An especially topical example of this is reported by The Independent with housing minister Brandon Lewis having declined to bring in regulation forcing developers to fit sprinklers to buildings. He said it was not the Government's responsibility. He told MPs: “We believe that it is the responsibility of the fire industry, rather than the Government, to market fire sprinkler systems effectively and to encourage their wider installation”. Seventeen residents of Grenfell Tower are now dead.

Then we have the deregulation enthusiast Jacob Rees Mogg

telling us that Britain could slash environmental and safety standards. This is absolutely what we must not do. In order to enjoy continued free movement of goods we will need to maintain a close alignment with EU standards. Divergence will only increase the likelihood of goods being stopped for customs inspections.

Furthermore, we might very well find that if we relax our standards on imports, the EUs risk assessment rating on UK produce is heightened resulting either in embargoes or a higher inspection rate. Any trade deals we do with third countries will have to be carefully measured against the trade we could potentially lose.

We cannot sign trade deals for their own sake. Any new deals will have to be forensically analysed for their potential impact on existing trade. We cannot expect to conclude any rapid deals, certainly not unless we are prepared to throw massive resources at them – which may prove economically neutral.

More to the point, with the advent of increasingly globalised standards, the scope for deviation is nothing like Rees-Mogg assumes. At best we can secure carve outs to protect specific sectors but we are obliged by a number of global accords on anything from emissions standards to maritime pollution. We also have to play by WTO rules.

In the mind of the well-meaning Tory, with an aversion to regulation, all these green measures are all part of the climate change hysteria. We should note, however, that climate change notwithstanding, pollution is a very real threat to our health and prosperity. Deaths around the world from air pollution, particularly in India and the Far East are spiralling. We do not have the same problems – but that is no accident.

Then we have measures like the International Maritime

Organisation's Ballast Water Management Convention. Invasive aquatic species present a major threat to the marine ecosystems, and shipping has been identified as a major pathway for introducing species to new environments. The problem increased as trade and traffic volume expanded over the last few decades and in particular with the introduction of steel hulls, allowing vessels to use water instead of solid materials as ballast.

The effects of the introduction of new species have in many areas of the world been devastating. Quantitative data show the rate of bio-invasions is continuing to increase at an alarming rate. As the volumes of seaborne trade continue overall to increase, the problem may not yet have reached its peak.

Now you may not care about biodiversity and all that tree hugging stuff, but one of the major opportunities for Brexit is an expansion of Scottish aquaculture. Alien parasites are massively damaging to business (no not Rees-Mogg). In the mind of the classic Brexiteer though, this is all meddlesome "Brussels" red tape. As much as anything Brussels is no longer the centre of the regulatory universe. Much of it starts life in Geneva.

Further to this, when it comes to trade, because of the complexity and the labyrinthine nature of regulation, we find that progress is often incremental, barely noticeable and there isn't any low hanging fruit we can go after. This is a major misapprehension among Brexiteers.

The challenge, therefore, is not to prioritise new trade deals, rather we need to look at enhancing the profitability of existing trade, be that harmonising customs processes, further harmonising regulations and eliminating fraud and organised crime.

In this, standards are part of a broader system to prevent a

massive multi-billion dollar black market on food. There are many examples of industrial scale manipulation of supply chains. A food fraud scandal came to light in 2008, when over 20 companies were found to have added melamine, a flame retardant plastic, to baby formula in order to fool tests designed to ensure adequate protein content. Around 300,000 babies became ill in China, with tainted formula being linked to 54,000 hospitalisations and 6 deaths from kidney damage and malnutrition.

Additionally, the product category Herbs and Spices is listed as number four in the ranking of most frequent product alerts in the European Rapid Alert System for Food and Feed (RASFF). About 75% of these reports are due to improper composition or contamination, both of which can affect the health of the consumer, as well as damage the brands of those involved in the supply chain.

In 2005 over 600 finished food products were recalled in Europe and the US due to the presence of the carcinogenic red industrial floor dye "Sudan", which had been added to chilli powder to disguise its ageing. And it's not just food either.

When an American Airlines plane smashed into a Colombian mountainside, outlaw salvagers didn't even wait for all 159 victims' bodies to be collected before they moved in. "Using sophisticated tools, they extracted engine thrust reversers, cockpit avionics and other valuable components from the shattered Boeing 757 and then used helicopters to fly the parts off the steep ridge, U.S. and Colombian sources say. The parts were offered for sale in Miami, a hub of the thriving black market in recycled, stolen and counterfeit aircraft parts. "They wanted to sell the whole lot, including the landing gear," a law enforcement source said, speaking on condition of anonymity."

Parts illegally salvaged from crashes, counterfeit parts and other substandard components regularly find their way into the

world's air fleets, sold at bargain prices, often with falsified documents about their origin or composition. The U.S. Customs and Border Protection seized \$4 Million worth of counterfeit electronic components in Fiscal Year 2009. According to a 2001 publication produced by Lawrence Livermore National Laboratory, "as much as \$2 billion in unapproved parts are now sitting on the shelves of parts distributors, airline, and repair stations".

One major global concern is pharmaceuticals fraud. US pharmaceutical giant Pfizer has found that 69 of its products were falsified in 107 countries in 2014, up from 29 products in 75 countries in 2008 – a doubling of the problem in six years. Over 700,000 deaths per annum from malaria and TB have been attributed to falsified medicines and the Center for Medicine in the Public Interest in the United States estimated that counterfeits cost the global economy around US\$75bn in 2010.

Then just recently, the World Customs Organization (WCO) and the International Institute for Research Against Counterfeit Medicines (IRACM) announced recently the results of their fourth common initiative in the fight against fake medicines on the African continent. There were record seizures of 113 million illicit and potentially dangerous pharmaceutical products, which took place in the context of Operation ACIM (Action against Counterfeit and Illicit Medicines) in September 2016.

The number of seizures made in joint IRACM-WCO operations has now reached dramatic proportions, with almost 900 million counterfeit and illicit medicines seized at the borders of the continent. "Of the 243 maritime containers inspected, 150 contained illicit or counterfeit products". Staggering.

As much as this kind of criminal activity seriously hits all Western nations in the wallet it is very much one of the many blights standing in the way of development. If supply chains

are known to be corrupt it deters investment. As you can see, enhancing our trade will rely on a huge commitment to international cooperation, working with standards bodies, Interpol, the EU and a number of other major international initiatives. Cutting corners with regulations is a non-starter.

To enhance our trade it requires that we throw substantial resource at trade facilitation measures while also doing what we can to help developing countries improve their regulations so that they can participate in the global rules based trading system. In so doing we boost our business to business services sector. This though demands a far more mature attitude to regulation than we are presently seeing from the Brexiteers. Misguided enthusiasm for free markets doesn't hold water in the modern world of trade. We cannot afford to tread water while they learn the ropes if we are to make a success of Brexit.

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